Interim statement as at 30 September 2008

This is an English translation of the Italian original "Resoconto intermedio al 30 settembre 2008" and has been prepared solely for the convenience of the reader. The Italian version takes precedence and will be made available to interested readers upon request to Intesa Sanpaolo S.p.A.

This document contains some forward-looking statements and forecasts reflecting the Intesa Sanpaolo management's current views with respect to certain future events. The Intesa Sanpaolo Group's ability to achieve its projected results is dependent on many factors which are outside management's control. Actual results may differ materially from those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results and is based on certain key assumptions.
The following important factors could cause the Group's actual results to differ materially from those projected or implied in any forward-looking statements:
- *the Group's ability to successfully integrate the employees, products, services and systems of the merger of Banca Intesa S.p.A. and SANPAOLO IMI S.p.A. as well as other recent mergers and acquisitions;*
- *the impact of regulatory decisions and changes in the regulatory environment;*
- *the impact of political and economic developments in Italy and other countries in which the Group operates;*
- *the impact of fluctuations in currency exchange and interest rates;*
- *the Group's ability to achieve the expected return on the investments and capital expenditures it has made in Italy and in foreign countries.*

The foregoing factors should not be construed as exhaustive. Due to these uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which refer only to the date hereof. Accordingly, there can be no assurance that the Group will achieve its projected results.

Interim statement as at 30 September 2008

Intesa Sanpaolo S.p.A.
Registered office: Piazza San Carlo, 156 10121 Torino - Secondary registered office: Via Monte di Pietà, 8 20121 Milano - Share capital 6,646,547,922.56 Euro - Registration number on the Torino Company Register and Fiscal Code 00799960158 - VAT number 10810700152 - Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund, included in the National Register of Banks No. 5361 and Parent Company of "Intesa Sanpaolo", included in the National Register of Banking Groups.

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Supervisory Board, Management Board, General Management, Manager responsible for preparing the Company's financial reports and Independent Auditors

Supervisory Board	
Chairman	Giovanni BAZOLI
Deputy Chairmen	Antoine BERNHEIM Rodolfo ZICH
Members	Carlo BAREL DI SANT'ALBANO Rosalba CASIRAGHI Marco CIABATTONI Giovanni COSTA Franco DALLA SEGA Gianluca FERRERO Angelo FERRO Pietro GARIBALDI Giulio LUBATTI Giuseppe MAZZARELLO Eugenio PAVARANI Gianluca PONZELLINI Gian Guido SACCHI MORSIANI Ferdinando TARGETTI Livio TORIO Riccardo VARALDO
Management Board	
Chairman	Enrico SALZA
Deputy Chairman	Orazio ROSSI
Managing Director and Chief Executive Officer	Corrado PASSERA
Members	Aureliano BENEDETTI Elio CATANIA Giuseppe FONTANA Gian Luigi GARRINO Virgilio MARRONE Emilio OTTOLENGHI Giovanni PERISSINOTTO Marcello SALA
General Management	
General Manager and Deputy to the CEO	Pietro MODIANO
General Manager and Chief Operating Officer	Francesco MICHELI
Manager responsible for preparing the Company's financial reports	Ernesto RIVA
Independent Auditors	RECONTA ERNST & YOUNG S.p.A.

Intesa Sanpaolo Group - Financial highlights and alternative performance measures

Income statement (in millions of euro)	**30.09.2008**	**30.09.2007** restated (*)	**Changes** amount	%
Net interest income	8,790	7,807	983	12.6
Net fee and commission income	4,598	5,038	-440	-8.7
Profits (losses) on trading	329	1,125	-796	-70.8
Income from insurance business	229	409	-180	-44.0
Operating income	14,273	14,738	-465	-3.2
Operating costs	-7,266	-7,236	30	0.4
Operating margin	7,007	7,502	-495	-6.6
Net adjustments to loans	-1,570	-1,021	549	53.8
Income after tax from discontinued operations	929	3,786	-2,857	-75.5
Net income	3,778	6,746	-2,968	-44.0

Balance sheet (in millions of euro)	**30.09.2008**	**31.12.2007** restated (*)	**Changes** amount	%
Loans to customers	385,795	355,172	30,623	8.6
Direct customer deposits	433,446	393,536	39,910	10.1
Indirect customer deposits	623,713	669,376	-45,663	-6.8
of which: Assets under management	*235,601*	*270,169*	*-34,568*	*-12.8*
Total assets	633,848	605,344	28,504	4.7
Shareholders' equity	50,809	51,558	-749	-1.5

Operating structure	**30.09.2008**	**31.12.2007** restated (*)	**Changes** amount
Number of employees	112,875	112,770	105
Italy	*75,163*	*75,987*	*-824*
Abroad	*37,712*	*36,783*	*929*
of which: atypical labour contracts	*528*	*475*	*53*
Number of financial advisors	4,539	4,574	-35
Number of branches [a]	8,476	8,356	120
Italy	*6,518*	*6,512*	*6*
Abroad	*1,958*	*1,844*	*114*

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

(a) Including Retail Branches, Private Banking Branches, SME Branches and Corporate Branches.

	30.09.2008	30.09.2007 restated (*)	31.12.2007 restated (*)
Profitability ratios (%)			
Cost / Income	50.9	49.1	53.7
Net income / Average shareholders' equity (ROE) (a)	9.9	20.0	18.9
Economic Value Added (EVA®)(b) (in millions of euro)	1,587	4,743	
Risk ratios (%)			
Net doubtful loans / Loans to customers	0.9		0.9
Cumulated adjustments on doubtful loans / Gross doubtful loans to customers	70.8		70.7
Capital ratios (%) (c)			
Tier 1 capital (d) net of preferred shares / Risk-weighted assets (Core Tier 1)	6.2		
Tier 1 capital (d) / Risk-weighted assets	6.9		
Total capital (e) / Risk-weighted assets	10.0		
Risk-weighted assets (in millions of euro)	398,191		
Basic earnings per share (basic EPS) (f) – euro	0.30		
Diluted earnings per share (diluted EPS) (g) – euro	0.30		
Shares			
Number of ordinary shares (thousands)	11,849,332	11,849,332	11,849,332
Share price at period-end - ordinary share (euro)	3.818	5.404	5.397
Average share price for the period - ordinary share (euro)	4.207	5.651	5.579
Average market capitalisation (in millions of euro)	53,482	71,994	71,058
Book value per share (euro) (h)	3.977	4.223	4.506
Long-term rating			
Moody's	Aa2		
Standard & Poor's	AA-		
Fitch	AA-		

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

(a) Ratio between net income and average of share capital, share premium reserve, reserves and valuation reserves. The figure for the period, with the exception of non-recurring components, was annualised.

(b) The indicator represents the economic value generated in the period in favour of shareholders, since it is the portion of net income for the period which remains after having remunerated shareholders' equity via the cost of capital. The latter represents the opportunity cost and is determined using the Capital Asset Pricing Model.

(c) Ratios as at 30 September 2008 are determined using the methodology set out in the Basel 2 Capital Accord, adopting the standardised methods for the calculation of credit risk-weigthed assets and for calculation of operational risk.

(d) Paid-in share capital, share premium reserve and reserves and retained earnings minus treasury shares, goodwill, intangible assets and after the application of prudential filters set out by supervisory regulations.

(e) Tier 1 capital plus eligible subordinated liabilities, valuation reserves, with the application of prudential filters, net of equity investments as set out by supervisory regulations.

(f) Net income attributable to holders of ordinary shares compared to the weighted average number of outstanding ordinary shares.

(g) The dilutive effect is calculated with reference to the programmed issues of new ordinary shares.

(h) Figures for 2007 not restated. Book value per share does not consider treasury shares.

Intesa Sanpaolo Group – Financial highlights and alternative performance measures by business area

Income statement (in millions of euro)	Banca dei Territori		Corporate & Investment Banking		Public Finance		International Subsidiary Banks		Eurizon Capital		Banca Fideuram	
	30.09.2008	30.09.2007 restated (*)	30.09.2008	30.09.2007 restated (*)	30.09.2008	30.09.2007 restated (*)	30.09.2008	30.09.2007 restated (*)	30.09.2008	30.09.2007 restated (*)	30.09.2008	30.09.2007 restated (*)
Operating income	9,426	9,619	1,808	2,219	239	219	1,668	1,494	259	288	503	543
Operating costs	-4,807	-4,998	-681	-701	-67	-70	-887	-776	-113	-128	-247	-254
Operating margin	4,619	4,621	1,127	1,518	172	149	781	718	146	160	256	289

Balance sheet (in millions of euro)	Banca dei Territori		Corporate & Investment Banking		Public Finance		International Subsidiary Banks		Eurizon Capital		Banca Fideuram	
	30.09.2008	31.12.2007 restated (*)	30.09.2008	31.12.2007 restated (*)	30.09.2008	31.12.2007 restated (*)	30.09.2008	31.12.2007 restated (*)	30.09.2008	31.12.2007 restated (*)	30.09.2008	31.12.2007 restated (*)
Loans to customers	218,530	210,087	95,475	87,880	38,398	33,906	29,393	23,725	-	8	1,608	905
Direct customer deposits	222,645	217,454	90,877	73,762	8,504	8,282	29,800	27,210	-	3	6,736	6,999

Profitability ratios (%)	Banca dei Territori		Corporate & Investment Banking		Public Finance		International Subsidiary Banks		Eurizon Capital		Banca Fideuram	
	30.09.2008	30.09.2007 restated (*)	30.09.2008	30.09.2007 restated (*)	30.09.2008	30.09.2007 restated (*)	30.09.2008	30.09.2007 restated (*)	30.09.2008	30.09.2007 restated (*)	30.09.2008	30.09.2007 restated (*)
Cost / Income	51.0	52.0	37.7	31.6	28.0	32.0	53.2	51.9	43.6	44.4	49.1	46.8
ROE before tax [(a)]	40.4	45.2	14.9	25.7	7.4	22.0	42.5	50.5	177.7	207.8	86.3	101.9
Economic Value Added (EVA®) (in millions of euro)	1,662	1,660	55	459	-52	22	282	301	96	100	134	176

[(*)] Figures restated where required by international accounting principles, considering the changes in the scope of consolidation and in business unit constituents.

[(a)] Ratio between Income (Loss) before tax from continuing operations and Allocated capital. Figure for the period is annualised.

Executive summary

Given the state of world financial markets and the serious crisis which hit some international banks after the presentation of half-yearly results, a change needs to be made to the traditional format of interim financial statements. Priority will have to be given to a concise description of market trends and the international banking system in the last two months, followed by an examination of the consequences on the operations and economic results of the Intesa Sanpaolo Group.

The macroeconomic scenario and lending and deposit collecting activities

The macroeconomic scenario

In September the financial crisis shifted into a dramatic new phase. After the Lehman Brothers bankruptcy, confidence collapsed, crushing equity prices. The rise in demand for liquidity and the precautionary recomposition of portfolios generated strong downward pressures even on emerging markets and considerable tensions in the foreign exchange market. The panic phase was only contained at the end of October with the launch of stabilisation plans in the European Union and the United States that provide for state intervention in the equity of banks, in addition to government guarantees on short- and long-term new bond issues. The injections of state capital set out in the stabilisation plans alone are estimated to exceed 440 billion euro, half of which in the European Union.

The worsening of the financial crisis in September coincided with a sudden deterioration of the real economy, especially in the United States. In the summer, after the temporary benefit created by fiscal incentives, domestic demand weakened rapidly. Consumption started to decrease as a result of the drop in employment, decrease in wealth and erosion of purchasing power. The building sector saw its crisis worsen even further, while the world economic slowdown weakened the support that could have come from exports. In conclusion, the US economy started to deteriorate in the third quarter and this could mean the start of a recession. Given the decline in operating indices and the spread of the financial crisis, the Federal Reserve took a number of unprecedented measures to increase the overall supply of liquidity, to direct it where it is most needed, and, finally, to facilitate the system of refinancing non-liquid assets. Certain interventions, developed in co-operation with other central banks, were aimed at also supplying dollar funds to the offshore market, in order to compensate for the freeze in the international interbank market. In terms of interest rates, the Fed refrained from targeting fed funds, which remained at 2.0% for the whole of the third quarter. The American government nationalised Fannie Mae and Freddie Mac and, jointly with the Federal Reserve, rescued the American International Group insurance conglomerate. Afterwards, the administration promoted a 700 billion dollar stabilisation plan, which was then approved, with changes by Congress, in the 2008 Emergency Economic Stabilization Act.

The summer was characterised by a decline in economic activity in the eurozone as well, especially in September. Growth was mainly slowed down by weak consumption, which was affected by the erosion of purchasing power due to price increases and, to a lesser extent, to the worsening of financial conditions (in particular, the rise in interest rates). However, fixed investments decreased too, whilst net exports ceased to sustain economic growth. Most economists expect GDP to decline further in the third quarter, following the 0.3% reduction in the previous period, and the growth trend to be under 1.0%. During the summer, only household loans linked to the purchase of houses posted a significant slowdown, whereas loans to non-financial enterprises rose by 12.6% year on year even in September.

Until the events of September, the ECB's monetary policy remained focused on the control of inflation. In July the rate on main refinancing operations was raised to 4.25%. In September, signs of a weakening economy and the drop in oil prices persuaded the Central Bank to loosen its stance. Nonetheless, the prospect of a cut in interest rates materialised only on 8 October, when various central banks jointly implemented a 50 basis point reduction in official rates in an attempt to shore up confidence. Market prices now reflect the prospects of further reductions in official rates in the last two months of 2008.

In Italy, as in the whole eurozone, the third quarter was characterised by a decline in corporate confidence indices and a decrease in industrial production, as in the second quarter. Although confidence went up in September as regards services and trade, the worsening of the crisis is likely to have a negative effect on the fourth quarter. Indicators signal a further slowdown in employment growth, following on from that of the second quarter. This, coupled with the erosion of purchasing power, explains the pronounced weakness of consumption. The trend in exports, showing a positive aggregate for the first eight months (+7.7% year on year), registered a progressive slowdown in the summer. Lastly, the worsening of projected demand and less favourable financial conditions penalised investments, which were weak in both the building sector and in instrumental goods. Overall, GDP is expected to decline in the third and fourth quarters as well.

In the third quarter of 2008 concerns grew regarding the impact of the slowdown of mature economies on emerging countries and regarding the instability in international financial markets. Though they have kept their growth levels above the world average, the emerging economies are also experiencing a slowing-down in the economic cycle. Furthermore, the most accredited international observers significantly redrew their growth forecasts for next year, given the deceleration of international trade, the reduction in raw materials prices and more onerous terms of access to external financing.

In the first half of 2008 the average GDP growth rate decreased to 7.5% in the emerging countries, compared to 8% in the same period of 2007. Based on certain cyclical indicators of industrial production, the slowdown could become more pronounced in the second half of the year, as a result of less vigorous domestic demand (especially for investment goods), a falling off of demand for raw materials and moderate export demand. In view of higher exposure to food and energy prices and in some cases to supply restrictions, inflation also rose, on average, more in the emerging countries than in the developed ones. The estimated average rate for the whole year exceeds 9%, compared to 6.4% in 2007, with particularly high peaks (at two digits) in certain countries including Ukraine, the Baltic nations, Russia, Egypt and Vietnam.

Monetary authorities reacted to rising inflation with far-reaching restrictive monetary policy measures, such as rises in official rates, increases in reserve coefficients and steps to tighten credit. Central banks in Latin America (Brazil, Chile and Mexico), Asia (India), Central-Eastern Europe, Turkey and Egypt raised interest rates between June and September.

Financial market trends were also influenced in the third quarter by fluctuations in risk aversion and the repercussions of the deleveraging process affecting intermediaries, including those in Europe. Interbank rates on longer-term maturities continued to reflect high premiums for liquidity and counterparty risks, which generated abnormal spreads with respect to official rates and Government bond yields. At the end of the quarter, the three-month Euribor steadily exceeded 5.0% and therefore was not in line with the expected trend in official rates.

Ten-year Bund yields fell sharply from the 23 July peak (4.67%) to a low of approximately 4.0%. Swap rate spreads, usually exceeding -50 basis points up to early September, went to -78 basis points following Lehman Brothers's bankruptcy and returned to August levels only in mid-October. Deleveraging, low liquidity and risk aversion also explain the volatility of spreads among sovereign securities in the eurozone starting in mid-September. July and August stability was followed by new tensions with the introduction of the ten-year BTP and Bund, taking the spread to 89 basis points, which was a temporary peak for the year.

Since the beginning of 2008 the corporate bond market has shown a very negative overall trend, highlighting a marked weakness in cash segments, both Investment Grade and High Yield. The investment grade segment highlighted a considerable widening of spreads, particularly due to the negative position of securities in the financial and banking segments. Higher risk aversion was reflected to an even more pronounced degree in the speculative issue segment; the worst performance was registered in issues with lower ratings (CCC and lower). In the last few weeks the corporate bond market has been particularly influenced by economic cycle prospects and stock market volatility.

Currency markets were characterised by strong volatility and by a considerable appreciation of the yen and US dollar. The dollar strengthened despite the domestic financial crisis, since it was sustained by the flight of capital from the emerging markets. The euro/dollar exchange rate decreased from 1.5755 at the end of June to 1.4102 at the end of September and its decline continued steadily in October, too. The market mainly penalised the currencies of countries with strong current account deficits or high debt exposure.

In general, during this period emerging markets experienced substantial currency depreciation, a broad widening of sovereign spreads and a significant fall in stock market prices. Between July and September the dollar appreciated by almost 4% against the currencies of the emerging countries (OITP index – Other Important Trading Partners). The Brazilian real, the Korean won and certain currencies from Central-Eastern Europe (including the Czech koruna, the Romanian lei, the Bulgarian lev and the Hungarian forint) experienced higher depreciation. In relative terms, spreads widened more in the countries with political concerns and high current account deficits.

Notwithstanding the negative trend of the economy and international financial markets, in this quarter there was a balance in the upgrading and downgrading of sovereign securities decided by major rating agencies. The improvement of their fiscal and external position was the basis for upgrading China, Hong Kong, Kuwait, Lebanon, Peru and Uruguay. In contrast, current account imbalances and foreign debt exposure led to the downgrading of Latvia, Lithuania, Ukraine and Hungary, whereas political and economic concerns were the basis for downgrading Argentina, Pakistan and Georgia.

In the first nine months of 2008 the international stock markets suffered heavy losses, with an acceleration of the bearish trend at the end of the period. The sharp fall in prices in the third quarter of 2008 reflected the deep crisis of US investment banks and its spread to primary US and European financial institutions. Market volatility reached exceptionally high levels. The subsequent intervention co-ordinated by Western governments contributed towards containing the systemic effects of the crisis, but stock markets continue to reflect the recession effects of the financial crisis on economic growth in OECD countries and the deterioration of corporate profit forecasts for current and future years.
European stock markets continued to be more affected by the negative economic situation with respect to the US indices. The FTSE 100 index closed the period with a 24.1% drop, while the DAX fell 27.7% and the CAC 29.9% in the same period. On the other hand, the drop in the DJ Industrial Average index closed the nine months down 12.9%, whilst the S&P500 index recorded a 20.6% reduction. The Asian stock markets also closed the period with heavy losses; the Nikkei 225 highlighted a 26.4% reduction, whereas in China the SSE Composite index had a very heavy drop (down 56.4%). The MSCI (Morgan Stanley Capital International) emerging markets index lost over 20%, more than twice the Dow Jones (-8.8%) and a little less than twice the Eurostoxx (-12.3%). Russia, Brazil, Egypt and certain Central-Eastern European markets, like Bulgaria and Romania, registered higher drops. The MSCI emerging markets index decreased overall by more than 30% in the first nine months of 2008, thus losing its 2007 gains.
In this very negative context the Italian stock market showed a worse performance compared to the main European indices, though it was also due to the significant weight of the financial sectors (banks and insurance companies) in the index: the S&P MIB index, which includes the 40 largest corporates in the domestic market, closed the nine months down 33.8%. Mid-cap companies recorded even higher reductions than the blue chips. At the end of September the Midex dropped 37.2%, whereas the STAR segment recorded a smaller (25.3%) decline.
At the end of September Italian stocks traded saw a drop of over 25% in terms of countervalue compared to the same period of 2007. Also the IPO market plummeted, with six new listings, compared to the twenty-four operations of the first nine months of 2007.

Italian lending and deposit collecting activities

In the third quarter of 2008 bank interest rates continued their upward trend, reflecting the rise in official rates decided in July and the worsening of the international financial crisis, which boosted money market yields to record levels.
The rises in bank interest rates, especially on lending rates, partially covered the increases in market rates. The significant jump in funding costs reflected strong market tensions, which, on the one hand, froze the interbank market on maturities beyond overnight, and, on the other hand, fuelled risk premiums in capital markets.
From the beginning of the year, interest rates applied to retail customers recorded a lower increase with respect to those for non-financial companies. Interest rates on new household loans showed a more differentiated profile. Mortgage loans recorded a more contained rise compared to consumer loans. New loans to non-financial companies on average registered rising interest rates.
Until the end of the summer at least, the financing conditions applied by Italian banks did not appear too restrictive, despite many perceived fears of a corporate credit crunch. Undoubtedly, in the last few months banks paid progressively greater attention to the granting of loans, even though this does not appear to be an exceptional circumstance attributable to the financial crisis. Corporate credit terms are mainly being tightened through higher margins on more risky loans and only to a negligible extent through the contraction of credit lines. Furthermore, banks show a more cautious stance towards the financing of M&A acquisitions and corporate restructurings, whereas they are less restrictive on loans for investments or the financing of working capitals. Measures aimed at slightly limiting the amounts granted or requiring higher guarantees are mainly applied to large companies.
With regard to funding activities, the estimated average interest rate on resident customer deposits rose, both in the household and corporate component (including repurchase agreements) and in the bond component. The rise in funding costs reflected the difficulties faced by banks in collecting funds in the interbank market and from institutional investors abroad.

The stronger upward trend in the cost of funding caused a contraction of bank spreads to 3.12% in September from the 3.21% level at the end of 2007. In the same period, unit margins on short-term trading recorded no particularly significant fluctuations; the mark-up on one-month Euribor rose slightly starting in the spring, up to 2.41% in September, whereas the mark-down remained quite stable, closing the period at 2.79%.

In the third quarter the trend of loans, though still sound, recorded a further slowdown, remaining at contained levels of risk indicators. The loan decay rate, which measures the incidence of new doubtful loans on total loans, however, started to signal a slight rise in the second quarter. In this quarter bank loans (net of doubtful loans) still registered sustained yearly growth on average volumes, but lower with respect to that of the previous half, with a virtually consistent evolution on the whole range of maturities. The highest contribution to the growth of loans continued to come from the production sector, with figures that confirmed a still steady trend, presumably attributable to the progressive reduction of enterprise self-financing capability and loan attractiveness with respect to bond issues, as well as from the low cost of bank loans in real terms. The rise in bank loans almost completely sustained the increase in corporate financial debt. Demand was strong in all production sectors, particularly in the manufacturing industry, in service enterprises and, despite the strong economy-linked contraction of investments, in the construction segment. In contrast, the developments of the macroeconomic context and the persisting turbulence of financial markets continued to affect household loan demand negatively, mainly through rises in interest rates. In this quarter, growth rates for retail loans decreased considerably, mainly reflecting the stagnation of mortgage loans, which represent almost 60% of total household loans. In fact, in September mortgage loans recorded a reduction over the twelve months; consumer loans were up, whereas the other types of loans registered a positive change, though slowing down compared to previous months.

In the third quarter of the year bank funding growth rates continued to accelerate, benefiting from the strong expansion of bonds and time-deposits. Current accounts, instead, recorded lower growth rates. As in the previous months, growth was mainly supported by bonds, whereas current accounts registered far more contained growth rates. Repurchase agreement demand was also very strong. These trends confirm the pronounced inclination of the Italian banks to finance private customers, thus reducing risks linked to their liquidity position. Moreover, the slowdown in consumption and the high risk aversion of investors in the current phase of high financial market volatility created incentives to put savings in low-risk financial instruments.

Market uncertainty explains the success of bond issues destined for Bank customers. In this light, the recomposition of bank funding in favour of bonds – now representing 43% of total funding (41% in September 2007) – could receive further support from recent government anti-crisis measures, providing for state guarantees on the capital invested in bank bonds.

The good performance of direct customer deposits contrasted strongly with the very subdued trend of indirect customer deposits (third party securities under administration and management at nominal value, net of bank bonds and certificates of deposit). In the first eight months of the year this aggregate posted a reduction, on average, with a more intense slowdown in the last few months. The decline is mainly attributable to the negative performance of the asset management component (individual portfolio management schemes and mutual funds).

The foreseeable evolution of the credit sector

The persisting financial crisis and the economic recession casts a shadow over the remaining months of 2008 and for 2009, making an unsatisfactory evolution likely in the credit sector as well. Banks are expecting funding difficulties to persist even longer on the interbank and capital markets, though eased by the anti-crisis plans launched by the central banks and governments of the more advanced countries.

The cyclic trend will lead, at least until the middle of next year, to a contraction in the growth rates of household and corporate loans, in a market characterised by increased risk, with the consequent tightening of financing conditions. At the same time, bank interest rates should begin a phase of gradual decline, in line with the transfer to money yields of expansive monetary policy measures (refinancing rate foreseen at 3.25% at the end of the year).

The trend of loans will continue to slow down, touching bottom in the forthcoming 6-9 months. However, production sector loan demand should be supported by lower corporate self-financing capability as well as by the need to restructure previous loans. Household loan demand will appear less intense and will start to show signs of recovery again only in the second half of 2009, thanks to the improvement of the confidence climate and the return of interest rates to sustainable levels. Among household financing products, the non-mortgage segment is expected to record the greatest expansion, partly thanks to supply policies aimed at enlarging the customer base and differentiating the product range.

Prospects for direct customer deposits appear solid, reflecting factors pertaining to both product supply (banks favouring customer deposits) and demand (low propensity to risk, reduction of cost/opportunity in short-term activities). Breakdown by type of funding shows the continuation of recomposition in favour of bonds and time-deposits, which are products in great expansion, due to their defensive characteristics as well. In particular, bond growth rates will remain high; they are also favoured by the fact banks are orientated towards the alignment of maturities between assets and liabilities.
Asset management activities are expected to decline this year also, continuing the disappointing trend of the 2006-2007 period. In particular, the trend of mutual funds, burdened by a very heavy balance in terms of net collection, will confirm, at the end of 2008, the deep crisis in that market.
Considering the evolution of banking activities, the system's operating margin this year should be lower than in the previous year. The interest margin, though clearly slowing down – partly due to high funding costs – will still provide the only positive contribution to the rise in overall revenues. On the other hand, the margin on services is expected to make a negative contribution, due to low commissions from asset management activities and other services (payment services, associated with loans, etc.), as well as a heavy reduction of trading income. As regards costs, the efficiency processes currently under way are expected to be consolidated. As to prudential adjustments and provisions, the stance of banks should generally be more cautious than in previous years, reflecting the rise of market and credit risks, determined by the current crisis in financial markets and the economic recession.

Intesa Sanpaolo in the first nine months of 2008

The cautious optimism which characterised the presentation of the half-yearly results must be replaced by a more conservative outlook for the year and for the 2008 financial statements.
In September, and even more so in October, the financial market crisis deteriorated dramatically, sweeping away international investment banks, insurance companies and US financial institutions; also certain large European banks faced severe difficulties. Some countries are showing solvency problems.
The most disruptive event was the bankruptcy of Lehman Brothers, which is generating effects on the entire global financial systems, the scope and breadth of which are at present difficult to quantify. This bankruptcy seems to be the trigger that transformed a severe crisis, which mostly seemed manageable with sustainable costs, into a global collapse.
In this context, Central Banks promptly intervened ensuring that the system had the necessary liquidity and then, in October, lowered reference rates. Politics played a key role with extraordinary measures which vary from country to country, but are all equally aimed at supporting the banking system and guaranteeing market stability.
Law Decree 155 of 9 October 2008 was issued in Italy and contains "Urgent measures for the stability of the banking system and continuation of lending to companies and consumers, in the current crisis of international financial markets" which authorises the Ministry of the Economy to support banks which have an inadequate capital base ascertained by the Bank of Italy through the subscription or the guarantee of a share capital increase. Moreover, the Law Decree extended the faculty of applying extraordinary administration and provisional management procedures to banks which present liquidity problems and introduced a state guarantee for loans disbursed by the Bank of Italy. Italian regulations in force for deposit guarantees were integrated, adding to existing private-sector systems the possibility of a state guarantee in favour of the depositors of Italian banks. The package was completed by Law Decree 157 of 13 October 2008: "Further urgent measures for the stability of the banking system" for the purpose, in particular, of reactivating the interbank loan market. The latter introduced state guarantee for bank liabilities and a swap mechanism between Government bonds and financial instruments held. The Ministry of the Economy was also authorised to give state guarantee to transactions stipulated by Italian banks, in order to have available securities eligible for refinancing at the Eurosystem.
Despite these measures, the economy and financial markets were heavily affected and could continue to be so in the coming months. In fact, the symptoms of economic slowdown that emerged in the first part of the year have been corroborated, triggering fears of recession.
Financial markets suffered a tremendous shock. On the one hand, liquidity rarefied and the interbank rate rose to an unjustifiable level, leading to an increase in the cost of money. On the other hand, many savers abandoned investments in shares, funds and insurance policies – deemed to be risky – and turned to more liquid instruments. Sales by institutional investors, especially by those operating with "leverage", of large investments in both equities and bonds greatly contributed to the slump in stock market prices.
For banks, this led to a reduction in financial service activities and in operating profits.
The effects of the economic and financial crisis can be seen, line by line, in the results of the Intesa Sanpaolo Group for the third quarter: the rise in net interest income continued, attributable to both

intermediated volumes and interest rate trends; the contribution of commissions considerably decreased, following the negative trend of the asset management business; capital losses on the securities portfolio significantly reduced profits on trading and affected income on insurance business.
In addition to this, the increasing difficulties of companies and individuals led to an increase in non-performing loans and in related adjustments.
Great attention was paid to the consequences of the tensions in international markets on liquidity. Intesa Sanpaolo constantly pursued the objective of improving its liquidity ratios, with a prudent management implemented through both the extension of maturities of money market instruments and the increase in assets eligible for refinancing, also with self-collateralisation operations. Moreover, again for prudential purposes, it was decided to extend potential operations with Central Banks, implementing agreements to take part in operations with the Bank of England and activating all the range of operations available at the European Central Bank. As regards medium-/long-term funding activities, thanks to intense activities on international markets and to private placements, targets for funding from the market for the whole year have already been achieved at the end of the third quarter.

Intesa Sanpaolo in the third quarter of 2008

The assessment of results as at 30 September 2008 must start from the consideration that the Intesa Sanpaolo Group, despite the severity of the crisis which hit the world economy and markets, in any case produced a net income of 3,778 million euro in the nine months, of which 673 million euro in the third quarter. However, October was the worst month for financial markets in many decades, and the last two months before the end of the year will be equally difficult. Furthermore, the 2008 financial statements could also be influenced by impairment tests on equity investments and intangibles whose results will depend upon financial market trends and the evolution of the macroeconomic scenario, and also upon the business plans and budgets of the entities involved.
The 3,778 million euro of net income for the nine months compares with the 6,746 million euro of the same period of the previous year, when far higher non-recurring income had been generated.
Net of such non–recurring components, there was in any case a rise in net income for the period from 3,504 million euro to 3,551 million euro (+1.3%).
Non-recurring items in the first nine months of 2008 were attributable to adjustments related to the bankruptcy of Lehman Brothers (172 million euro net of tax effect), and the crisis of the Icelandic banking system (52 million euro net of taxes), to income from the sale of Agos (262 million euro net) and from the sale of real estate (79 million euro net), to out-of-period income relative to the IMI-Sir dispute (92 million euro net); in the first nine months of 2007 the non-recurring components referred to the capital gain generated by the sale of the Borsa Italiana shares (160 million euro net of tax effect) and to the positive effects of the recalculation of Employee termination indemnities (185 million euro net of tax effect). Moreover, income after tax from discontinued operations, merger and restructuring related charges and the economic effects of the allocation of purchase cost of equity investments were added in both periods.
Operating income amounted to 14,273 million euro, down 3.2% with respect to the first nine months of 2007; with a reduction also in normalised terms (-2.8%).
While net interest income recorded a 12.6% rise (+ 983 million euro to 8,790 million euro), sustained by the positive trend of intermediated volumes and spreads, there was a reduction in the other typical income components.
Net fee and commission income decreased 8.7% to 4,598 million euro, especially due to the contraction in fees from asset management and placement of financial and insurance products.
Profits on trading considerably decreased due to the difficult market context (-70.8% to 329 million euro), while benefitting from the reclassification of certain securities following the amendments in accounting regulations illustrated hereafter.
The market crisis also heavily affected income from insurance business, which posted a 44% decrease to 229 million euro.
Other operating income increased (+ 56.4% to 219 million euro) due to the presence of non-recurring components linked to the IMI-Sir dispute.
Operating costs were virtually stable (+30 million euro, to 7,266 million euro), with a moderate rise in personnel expenses, a slight reduction in other administrative expenses and a more sustained contraction in adjustments. However, it must be noted that the figure for the previous year was positively affected by the recalculation of Employee termination indemnities, which led to an extraordinary reduction of personnel expenses of 277 million euro. Net of this non-recurring effect, personnel expenses decreased by 4.3% and total operating costs by 3.3%.
Operating margin amounted to 7,007 million euro, down 6.6% compared to the 7,502 million euro of the first nine months of 2007. In normalised terms the negative growth rate decreases to -2.4%.

Net adjustments to loans considerably increased (+ 53.8% to 1,570 million euro). The most significant components derived from the bankruptcy of Lehman Brothers, 195 million euro, since it was decided to classify in adjustments to loans the substitution cost of derivatives and from the bankruptcy of Icelandic banks, for which exposure was adjusted by 59 million euro. With reference to the bankruptcy of Lehman Brothers please note that, in consideration of the complexity of the bankruptcy procedure, a particularly prudent stance was taken in the valuation of loans and the securities portfolio. A 75% adjustment was applied to the former as in the case of securities not held for trading, whereas an 85% adjustment was applied to securities held for trading. Total adjustments to loans amounted to 195 million euro, adjustments to securities available for sale to 38 million euro (recorded in the caption Net impairment losses on other assets) and adjustments to securities held for trading to 6 million euro (recorded in the caption Profits on trading).

Provisions for risks and charges registered a 45% decrease to 154 million euro, whereas profits on equity investments increased, essentially due to the sale of the stake in Agos and the sale of real estate assets which were transferred to Immit.

Operating margin amounted to 5,706 million euro, down 8.4% with respect to the same period of the previous year. In normalised terms the contraction decreases to 6.2%.

Net income, after the registration of lower taxes, income (loss) after tax from discontinued operations, merger and restructuring related charges and the effect of purchase cost allocation, amounted to 3,778 million euro, down 44% compared to the figure for the first nine months of 2007.

Considering non-recurring income and costs, as already indicated, the first nine months of 2008 highlighted a 1.4% rise compared to the same period of the previous year.

Quarterly development for 2008 highlights even more clearly the impact of the financial market crisis on the income statement. Between the second and third quarters, the rise of net interest income (from 2,906 to 3,046 million euro) was contrasted by a decrease in net fee and commission income (from 1,563 to 1,405 million euro) and especially in profits on trading (41 million euro compared to the 261 million euro of the second quarter). Operating costs showed a 1.6% reduction and operating margin decreased from 2,510 to 2,226 million euro (-11.3%).

Income before tax from continuing operations fell by 38.9%, due to the rise in adjustments and the different contribution of profits on the disposal of investments. Net of non-recurring components the contraction drops to 26.2%.

Net income for the third quarter of 2008 amounted to 673 million euro with a marked reduction with respect to the 1,357 million euro recorded in the second quarter of the year (-50.4%). In normalised terms the contraction decreases to 21.1%.

Interventions in accounting regulations

The severe financial market crisis described above led the Governments of European Union countries to ask the IASB, the body in charge of preparing accounting principles for listed companies, for changes in accounting regulations with reference to the classification of financial instruments aimed at aligning them with US principles and clarifying fair value measurement of such instruments when markets are illiquid as in the current situation.

With reference to the classification of financial instruments, the amendments to IAS 39, introduced by the IASB with the document "Reclassification of financial assets" and endorsed by the European Commission on 15 October 2008 with Regulation 1004/2008, allow the reclassification of a non-derivative financial instrument out of the category financial instruments held for trading (assets measured at fair value through profit and loss) into other categories (assets held to maturity, assets available for sale, loans and receivables). Moreover, financial assets available for sale may be reclassified into loans and receivables. Such reclassifications are now possible when a financial asset, due to rare circumstances which are unlikely to recur in the near term, is no longer held for trading or available for sale and therefore the entity has the intention of holding it for the foreseeable future or until maturity. The current financial crisis was considered by the IASB a rare circumstance. The reclassifications, due to the exceptional situation, may be performed with reference to values at 1 July 2008.

When markets are particularly illiquid it is more complicated for companies to determine an appropriate fair value for financial instruments. Both the IASB and the preparers of US accounting principles issued guidance specifying which processes must be activated to determine fair value when market data is not available, is not observable, or is inadequate to represent the value of the financial instrument.

The Intesa Sanpaolo group decided to identify certain specific financial assets (bonds and loans) for which the current and the expected future market conditions no longer permit active management and which will therefore be held in the bank's portfolio. Such assets have thus been reclassified into loans from assets held for trading and available for sale with the consequent change in measurement criteria from fair value to amortised cost. Reclassification involved securities for a nominal value of 9,509 million euro and loans for a nominal value of 1,162 million euro, with an impact, in terms of lower capital losses in consideration of the backdated effects of the reclassification as of 1 July 2008, of 141 million euro on income before tax from continuing operations and of a further 212 million euro (again before tax) directly on shareholders' equity reserves. Moreover, debt securities were reclassified out of assets held for trading to assets available for sale for a nominal value of 130 million euro.

As regards criteria for the determination of fair value, the new documents basically confirmed the approach already taken by the Group. Therefore, due to the drying up of financial markets, certain bonds issued by financial institutions for which there are few or no transactions on the market have been measured through the use of parameters observed on non-dislocated markets since they were deemed to be more significant than those directly taken from the security's reference market when greatly affected by the current financial crisis.

For further information on the Group's accounting decisions see the specific chapters which describe accounting principles and financial risks.

The Intesa Sanpaolo Group

Intesa Sanpaolo

- Head Office Departments

Public Finance
- Banca Infrastrutture Innovazione e Sviluppo

Corporate & Investment Banking Division
- Banca IMI
- IMI Investimenti
- Intesa Sanpaolo Bank Ireland
- Mediofactoring
- Sanpaolo Bank Luxembourg
- Société Européenne de Banque
- Zao Banca Intesa

Banca dei Territori Division
- Intesa Sanpaolo
- Banca CR Firenze
- Banca dell'Adriatico
- Banca di Trento e Bolzano
- Banco di Napoli
- Cassa dei Risparmi di Forlì e della Romagna
- Cassa di Risparmio del Friuli Venezia Giulia
- Cassa di Risparmio del Veneto
- Cassa di Risparmio di Venezia
- Cassa di Risparmio in Bologna
- Casse del Centro
- Banca CIS
- Banca Prossima
- EurizonTutela
- EurizonVita
- Intesa Previdenza
- Intesa Sanpaolo Private Banking
- IntesaTrade
- Leasint
- Mediocredito Italiano
- Neos Banca
- Sanpaolo Fiduciaria
- Setefi
- Sirefid
- Sud Polo Vita

International Subsidiary Banks Division
- Banca Intesa Beograd
- Bank of Alexandria
- Banka Koper
- CIB Bank
- Intesa Sanpaolo Bank Albania
- Intesa Sanpaolo Bank Romania
- Intesa Sanpaolo Banka Bosna i Hercegovina
- KMB Bank
- Pravex-Bank
- Privredna Banka Zagreb
- VUB Banka

Other Group Subsidiaries
- Banca Fideuram
- Eurizon Capital

Consolidated financial statements

Consolidated balance sheet

(in millions of euro)

Assets	30.09.2008	31.12.2007 restated (*)	Changes amount	Changes %	31.12.2007
Financial assets held for trading	49,564	52,927	-3,363	-6.4	52,725
Financial assets designated at fair value through profit and loss	20,479	21,699	-1,220	-5.6	19,996
Financial assets available for sale	30,687	40,224	-9,537	-23.7	36,908
Investments held to maturity	5,763	5,923	-160	-2.7	5,923
Due from banks	75,171	66,813	8,358	12.5	62,806
Loans to customers	385,795	355,172	30,623	8.6	334,073
Investments in associates and companies subject to joint control	3,441	3,264	177	5.4	3,522
Property, equipment and intangible assets	34,773	32,144	2,629	8.2	30,730
Tax assets	4,164	3,813	351	9.2	3,623
Non-current assets held for sale and discontinued operations	1,547	5,699	-4,152	-72.9	5,699
Other assets	22,464	17,666	4,798	27.2	16,897
Total Assets	**633,848**	**605,344**	**28,504**	**4.7**	**572,902**

Liabilities and Shareholders' Equity	30.09.2008	31.12.2007 restated (*)	Changes amount	Changes %	31.12.2007
Due to banks	64,135	73,480	-9,345	-12.7	67,683
Due to customers and securities issued	407,609	365,379	42,230	11.6	345,084
Financial liabilities held for trading	27,946	24,664	3,282	13.3	24,599
Financial liabilities designated at fair value through profit and loss	25,837	28,157	-2,320	-8.2	27,268
Tax liabilities	3,709	3,870	-161	-4.2	3,789
Liabilities associated with non-current assets held for sale and discontinued operations	1,432	4,756	-3,324	-69.9	4,756
Other liabilities	24,079	21,414	2,665	12.4	20,144
Technical reserves	21,151	23,464	-2,313	-9.9	21,563
Allowances for specific purpose	6,078	6,106	-28	-0.5	5,667
Share capital	6,647	6,647	-	-	6,647
Reserves	41,098	36,962	4,136	11.2	36,962
Valuation reserves	-714	699	-1,413		699
Minority interests	1,063	2,496	-1,433	-57.4	791
Net income	3,778	7,250	-3,472	-47.9	7,250
Total Liabilities and Shareholders' Equity	**633,848**	**605,344**	**28,504**	**4.7**	**572,902**

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

Quarterly development of the consolidated balance sheet

(in millions of euro)

Assets	2008			2007 restated (*)			
	30/9	30/6	31/3	31/12	30/9	30/6	31/3
Financial assets held for trading	49,564	54,857	53,277	52,927	63,427	81,911	78,194
Financial assets designated at fair value through profit and loss	20,479	20,915	20,499	21,699	22,162	22,837	22,796
Financial assets available for sale	30,687	36,906	38,763	40,224	43,441	45,019	45,512
Investments held to maturity	5,763	5,976	5,709	5,923	5,847	5,973	5,899
Due from banks	75,171	71,092	69,892	66,813	68,254	67,323	67,589
Loans to customers	385,795	373,100	361,428	355,172	345,308	349,033	345,864
Investments in associates and companies subject to joint control	3,441	3,326	3,371	3,264	2,880	2,832	2,802
Property, equipment and intangible assets	34,773	34,680	32,948	32,144	32,185	32,622	33,205
Tax assets	4,164	4,162	3,770	3,813	4,969	4,484	4,910
Non-current assets held for sale and discontinued operations	1,547	1,826	1,887	5,699	8,908	14,418	14,678
Other assets	22,464	20,861	17,234	17,666	16,223	13,772	14,406
Total Assets	**633,848**	**627,701**	**608,778**	**605,344**	**613,604**	**640,224**	**635,855**

Liabilities and Shareholders' Equity	2008			2007 restated (*)			
	30/9	30/6	31/3	31/12	30/9	30/6	31/3
Due to banks	64,135	62,786	71,223	73,480	79,414	96,905	87,667
Due to customers and securities issued	407,609	393,250	367,325	365,379	357,313	362,220	359,495
Financial liabilities held for trading	27,946	29,831	29,988	24,664	27,782	28,626	28,739
Financial liabilities designated at fair value through profit and loss	25,837	26,512	26,905	28,157	29,068	29,352	28,467
Tax liabilities	3,709	3,739	4,620	3,870	5,621	5,361	6,608
Liabilities associated with non-current assets held for sale and discontinued operations	1,432	1,764	1,537	4,756	7,782	13,256	14,043
Other liabilities	24,079	29,888	27,065	21,414	19,942	18,476	25,227
Technical reserves	21,151	21,783	22,540	23,464	22,967	24,013	24,829
Allowances for specific purpose	6,078	6,545	6,615	6,106	6,594	6,059	6,474
Share capital	6,647	6,647	6,647	6,647	6,647	6,647	6,646
Reserves	41,098	41,109	41,154	36,962	8,453	8,424	8,393
Merger reserves	-	-	-	-	31,093	31,093	31,093
Valuation reserves	-714	-299	-49	699	934	1,283	1,120
Minority interests	1,063	1,041	1,460	2,496	3,248	3,223	3,088
Net income	3,778	3,105	1,748	7,250	6,746	5,286	3,966
Total Liabilities and Shareholders' Equity	**633,848**	**627,701**	**608,778**	**605,344**	**613,604**	**640,224**	**635,855**

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

Consolidated income statement

(in millions of euro)

	30.09.2008	30.09.2007 restated (*)	Changes amount	Changes %	30.09.2007
Net interest income	8,790	7,807	983	12.6	7,234
Dividends and profits (losses) on investments carried at equity	108	219	-111	-50.7	231
Net fee and commission income	4,598	5,038	-440	-8.7	4,667
Profits (Losses) on trading	329	1,125	-796	-70.8	1,072
Income from insurance business	229	409	-180	-44.0	357
Other operating income (expenses)	219	140	79	56.4	114
Operating income	**14,273**	**14,738**	**-465**	**-3.2**	**13,675**
Personnel expenses	-4,318	-4,235	83	2.0	-3,887
Other administrative expenses	-2,361	-2,366	-5	-0.2	-2,136
Adjustments to property, equipment and intangible assets	-587	-635	-48	-7.6	-599
Operating costs	**-7,266**	**-7,236**	**30**	**0.4**	**-6,622**
Operating margin	**7,007**	**7,502**	**-495**	**-6.6**	**7,053**
Goodwill impairment	-	-	-	-	-
Net provisions for risks and charges	-154	-280	-126	-45.0	-261
Net adjustments to loans	-1,570	-1,021	549	53.8	-921
Net impairment losses on other assets	-51	-19	32		-18
Profits (Losses) on investments held to maturity and on other investments	474	44	430		42
Income (Loss) before tax from continuing operations	**5,706**	**6,226**	**-520**	**-8.4**	**5,895**
Taxes on income from continuing operations	-1,806	-2,093	-287	-13.7	-1,945
Merger and restructuring related charges (net of tax)	-475	-480	-5	-1.0	-480
Effect of purchase cost allocation (net of tax)	-437	-409	28	6.8	-409
Income (Loss) after tax from discontinued operations	929	3,786	-2,857	-75.5	3,786
Minority interests	-139	-284	-145	-51.1	-101
Net income	**3,778**	**6,746**	**-2,968**	**-44.0**	**6,746**
Basic EPS - euro	**0.30**	**0.53**			**0.53**
Diluted EPS - euro	**0.30**	**0.53**			**0.53**

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

Quarterly development of the consolidated income statement

(in millions of euro)

	2008			2007 restated (*)				
	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Average of the quarters
Net interest income	3,046	2,906	2,838	2,826	2,635	2,627	2,545	2,658
Dividends and profits (losses) on investments carried at equity	13	29	66	86	63	106	50	76
Net fee and commission income	1,405	1,563	1,630	1,634	1,634	1,697	1,707	1,668
Profits (Losses) on trading	41	261	27	-47	321	349	455	270
Income from insurance business	43	107	79	99	109	179	121	127
Other operating income (expenses)	85	91	43	31	60	26	54	43
Operating income	**4,633**	**4,957**	**4,683**	**4,629**	**4,822**	**4,984**	**4,932**	**4,842**
Personnel expenses	-1,408	-1,447	-1,463	-1,576	-1,495	-1,225	-1,515	-1,453
Other administrative expenses	-799	-805	-757	-975	-790	-798	-778	-835
Adjustments to property, equipment and intangible assets	-200	-195	-192	-247	-217	-215	-203	-221
Operating costs	**-2,407**	**-2,447**	**-2,412**	**-2,798**	**-2,502**	**-2,238**	**-2,496**	**-2,509**
Operating margin	**2,226**	**2,510**	**2,271**	**1,831**	**2,320**	**2,746**	**2,436**	**2,333**
Goodwill impairment	-	-	-	-	-	-	-	-
Net provisions for risks and charges	-76	-45	-33	-270	-76	-107	-97	-138
Net adjustments to loans	-855	-402	-313	-490	-312	-359	-350	-378
Net impairment losses on other assets	-40	-3	-8	-52	3	-20	-2	-18
Profits (Losses) on investments held to maturity and on other investments	177	284	13	58	-1	8	37	26
Income (Loss) before tax from continuing operations	**1,432**	**2,344**	**1,930**	**1,077**	**1,934**	**2,268**	**2,024**	**1,826**
Taxes on income from continuing operations	-491	-704	-611	-789	-589	-779	-725	-721
Merger and restructuring related charges (net of tax)	-86	-68	-321	-125	-400	-66	-14	-151
Effect of purchase cost allocation (net of tax)	-151	-153	-133	399	-136	-137	-136	-3
Income (Loss) after tax from discontinued operations	-4	-21	954	-5	743	127	2,916	945
Minority interests	-27	-41	-71	-53	-92	-93	-99	-84
Net income	**673**	**1,357**	**1,748**	**504**	**1,460**	**1,320**	**3,966**	**1,813**

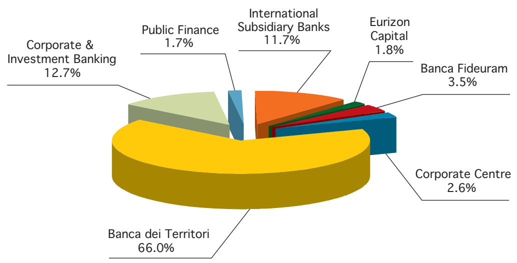
(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

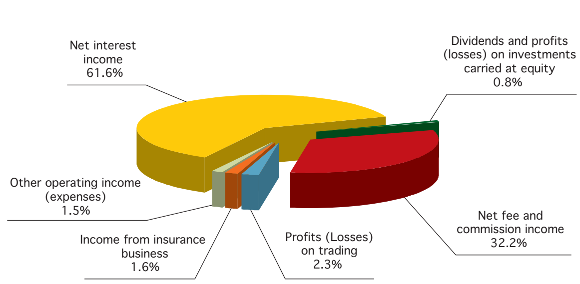
Report on operations

Economic results

Operating income

In a context of sudden worsening in the real economy conditions and of collapse of confidence which dramatically affected capital markets, originating bearish pressures and tensions of the foreign exchange markets, the Group's operating margins declined in the first nine months of 2008. The decrease in operating income, which amounted to 14,273 million euro, was contained to 3.2% compared to the same period of the previous year, thanks to the rise in net interest income (+12.6%) that represents 62% of income, however not sufficient to offset the decrease in other revenue captions: the contraction in operating income stemmed from the trend of net commissions (-8.7%), insurance business (-44%) and, especially, profits on trading (-70.8%).



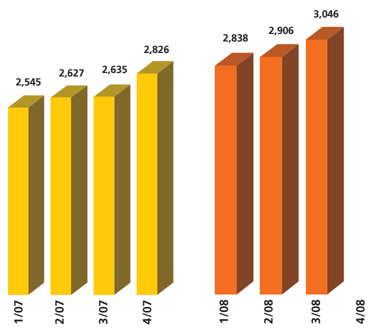


Net interest income

(in millions of euro)

	30.09.2008	30.09.2007 restated (*)	Changes amount	Changes %
Relations with customers	12,182	10,369	1,813	17.5
Relations with banks	229	-698	927	
Securities issued	-5,088	-4,231	857	20.3
Differentials on hedging derivatives	-462	10	-472	
Financial assets held for trading	738	1,271	-533	-41.9
Investments held to maturity	201	186	15	8.1
Financial assets available for sale	646	560	86	15.4
Non-performing assets	416	390	26	6.7
Other net interest income	-92	-74	18	24.3
Interest margin	**8,770**	**7,783**	**987**	**12.7**
Fair value adjustments in hedge accounting	**20**	**24**	**-4**	**-16.7**
Net interest income	**8,790**	**7,807**	**983**	**12.6**

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.



Net interest income in the period amounted to 8,790 million euro, with a 983 million euro rise compared to the first nine months of 2007.

Net interest income from operations with customers, which in the table above also includes components related to securities issued and differentials on hedging derivatives, totalled 6,632 million euro, up 484 million euro (+7.9%) on the same period of 2007. The rise benefited from growth in intermediated volumes, from the increase in customer deposits and loans to customers, and, with reference to interest rates, from the rise in the spread on funding only partly offset by the reduction in the margin on loans. Net interest income attributable to financial investments fell 21.4%, from 2,017 million euro to 1,585 million euro due to the lower operations induced by the financial market crisis. The contribution of net interest on relations with banks was particularly important – positive for 229 million euro compared to a negative contribution of approximately 700 million euro in the same period of 2007 – in relation, as already indicated, to the particular attention paid to improving liquidity.

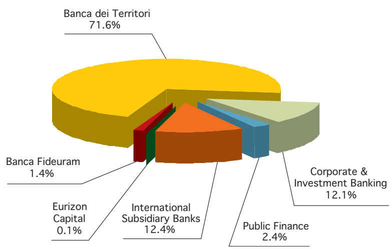
Quarterly development confirmed the continued growth of interest margin, already recorded in the first part of the year; the contribution of the third quarter (3,046 million euro) rose by 4.8% with respect to the 2,906 million euro registered in the second quarter of the year.

(in millions of euro)

	30.09.2008	30.09.2007 restated (*)	Changes amount	Changes %
Banca dei Territori	6,033	5,706	327	5.7
Corporate & Investment Banking	1,021	797	224	28.1
Public Finance	203	150	53	35.3
International Subsidiary Banks	1,049	874	175	20.0
Eurizon Capital	5	7	-2	-28.6
Banca Fideuram	117	92	25	27.2
Total business areas	**8,428**	**7,626**	**802**	**10.5**
Corporate Centre	362	181	181	
Intesa Sanpaolo Group	**8,790**	**7,807**	**983**	**12.6**

(*) Figures restated where required by international accounting principles, considering the changes in the scope of consolidation and in business unit constituents.

Business areas



Almost all business areas contributed to the growth of net interest income. In particular, Banca dei Territori, which generates 72% of the income of the business areas, posted a 5.7% rise in net interest income, due to the retail areas, businesses and private, to leasing and consumer credit. Higher percentage increases were registered by other business areas: 28.1% by Corporate & Investment Banking, that benefited from loan repricing policies as part of the management of Corporate Relations and from the collection of high coupons on German corporate issues in Banca IMI's portfolio; 20% by International Subsidiary Banks; 35.3% by Public Finance and 27.2% by Banca Fideuram, the last two with lower absolute amounts.

Dividends and profits on investments carried at equity

Dividends collected from unconsolidated equity investments, excluding those deriving from shares held for trading and shares available for sale which are classified in profits on trading, totalled 24 million euro and are attributable to the stake in the capital of the Bank of Italy; the portion of profits on investments carried at equity was 84 million euro. The caption totalled 108 million euro, down with respect to the 219 million euro of the first nine months of 2007, mostly as a result of the lower contribution of the equity investments in Agos and Banque Palatine, sold in the first half of 2008, and the lower profitability of investments carried at equity, namely Intesa Vita.

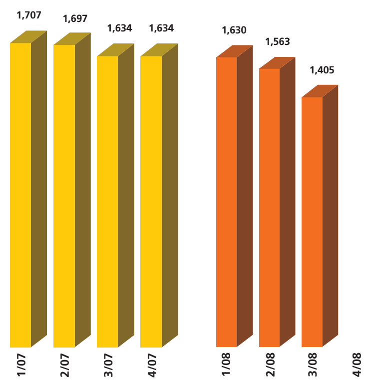
Net fee and commission income

(in millions of euro)

	30.09.2008	30.09.2007 restated (*)	Changes amount	%
Guarantees given	196	177	19	10.7
Collection and payment services	303	334	-31	-9.3
Current accounts	679	736	-57	-7.7
Credit and debit cards	348	307	41	13.4
Commercial banking activities	**1,526**	**1,554**	**-28**	**-1.8**
Dealing and placement of securities	432	423	9	2.1
Currency dealing	49	50	-1	-2.0
Portfolio management	1,097	1,459	-362	-24.8
Distribution of insurance products	586	614	-28	-4.6
Other	197	202	-5	-2.5
Management, dealing and consultancy activities	**2,361**	**2,748**	**-387**	**-14.1**
Other net fee and commission income	**711**	**736**	**-25**	**-3.4**
Net fee and commission income	**4,598**	**5,038**	**-440**	**-8.7**

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

Quarterly development of net fee and commission income



In the first nine months of 2008 net fee and commission income, which represents approximately a third of total operating revenues, amounted to 4,598 million euro, 8.7% down with respect to the corresponding period of the previous year. As already highlighted, the confidence crisis which deepened in the third quarter of 2008 accelerated the exit from asset management products in favour of short-term financial assets, namely on demand deposits and Government securities. This trend worsened the decline of revenues from asset management which had already characterised the first two quarters of the current year.

Commercial banking activities generated net fee and commission income of 1,526 million euro, down 1.8%. The trend was the combined effect of the contraction in commissions on current accounts (-7.7%), ascribable to the ever-increasing diffusion of accounts with lower costs for customers, and in collection and payment services (-9.3%), only partly offset by the rise in commissions on credit and debit cards (+13.4%) and guarantees given (+10.7%).

Management, dealing and consultancy produced net fee and commission income of 2,361 million euro, down 14.1% with respect to the 2,748 million euro of the first nine months of 2007. The decrease is mostly attributable to portfolio management, down 24.8% (-362 million euro), followed by distribution of insurance products, down 4.6% (-28 million euro). Conversely, commissions on dealing and placement of securities had a 2.1% growth rate.

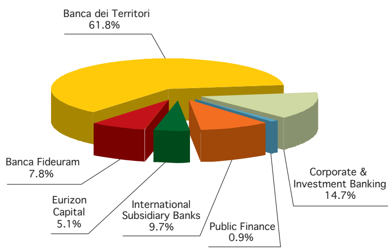
Quarterly development shows the continuing decrease in commission income already recorded in the first half of the year; in particular, the third quarter of 2008 showed a 10.1% reduction with respect to the previous quarter, especially due to management, dealing and consultancy activities (-14%), which were affected by the lower contribution of management fees and the more contained placement of financial products; commissions on commercial banking activities decreased by 2.2%.

(in millions of euro)

	30.09.2008	30.09.2007 restated (*)	Changes amount	%
Banca dei Territori	2,947	3,179	-232	-7.3
Corporate & Investment Banking	701	727	-26	-3.6
Public Finance	41	38	3	7.9
International Subsidiary Banks	464	403	61	15.1
Eurizon Capital	243	273	-30	-11.0
Banca Fideuram	373	441	-68	-15.4
Total business areas	**4,769**	**5,061**	**-292**	**-5.8**
Corporate Centre	-171	-23	148	
Intesa Sanpaolo Group	**4,598**	**5,038**	**-440**	**-8.7**

(*) Figures restated where required by international accounting principles, considering the changes in the scope of consolidation and in business unit constituents.

Business areas



As concerns breakdown by business area, the fall in net fee and commission income with respect to the first nine months of 2008 is attributable to Banca dei Territori (-7.3%), which produced approximately 62% of net fee and commission income generated by the business units, Banca Fideuram (-15.4%) and Eurizon Capital (-11%), strongly affected by the difficulties of the asset management market, and Corporate & Investment Banking (-3.6%), mostly due to the negative trend of transaction services and to a lesser extent by the investment banking area, namely M&A Advisory. Opposite trends were recorded by International Subsidiary Banks (+15.1%), due to the positive trend of commissions on current accounts and payment cards, and Public Finance (+7.9%), thanks to origination activities and in relation to the stability of operations in the more traditional collection and payment services.

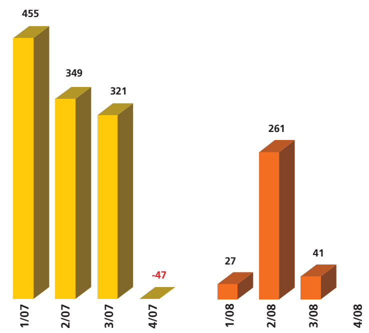
Profits (Losses) on trading

(in millions of euro)

	30.09.2008	30.09.2007 restated (*)	Changes amount	Changes %
Trading result (securities and connected credit derivatives, foreign exchange, financial derivatives)	-374	690	-1,064	
Other credit derivatives	82	-77	159	
Other financial assets / liabilities: foreign exchange differences	368	72	296	
Profits (Losses) on financial assets / liabilities held for trading	**76**	**685**	**-609**	**-88.9**
Profits (Losses) on disposal of financial assets available for sale and repurchase of financial liabilities	**160**	**322**	**-162**	**-50.3**
Dividend and similar income on shares available for sale	**93**	**118**	**-25**	**-21.2**
Profits (Losses) on trading	**329**	**1,125**	**-796**	**-70.8**

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

Quarterly development of profits (losses) on trading



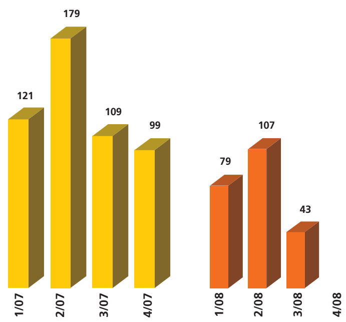
Trading of securities and financial and credit derivatives led to profits of 329 million euro with a considerable contraction compared to the 1,125 million euro of the first nine months of 2007.
The caption had benefited for 141 million euro from the effects of the reclassification of certain debt securities (mainly structured credit securities) out of the trading category into loans in accordance with the new accounting regulations which came into effect in October 2008.
Within trading activities a profit was recorded on trading on interest rate derivatives thanks to a widening in the spreads and to the Group's competitive advantage as a result of the generalised liquidity crisis which affected various market players and practically had no impact on Intesa Sanpaolo. Foreign exchange activities made a significant contribution (368 million euro).
Structured credit products led to adjustments of 236 million euro with a slight rise with respect to the 203 million euro recorded in the first six months of 2008.
The contribution of profits from financial instruments available for sale (160 million euro) recorded a decrease (-162 million euro) as a result of the considerable capital gain (169 million euro) posted last year with reference to the sale of Borsa Italiana shares.
The figure for the third quarter of 2008 was a profit of 41 million euro, down after the recovery in the second quarter, following the worsening of the world financial crisis.

Income from insurance business

(in millions of euro)

	30.09.2008			30.09.2007 restated (*)			Changes	
	Life	Casualty	Total	Life	Casualty	Total	amount	%
Premiums and payments [a]	107	87	194	-205	74	-131	325	
net premiums	*1,223*	*117*	*1,340*	*1,518*	*97*	*1,615*	*-275*	*-17.0*
net charges for claims and surrendering of policies	*-3,514*	*-28*	*-3,542*	*-4,066*	*-22*	*-4,088*	*-546*	*-13.4*
net charges for changes in technical reserves	*2,398*	*-2*	*2,396*	*2,343*	*-1*	*2,342*	*54*	*2.3*
Net income from financial instruments designated at fair value through profit and loss [b]	-75	-	-75	297	-	297	-372	
Net income from securities (including UCITS) classified as Financial assets available for sale and Financial assets held for trading [c]	520	7	527	555	5	560	-33	-5.9
Other income/charges from insurance business [d]	-370	-47	-417	-276	-41	-317	100	31.5
Income from insurance business	**182**	**47**	**229**	**371**	**38**	**409**	**-180**	**-44.0**

Quarterly development of income from insurance business



(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

(a) The caption includes collections, payments and provisions for the integration of reserves referred solely to products considered insurance products for IAS/IFRS purposes. The corresponding items regarding products which do not present these characteristics are, instead, accounted for using the same method as for financial movements. The related economic components are included in the caption Net income from financial instruments designated at fair value through profit and loss".

(b) The caption includes net income from the measurement of assets and liabilities connected to products considered financial products for IAS/IFRS purposes and those deriving from the measurement of assets accounted for applying the so-called Fair Value Option.

(c) The caption registers realised profits and interest / dividends collected on financial assets covering products considered insurance products for IAS/IFRS purposes and on the trading portfolio of the insurance company.

(d) The caption includes all other income / charges connected to products considered insurance products for IAS/IFRS purposes, including commission expense.

In the first nine months of 2008 income from insurance business, which contains revenue items referring to the life and casualty companies of the Group, totalled 229 million euro, down 44% with respect to the corresponding period of the previous year.
The decrease stems from the negative trend of financial management referred to traditional products, attributable to lower amounts under management and portfolio disinvestment policies which were negatively affected by market instability. There was also the reduction in the fair value of investments which cover traditional products and capital. The decrease in the fair value of assets underlying index-linked policies also required the integration of reserves in case of death. Conversely, there was an improvement in the casualty branch managed by Eurizon Tutela thanks to the lower incidence of charges related to claims and to a moderate rise in premiums.
Quarterly development in the current year referred to income from insurance business therefore showed a significant drop from June to September.

Other operating income (expenses)

Other operating income (expenses), residual caption which comprises various types of income and expenses which cannot be classified in other operating income captions, had a positive balance of 219 million euro - a rise compared to the 140 million euro of the first nine months of 2007. The rise benefited from the registration of income, amounting to 126 million euro, connected to the IMI-Sir dispute for the sums due from the Rovelli family following the settlement reached last year.

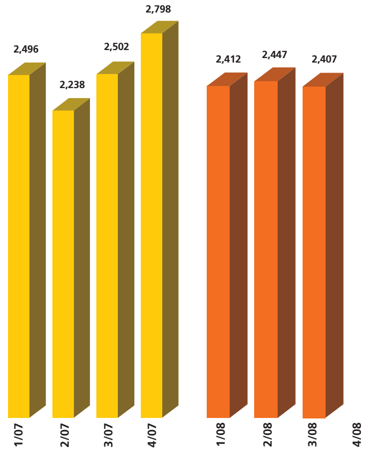
Operating costs

(in millions of euro)

	30.09.2008	30.09.2007 restated (*)	Changes amount	Changes %
Wages and salaries	3,087	3,235	-148	-4.6
Social security charges	780	818	-38	-4.6
Other	451	182	269	
Personnel expenses	**4,318**	**4,235**	**83**	**2.0**
Information technology expenses	571	629	-58	-9.2
Management of real estate assets	557	543	14	2.6
General structure costs	368	372	-4	-1.1
Professional and legal expenses	344	293	51	17.4
Advertising and promotional expenses	128	123	5	4.1
Indirect personnel costs	101	84	17	20.2
Other costs	251	296	-45	-15.2
Indirect taxes and duties	478	499	-21	-4.2
Recovery of expenses and charges	-437	-473	-36	-7.6
Administrative expenses	**2,361**	**2,366**	**-5**	**-0.2**
Property and equipment	331	365	-34	-9.3
Intangible assets	256	270	-14	-5.2
Adjustments	**587**	**635**	**-48**	**-7.6**
Operating costs	**7,266**	**7,236**	**30**	**0.4**

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

Quarterly development of operating costs



The operating costs of the first nine months of 2008, net of expenses for the integration between Banca Intesa and Sanpaolo IMI and of Cassa di Risparmio di Firenze, posted in a specific caption of the reclassified income statement, totalled 7,266 million euro, almost stable with respect to the same period of the previous year. However, it must be noted that the figure for 2007 benefited from the positive effects (277 million euro) deriving from the recalculation of employee termination indemnities required due to the supplementary social security reform. Excluding this component, operating costs posted a 3.3% decline.

Personnel expenses totalled 4,318 million euro, up 2% with respect to the first nine months of 2007. Considering the previous year's figure net of the aforesaid non-recurring component, personnel expenses fell 4.3%, consistent with the staff optimisation policies under way especially at the Parent Company and the Italian subsidiaries, which led to staff reductions in both period-end and average terms.

Administrative expenses, amounting to 2,361 million euro, were practically in line (-0.2%) with the first nine months of 2007. This result was mainly generated by the rise in legal and professional expenses, and indirect personnel costs and lower information technology expenses.

Adjustments totalled 587 million euro, down 7.6% with respect to the same period of the previous year.

In terms of quarterly development, the third quarter of 2008 registered operating costs 1.6% lower than the previous three months. In particular, the contraction was more significant in personnel expenses, which continued the containment recorded at the end of the first half of the year.

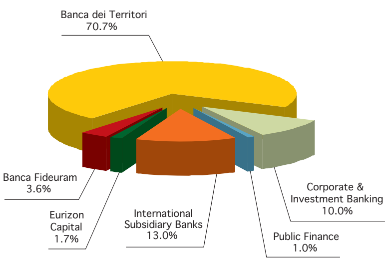
In the first nine months of 2008 the cost/income ratio totalled 50.9%.

(in millions of euro)

	30.09.2008	30.09.2007 restated (*)	Changes amount	Changes %
Banca dei Territori	4,807	4,998	-191	-3.8
Corporate & Investment Banking	681	701	-20	-2.9
Public Finance	67	70	-3	-4.3
International Subsidiary Banks	887	776	111	14.3
Eurizon Capital	113	128	-15	-11.7
Banca Fideuram	247	254	-7	-2.8
Total business areas	**6,802**	**6,927**	**-125**	**-1.8**
Corporate Centre	464	309	155	50.2
Intesa Sanpaolo Group	**7,266**	**7,236**	**30**	**0.4**

(*) Figures restated where required by international accounting principles, considering the changes in the scope of consolidation and in business unit constituents.

Business areas



The rise in operating costs recorded at Group level was especially attributable to the Corporate Centre, which presented higher personnel expenses with respect to the first nine months of 2007, which benefited from the positive effects generated by the recalculation of employee termination indemnities, attributed entirely to the Corporate Centre. Breakdown by business unit shows that only the operating costs of International Subsidiary Banks increased (+14.3%), due to upward trends in all components. The Banca dei Territori Division, which represents approximately 71% of the costs of operating areas, recorded a 3.8% decline in costs, mostly thanks to personnel expenses, mainly ascribable to staff reductions. Also the decrease registered by Corporate & Investment Banking (-2.9%) was mostly attributable to the reduction in personnel expenses and, to a lesser extent, in administrative expenses, while the decline recorded by Eurizon Capital (-11.7%) is ascribable to administrative expenses. Public Finance and Banca Fideuram highlighted a reduction in operating costs respectively of 4.3% and 2.8%, benefiting from the decline in personnel expenses.

Operating margin

In the first nine months of 2008, operating margin totalled 7,007 million euro, down 6.6% with respect to the corresponding period of the previous year. Considering both aggregates net of non-recurring components mentioned at the beginning of this Interim statement, the comparison shows a 2.4% contraction.

Net provisions for risks and charges

Net provisions for risks and charges amounted to 154 million euro, deriving from revocatory actions, claims for damages, lawsuits and other disputes and are updated on the basis of the litigations under way and the assessment of their possible outcome. The caption registered a decrease with respect to the first nine months of the previous year, which had been affected by considerable charges for the settlement of some litigations.

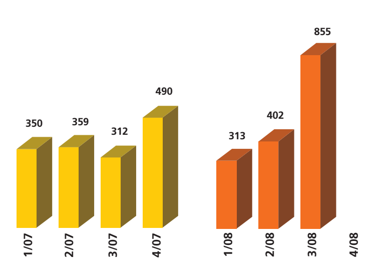
Net adjustments to loans

(in millions of euro)

	30.09.2008	30.09.2007 restated (*)	Changes amount	Changes %
Doubtful loans	-720	-501	219	43.7
Other non-performing loans	-704	-338	366	
Performing loans	-150	-202	-52	-25.7
Net impairment losses on loans	**-1,574**	**-1,041**	**533**	**51.2**
Net adjustments to guarantees and commitments	**4**	**20**	**-16**	**-80.0**
Net adjustments to loans	**-1,570**	**-1,021**	**549**	**53.8**

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

Quarterly development of net adjustments to loans



In the first nine months of 2008 the Group posted net adjustments to loans of 1,570 million euro, up 53.8% with respect to the same period of the previous year, affected by the adjustments to credit exposures to the Lehman Brothers groups (195 million euro) and with reference to the relations with Icelandic banks (59 million euro). Analytical adjustments recorded a 70% rise also in relation to the rise in doubtful loans and other non-performing loans. Conversely, adjustments to performing loans dropped by 25.7%, to 150 million euro, benefiting from the fact that there were no provisions related to the effects of an initiative aimed at the renegotiation of certain mortgages which had characterised the first nine months of 2007. Lastly, recoveries on guarantees given decreased by 16 million euro.
Compared to the second quarter, the period between June and September showed a rise in adjustments to non-performing loans, attributable to the impact of the financial crisis on companies and individuals, and a practical stability of those on performing loans.

Net impairment losses on other assets

Net impairment losses on assets other than loans in the nine months totalled 51 million euro, mostly attributable to financial assets available for sale related to Lehman Brothers (38 million euro).

Profits (Losses) on investments held to maturity and on other investments

Profits on investments held to maturity and on other investments amounted to 474 million euro compared to the 44 million euro recorded in the first nine months of 2007. The amount of the current year is essentially attributable to the profit connected to the sale of Agos (268 million euro) and in relation to the sale of real estate (189 million euro).

Income before tax from continuing operations

Income before tax from continuing operations totalled 5,706 million euro, down 8.4% with respect to the first nine months of 2007. Excluding non-recurring components, the result presented a 6.2% contraction.

Taxes on income from continuing operations

Provisions for taxes for the first nine months of 2008, both current and deferred, totalled 1,806 million euro (corresponding to a 31.7% tax rate), compared to 2,093 million euro in the same period of 2007. The figure as at 30 September 2008 considers the effects generated by the new tax regulations introduced by Law Decree 112 of 25 June 2008 converted into Law on 5 August 2008.

Merger and restructuring related charges (net of tax)

Merger and restructuring related charges (net of tax) totalled 475 million euro and were mainly attributable to estimated future charges (322 million euro) deriving from the access of employees to the Solidarity Allowance provided for by Ministerial Decree 158 of 2000 following the new framework agreement signed with Trades Unions on 8 July.

Effect of purchase cost allocation (net of tax)

The caption comprises charges attributable to the revaluation of loans, debts, real estate and the recognition of new intangible assets, in application of IFRS 3, upon registration of acquisitions (SANPAOLO IMI, Cassa di Risparmio di Firenze, Eurizon Investimenti, for the latter two provisionally determined); such costs amounted to 437 million euro and exclusively referred to adjustments to interest and amortisation of intangible components.

Income (Loss) from discontinued operations (net of tax)

Income from discontinued operations, amounting to 929 million euro, was mainly generated by the capital gains relative to the sale in the first quarter of 2008 of 198 branches to Veneto Banca, Credito Valtellinese, Banca Popolare di Bari, Banca Popolare Alto Adige and Banca Carige, and income recorded by those branches before their sale. The caption also includes income generated by Cassa di Risparmio di Fano, for the sale of which an agreement with Credito Valtellinese was signed on 30 July 2008, as well as the losses for the sale to the Cattolica Assicurazioni group of a business line referred to the direct network of insurance consultants of EurizonVita.

The result compares with the income of 3,786 million euro of the first nine months of 2007 which mostly included the capital gains deriving from the sale to Crédit Agricole of Cariparma and FriulAdria and of 202 branches, the income generated before the sale by those subsidiaries and the sold branches as well as the profit generated by the sale of the equity investment in Cassa di Risparmio di Biella e Vercelli and the income of the 198 branches which were subsequently sold.

Net income

In the first nine months of 2008 the Group achieved a net income of 3,778 million euro, compared to the 6,746 million euro of the same period of the previous year (-44%). Net of non-recurring components mentioned at the beginning of the Interim statement, net income for the first nine months of 2008 presented a 1.4% rise with respect to the same period of 2007.

Balance sheet aggregates

Loans to customers

(in millions of euro)

	30.09.2008		31.12.2007 restated (*)		Changes	
		% breakdown		% breakdown	amount	%
Current accounts	37,838	9.8	33,771	9.5	4,067	12.0
Mortgages	168,883	43.8	163,886	46.1	4,997	3.0
Advances and other loans	150,334	39.0	138,114	38.9	12,220	8.8
Repurchase agreements	2,989	0.8	3,459	1.0	-470	-13.6
Loans represented by securities	15,508	4.0	7,609	2.1	7,899	
Non-performing loans	10,243	2.6	8,333	2.4	1,910	22.9
Loans to customers	**385,795**	**100.0**	**355,172**	**100.0**	**30,623**	**8.6**

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

As at 30 September 2008 loans to customers totalled 386 billion euro. The growth rate recorded over the nine months was greatly influenced by the effects of the reclassification of certain debt securities out of the "held for trading" and "available for sale" category into "loans", since the Group took advantage of the faculty provided for by the IASB and endorsed by the European Commission (Regulation 1004/2008 of 15 October 2008) of reclassifying financial instruments in rare circumstances such as the current financial crisis. Due to these reclassifications (detailed in the chapter on accounting policies), the caption loans now includes debt securities for 8,371 million euro (other securities for 692 million euro have been reclassified in due from banks) and loans previously classified as "available for sale" for 1,165 million euro. Without these reclassifications loans to customers would have amounted to 376,259 million euro, with a 21,087 million euro rise with respect to 31 December 2007 (+5.9%).

The Group's loans to customers, despite the economic slowdown, increased as a result of the contribution of the contracts typical of companies, which amply used bank loans also to offset the reduction in self-financing capacity: advances and other loans recorded an 8.8% growth rate and current accounts a 12% rise. Mortgages posted a 3% progress, lower with respect to the other contract types due to the lower demand for credit by households, due to the unfavourable market situation. The considerable rise in loans represented by securities was entirely attributable to the reclassifications of financial assets, which will be held in the banking portfolio since the current, and foreseeable future, market conditions no longer permit an active management. In contrast, repurchase agreements posted a 13.6%, decrease. In terms of risk of the portfolio, the evolution of non-performing loans showed a marked increase (+22.9%), due to the difficulties of both companies and households, deriving from the slowdown in the economy; the incidence on total loans was 2.6%, up 20 basis points from 31 December 2007.

On the domestic market for medium-/long-term loans, disbursements to households reached 14 billion euro and those to companies 8 billion euro.

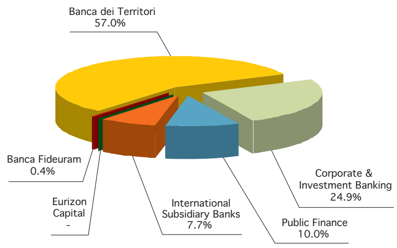
As at 30 September 2008 the Group's share of the domestic market (calculated on the harmonised time-series defined for countries in the eurozone) was 17.1% for total loans. Excluding the effects of the exit of the 198 branches, sold in the first quarter of 2008, in compliance with the provision of the Italian Competition Authority, and of the securitisation of residential mortgages of 8 billion euro completed in August 2008, market share recorded a slight, 0.2 percentage point decline with respect to 31 December 2007.

(in millions of euro)

	30.09.2008	31.12.2007 restated (*)	Changes amount	Changes %
Banca dei Territori	218,530	210,087	8,443	4.0
Corporate & Investment Banking	95,475	87,880	7,595	8.6
Public Finance	38,398	33,906	4,492	13.2
International Subsidiary Banks	29,393	23,725	5,668	23.9
Eurizon Capital	-	8	-8	
Banca Fideuram	1,608	905	703	77.7
Total business areas	**383,404**	**356,511**	**26,893**	**7.5**
Corporate Centre	2,391	-1,339	3,730	
Intesa Sanpaolo Group	**385,795**	**355,172**	**30,623**	**8.6**

(*) Figures restated where required by international accounting principles, considering the changes in the scope of consolidation and in business unit constituents.

Business areas



Breakdown of loans to customers by business area shows that Banca dei Territori, that represented 57% of activities attributable to the Group's business areas, posted a 4% rise, especially attributable to loans to SMEs, to the greater use of bank loans to fund production, as well as households through mortgage loans. Rising trends were also recorded by loans granted by International Subsidiary Banks (+23.9%), which took advantage of the good growth prospects of the markets of Central-Eastern Europe and the Mediterranean area, and by Corporate & Investment Banking (+8.6%), which benefited from the actions aimed at increasing share of wallet and the acquisition of important transactions with low probability of default. Loans to fund public works and infrastructures, managed by Banca Infrastrutture Innovazione e Sviluppo, had a 13.2%, growth rate significantly influenced by the reclassification of certain debt securities out of the "available for sale" category into "loans"; net of such effects the variation is +1.5%.

Loans to customers: loan portfolio quality

(in millions of euro)

	30.09.2008 Net exposure	30.09.2008 % breakdown	31.12.2007 restated (*) Net exposure	31.12.2007 restated (*) % breakdown	Change Net exposure
Doubtful loans	3,519	0.9	3,145	0.9	374
Substandard and restructured loans	5,101	1.3	3,969	1.1	1,132
Past due loans	1,623	0.4	1,219	0.4	404
Non-performing loans	**10,243**	**2.6**	**8,333**	**2.4**	**1,910**
Performing loans	360,044	93.4	339,230	95.5	20,814
Loans represented by performing securities	15,508	4.0	7,609	2.1	7,899
Loans to customers	**385,795**	**100.0**	**355,172**	**100.0**	**30,623**

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

At the end of the first nine months of 2008 the Group highlighted a 22.9% rise in non-performing loans from the beginning of the year. For a more detailed description of risk indicators see the chapter on credit quality contained in the "Risk management" chapter. This trend led to a higher incidence of non-performing assets on total loans to customers, from 2.4% to 2.6%. Coverage of non-performing assets, through prudential provisioning policies extended to all commercial banks, stood at 51%.
In particular, doubtful loans totalled 3,519 million euro, with a 374 million euro rise from the beginning of the year, of which 65 million euro ascribable to the Lehman default; the incidence on total loans was 0.9%, with a 71% degree of coverage, unchanged with respect to 31 December 2007.
Substandard and restructured loans, 5,101 million euro, posted a 29% rise with respect to 31 December 2007; the degree of coverage was 26%, down almost 3 percentage points on the end of 2007.

Past due loans amounted to 1,623 million euro, with a 404 million euro rise and with a degree of coverage of 10.5%, slightly up with respect to 31 December 2007.
Cumulated collective adjustments on performing loans came to 2,432 million euro. This figure represented 0.7% of gross exposure related to performing loans to customers, stable with respect to the figure recorded at the end of the previous period. Finally, adjustments of 421 million euro were recorded on performing loans, before the reclassification to this category of over 8 billion euro of financial assets previously recorded in the categories held for trading and available for sale. Risk implicit in performing loans is calculated collectively on the basis of the risk configuration of the entire portfolio analysed via models which consider the Probability of Default (PD) and the Loss Given Default (LGD) for each loan.

Customer financial assets

(in millions of euro)

	30.09.2008		31.12.2007 restated (*)		Changes	
		% breakdown		% breakdown	amount	%
Direct customer deposits	433,446	42.0	393,536	38.0	39,910	10.1
Indirect customer deposits	623,713	60.5	669,376	64.7	-45,663	-6.8
Netting [(a)]	-25,548	-2.5	-27,846	-2.7	-2,298	-8.3
Customer financial assets	**1,031,611**	**100.0**	**1,035,066**	**100.0**	**-3,455**	**-0.3**

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

(a) Netting refers to components of indirect deposits which are also included in direct customer deposits (financial liabilities of the insurance business designated at fair value and fund-based bonds designated at fair value issued by Group companies and placed by the networks).

As at 30 September 2008 customer financial assets totalled 1,032 billion euro, almost in line with the beginning of the year (-0.3%) due to the trend of direct customer deposits which offset the decline in indirect customer deposits.
The 6.8% decrease recorded by the latter was mostly determined by asset management (-12.8%), greatly affected by high financial market volatility which produced a reduction in net asset value and, mostly, the shift to more liquid and low-risk investments.

Direct customer deposits

The table below sets out amounts due to customers, securities issued, included those designated at fair value, and certain insurance policies, with mainly financial features.

(in millions of euro)

	30.09.2008		31.12.2007 restated (*)		Changes	
		% breakdown		% breakdown	amount	%
Current accounts and deposits	196,314	45.3	190,344	48.4	5,970	3.1
Repurchase agreements and securities lending	22,318	5.1	22,596	5.8	-278	-1.2
Bonds	113,051	26.1	102,327	26.0	10,724	10.5
of which designated at fair value [(**)]	*3,982*	*0.9*	*4,214*	*1.1*	*-232*	*-5.5*
Certificates of deposit	34,194	7.9	13,120	3.3	21,074	
Subordinated liabilities	19,420	4.5	17,500	4.4	1,920	11.0
Financial liabilities of the insurance business designated at fair value [(**)]	21,855	5.0	23,943	6.1	-2,088	-8.7
Other deposits	26,294	6.1	23,706	6.0	2,588	10.9
of which designated at fair value [(**)]	-	-	-	-	-	-
Direct customer deposits	**433,446**	**100.0**	**393,536**	**100.0**	**39,910**	**10.1**

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

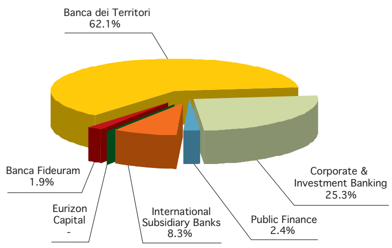
(**) Figures included in the Balance sheet under the item Financial liabilities designated at fair value through profit and loss.

Direct customer deposits amounted to 433 billion euro, up 40 billion euro (+10.1%) from the beginning of the year. Breakdown by contract type shows that the rise was mostly attributable to bonds (+10.5%) and certificates of deposit (almost tripled) which in total recorded a 32 billion euro rise; moreover, increases were recorded by current accounts (+3.1%), subordinated liabilities (+11%) and other deposits (+10.9%), which mainly included commercial paper. Conversely, repurchase agreements (-1.2%) declined, as did financial liabilities of the insurance sector (-8.7%), connected to the reduction in the fair value of the investments underlying index-linked policies.
At the end of the first nine months of 2008 the Group's domestic market share (according to the ECB's harmonised definition) totalled 18%. Excluding the effects of the exit of the 198 branches, sold in the first quarter of 2008, in compliance with the provision of the Italian Competition Authority, market share recorded a slight reduction from the beginning of the year of 0.3 percentage points.

(in millions of euro)

	30.09.2008	31.12.2007	Changes	
		restated (*)	amount	%
Banca dei Territori	222,645	217,454	5,191	2.4
Corporate & Investment Banking	90,877	73,762	17,115	23.2
Public Finance	8,504	8,282	222	2.7
International Subsidiary Banks	29,800	27,210	2,590	9.5
Eurizon Capital	-	3	-3	
Banca Fideuram	6,736	6,999	-263	-3.8
Total business areas	**358,562**	**333,710**	**24,852**	**7.4**
Corporate Centre	74,884	59,826	15,058	25.2
Intesa Sanpaolo Group	**433,446**	**393,536**	**39,910**	**10.1**

Business areas



(*) Figures restated where required by international accounting principles, considering the changes in the scope of consolidation and in business unit constituents.

The breakdown by business area shows that the direct customers deposits of Banca dei Territori, which make up 62% of the total aggregate attributable to the business areas, recorded a 2.4% rise, benefiting mostly from the rise in bonds. Corporate & Investment Banking, through the vehicle Intesa Sanpaolo Bank Ireland, and Public Finance took advantage of funding through securities (respectively +23.2% and +2.7%); moreover, International Subsidiary Banks increased (+9.5%), especially in deposits. Conversely, deposits of Banca Fideuram decreased (-3.8%).

Indirect customer deposits

(in millions of euro)

	30.09.2008		31.12.2007 restated (*)		Changes	
		% breakdown		% breakdown	amount	%
Mutual funds	93,556	15.0	112,305	16.8	-18,749	-16.7
Open-ended pension funds and individual pension plans	3,023	0.5	1,603	0.2	1,420	88.6
Portfolio management	68,106	10.9	78,434	11.7	-10,328	-13.2
Life technical reserves and financial liabilities	61,018	9.8	66,595	10.0	-5,577	-8.4
Relations with institutional customers	9,898	1.6	11,232	1.7	-1,334	-11.9
Assets under management	**235,601**	**37.8**	**270,169**	**40.4**	**-34,568**	**-12.8**
Assets under administration and in custody	**388,112**	**62.2**	**399,207**	**59.6**	**-11,095**	**-2.8**
Indirect customer deposits	**623,713**	**100.0**	**669,376**	**100.0**	**-45,663**	**-6.8**

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

Indirect customer deposits decreased by 6.8% since the beginning of the year, down to 624 billion euro. This trend was mostly determined by asset management which dropped 12.8% to 236 billion euro. The reduction of the aggregate, which represents 37.8% of indirect customer deposits, stemmed from all its main components, heavily affected by the negative market performance. In particular, mutual funds recorded a 16.7% decrease, individual portfolio management schemes dropped by 13.2% and life insurance policies by 8.4%. In insurance business, during the first nine months of 2008 the new business of EurizonVita, Intesa Vita, Sud Polo Vita and Centro Vita Assicurazioni reached 5.9 billion euro, offset by the progressive ageing of the policy portfolio which increased the significance of the phenomenon of surrendering of policies. Relations with institutional customers also posted an 11.9% decline. Conversely, open-ended funds and individual pension plans, although less significant in absolute terms, actually doubled.

Assets under administration posted a more contained decrease of 2.8%, ascribable to both securities and ordinary customer third party assets under administration and to positions in securities of institutional customers. The decrease also reflected the effect of negative performance on deposited securities.

Net interbank position

At the end of the first nine months of 2008 the net interbank position was positive for 11 billion euro, inverting the sign of the imbalance, which was normally negative in the past. The improvement in the interbank position is connected to the significant progress in funding from customers, only partly offset by the progress of loans, as well as the liquidity from the disinvestments of financial portfolios.

Shareholders’ equity

As at 30 September 2008 the Group’s shareholders' equity, including net income for the period, totalled 50,809 million euro compared to the 51,558 million euro as at 31 December 2007. The change in shareholders' equity is mostly attributable to dividend distribution, to the reduction in valuation reserves and to the use of treasury shares for the acquisition of Cassa di Risparmio di Firenze. No changes in share capital occurred in the first nine months.

Valuation reserves

As at 30 September 2008 the valuation reserves posted a 1,413 million euro decrease with respect to the end of the previous year, mostly attributable to the reduction in the value of financial assets available for sale and, in particular of equities.

(in millions of euro)

	Valuation reserves as at 31.12.2007	Change in the period	Valuation reserves as at 30.09.2008
Financial assets available for sale	149	-1,458	-1,309
Property and equipment	-	-	-
Cash flow hedges	133	-52	81
Legally-required revaluations	343	4	347
Other	74	93	167
Valuation reserves	**699**	**-1,413**	**-714**

Regulatory capital

Regulatory capital and related capital ratios as at 30 September 2008 were determined using the instructions issued by the Bank of Italy according to the new Basel 2 provisions.

(in millions of euro)

Regulatory capital and capital ratios	30.09.2008 (*)
Regulatory capital	
Tier 1 capital	27,515
of which: preferred shares	*3,000*
Tier 2 capital	14,718
Minus items to be deducted	-2,594
REGULATORY CAPITAL	**39,639**
Tier 3 subordinated loans	29
TOTAL REGULATORY CAPITAL	**39,668**
Risk-weighted assets	
Credit and counterparty risks	349,932
Market risks	18,595
Operational risk	29,664
RISK-WEIGHTED ASSETS	**398,191**
Capital ratios %	
Core Tier 1	6.2
Tier 1	6.9
Total capital ratio	10.0

(*) In compliance with the provisions of Bank of Italy Circular 263/2006, in the calculation of capital ratios elements deducted from total capital for supervisory purposes have been deducted separately and for an equal amount from Tier 1 and Tier 2 capital, with the exception of the contributions deriving from the insurance business that refer to relationships which arose prior to 20 July 2006, and as such continue to be deducted from total capital.

At the end of September 2008, regulatory capital amounted to 39,639 million euro and total capital, including Tier 3 subordinated loans, amounted to 39,668 million euro, against risk-weighted assets of 398,191 million euro, mostly deriving from credit and counterparty risks and, to a lesser extent, from operational and market risks.
Please note that regulatory capital does not consider the distribution of cash dividends for 2008.
In fact, since the market currently perceives capitalisation as particularly important, irrespective of the risk to which each is exposed, it was decided to strengthen the Group's capital base instead of allocating net income to the distribution of cash dividends.
The Total capital ratio therefore equalled 10%; the Group's Tier 1 ratio totalled 6.9%. The ratio between Tier 1 capital net of preferred shares and risk-weighted assets (Core Tier 1) was 6.2%.

Breakdown of consolidated results by business area

The organisation model of the Intesa Sanpaolo Group is based on six Business Units: Banca dei Territori, Corporate & Investment Banking, Public Finance, International Subsidiary Banks, Eurizon Capital, Banca Fideuram. In addition there is the Corporate Centre, which includes the Treasury Department, for guidance, coordination and control of the whole Group.
In line with the provisions of IAS 14 regarding Segment Reporting, a management approach has been taken with primary reporting based on the segmentation into business areas, as this reflects the responsibilities introduced with the Group's organisational structure. In addition to responding to an organisational logic, the business areas are an aggregation of business lines similar in the type of products and services they sell and in their regulatory context of reference.
Specifically, the ***Banca dei Territori Division***, which is in charge of the traditional lending and deposit collecting activities in Italy and of the related financial services, has the mission to serve retail (households, personal, small businesses) and private customers, in addition to the small and medium-sized enterprises, creating value through widespread coverage of the country, attention to local market needs and maximising the brands of the Business Unit banks and the companies specialised in medium-/long-term credit, leasing and consumer credit. Furthermore, this Division includes EurizonVita, the insurance company which provides insurance services for pension plans and protection of persons and assets.
The ***Corporate & Investment Banking Division***, dedicated to corporate customers and financial institutions in Italy and abroad, has the task of creating value through the offer of corporate banking products and services for their customers and investment banking, capital markets, merchant banking and factoring for the entire Group. The Division is also responsible for proprietary portfolio management.
Public Finance is responsible for customers in government, public entities, local authorities, public utilities, healthcare structures and general contractors and for developing activities related to medium-/long-term lending, project financing, securitisations, financial advisory and purchase of equity stakes in initiatives and investment projects in the reference segments.
The ***International Subsidiary Banks Division*** has the mission of supervising and coordinating activities in markets abroad, where Intesa Sanpaolo is present through subsidiary and partly-owned commercial banks performing retail activities, defining strategies aimed at identifying growth opportunities and managing relations with the centralised structures of the Parent Company and with international branches and representative offices belonging to the Corporate & Investment Banking Division.
Eurizon Capital is the company specialised in providing collective and individual asset management products to the Group's internal banking networks also focused on strengthening its presence in the open market segment through specific distribution agreements with other networks and institutional investors.
Banca Fideuram, through its network of private bankers, performs asset gathering activities serving customers with medium to high savings potential.

The table below shows the main data summarising the trend of the business areas of the Intesa Sanpaolo Group in the first nine months of 2008.

The detailed analysis of the business areas contains a description of the products and services offered, the type of customers served and the initiatives carried out in the third quarter; it also illustrates income statement figures, the main balance sheet figures as well as the most significant profitability ratios.
Allocated capital and, consequently, EVA® are determined as set forth by the provisions issued by the Bank of Italy in accordance with the new Basel 2 regulations. In particular, for the calculation of credit risk-weighted assets and for the calculation of operational risks standardised methods are adopted.

(in millions of euro)

	Banca dei Territori	Corporate & Investment Banking	Public Finance	International Subsidiary Banks	Eurizon Capital	Banca Fideuram	Corporate Centre	Total
Operating income								
30.09.2008	9,426	1,808	239	1,668	259	503	370	14,273
30.09.2007 restated (*)	9,619	2,219	219	1,494	288	543	356	14,738
% change [(a)]	-2.0	-18.5	9.1	11.6	-10.1	-7.4	3.9	-3.2
Operating costs								
30.09.2008	-4,807	-681	-67	-887	-113	-247	-464	-7,266
30.09.2007 restated (*)	-4,998	-701	-70	-776	-128	-254	-309	-7,236
% change [(a)]	-3.8	-2.9	-4.3	14.3	-11.7	-2.8	50.2	0.4
Operating margin								
30.09.2008	4,619	1,127	172	781	146	256	-94	7,007
30.09.2007 restated (*)	4,621	1,518	149	718	160	289	47	7,502
% change [(a)]	-	-25.8	15.4	8.8	-8.8	-11.4		-6.6
Income (Loss) before tax from continuing operations								
30.09.2008	3,537	842	48	645	145	223	266	5,706
30.09.2007 restated (*)	3,743	1,371	134	597	157	263	-39	6,226
% change [(a)]	-5.5	-38.6	-64.2	8.0	-7.6	-15.2		-8.4
Loans to customers								
30.09.2008	218,530	95,475	38,398	29,393	-	1,608	2,391	385,795
31.12.2007 restated (*)	210,087	87,880	33,906	23,725	8	905	-1,339	355,172
% change [(b)]	4.0	8.6	13.2	23.9		77.7		8.6
Direct customer deposits								
30.09.2008	222,645	90,877	8,504	29,800	-	6,736	74,884	433,446
31.12.2007 restated (*)	217,454	73,762	8,282	27,210	3	6,999	59,826	393,536
% change [(b)]	2.4	23.2	2.7	9.5		-3.8	25.2	10.1

(*) Figures restated where required by international accounting principles, considering the changes in the scope of consolidation and in business unit constituents.

(a) The change expresses the relation between 30.09.2008 and 30.09.2007 restated.

(b) The change expresses the relation between 30.09.2008 and 31.12.2007 restated.

BUSINESS AREAS

Banca dei Territori

(in millions of euro)

Income statement/Alternative performance indicators	30.09.2008	30.09.2007 restated (*)	Changes amount	Changes %
Net interest income	6,033	5,706	327	5.7
Dividends and profits (losses) on investments carried at equity	42	84	-42	-50.0
Net fee and commission income	2,947	3,179	-232	-7.3
Profits (Losses) on trading	108	181	-73	-40.3
Income from insurance business	234	417	-183	-43.9
Other operating income (expenses)	62	52	10	19.2
Operating income	**9,426**	**9,619**	**-193**	**-2.0**
Personnel expenses	-2,769	-2,951	-182	-6.2
Other administrative expenses	-1,991	-1,995	-4	-0.2
Adjustments to property, equipment and intangible assets	-47	-52	-5	-9.6
Operating costs	**-4,807**	**-4,998**	**-191**	**-3.8**
Operating margin	**4,619**	**4,621**	**-2**	**-**
Goodwill impairment	-	-	-	-
Net provisions for risks and charges	-71	-88	-17	-19.3
Net adjustments to loans	-992	-794	198	24.9
Net impairment losses on other assets	-19	-	19	-
Profits (Losses) on investments held to maturity and on other investments	-	4	-4	
Income (Loss) before tax from continuing operations	**3,537**	**3,743**	**-206**	**-5.5**
Allocated capital	11,696	11,075	621	5.6
Profitability ratios (%)				
Cost / Income ratio	51.0	52.0	-1.0	-1.9
ROE before tax (annualised)	40.4	45.2	-4.8	-10.6
EVA® (in millions of euro)	1,662	1,660	2	0.1

(in millions of euro)

	30.09.2008	31.12.2007 restated (*)	Changes amount	Changes %
Loans to customers	218,530	210,087	8,443	4.0
Direct customer deposits	222,645	217,454	5,191	2.4
of which: due to customers	*146,580*	*144,260*	*2,320*	*1.6*
securities issued	*54,081*	*49,249*	*4,832*	*9.8*
financial liabilities designated at fair value through profit and loss	*21,984*	*23,945*	*-1,961*	*-8.2*

(*) Figures restated where required by international accounting principles, considering the changes in the scope of consolidation and in business unit constituents.

The main change regarding Banca dei Territori's business unit constituents in the third quarter of 2008 was the concentration in one bank entity of the branches of Cassa di Risparmio di Padova e Rovigo and of the Intesa Sanpaolo branches present in the Veneto Region (with the exception of the Province of Venice) which led to the establishment of Cassa di Risparmio del Veneto, operational as of 29 September. Moreover, on 30 July an agreement, subject to the obtainment of the necessary authorisations, was signed

for the sale to Credito Valtellinese of the entire stake owned by the Intesa Sanpaolo Group in Cassa di Risparmio di Fano. Lastly, within the reorganisation of activities in Luxembourg, starting from the beginning of July the Sanpaolo Bank group (Luxembourg) was transferred from Banca dei Territori to the Corporate Division.
Banca dei Territori's distribution structure is made up of approximately 6,351 branches, including retail, corporate and private branches, extensively spread over the national territory.

Banca dei Territori closed the first nine months of 2008 with an income before tax from continuing operations of 3,537 million euro, down compared to the corresponding period of the previous year (-5.5%). Operating income of 9,426 million euro, representing 66% of the Group's consolidated operating income, was down with respect to the first nine months of 2007 (-2%). The positive performance of net interest income (+5.7%) was offset by the poor trend of the other income components, in particular net fee and commission income. More specifically, the increase of net interest income was favoured by the expansion in intermediated volumes with customers, in both loans and customer deposits, as well as by the broadening of the mark-down on customer deposits. Net fee and commission income was affected by the negative trend of assets under management as a result of both outflow from mutual funds and individual portfolio management schemes and of unfavourable performance. Finally, other income components recorded negative changes, including profits on trading (-40.3%), mainly due to lower activities in corporate derivatives, and income from insurance business (-43.9%), mainly due to the financial management of the life assurance companies. Operating costs registered a 3.8% reduction, mainly attributable to the savings achieved on personnel expenses, principally due to the reduction in staff, and determined a one percentage point improvement in the cost/income ratio, to 51%. Operating margin amounted to 4,619 million euro, in line with that of the first nine months of 2007.
The Division absorbed 47% of Group capital, virtually in line with the level recorded in the corresponding period of the previous year. In absolute terms, capital rose to 11,696 million euro, mainly due to the specialised companies reporting to the Division, and, to a lesser extent, to the retail and corporate sectors. The trend of allocated capital, coupled with the performance of income before tax from continuing operations, reduced annualised ROE before tax to 40.4%. Value creation amounted to 1,662 million euro, in line with the first nine months of 2007.
Balance sheet figures at the end of September 2008 showed loans to customers of 218,530 million euro (+4% from the end of December 2007) mainly thanks to the loans to SMEs, fuelled by a higher use of bank credit to finance production activities, as well as to mortgage loans to private customers. Direct customer deposits, 222,645 million euro, rose 2.4% from the beginning of the year, mainly benefiting from the increase in funding through securities.

In the third quarter of 2008 Retail Area activities continued to focus on the reorganisation of the organisational and IT model and on the simplification and unification of the product catalogue.
The IT migration of former Intesa branches to the target system was concluded in July. With reference to the product range, after the launch of the new prepaid card "Flash", addressed in particular to young people, in the third quarter the offer was further enriched through a special version dedicated to the 2008 Beijing Olympics. For the purpose of increasingly facilitating access to banking services, substantial technology investments were targeted to the renewal of the ATM/MTA system through the introduction of more advanced machines. In the investment area, in the third quarter new products were placed, in accordance with a commercial proposition specifically designed for the current market scenario. In particular, the bonds "Floating rate with floor" issued by Banca IMI and "Flexible fixed rate" issued by Intesa Sanpaolo had great success with customers thanks to their yield and guarantee characteristics. With regard to loans, in the third quarter of the year, Intesa Sanpaolo continued to offer holders of floating-rate mortgages renegotiation options, free of charge, activated with a simple exchange of letters and that prolong the residual life of floating-rate mortgages and convert existing floating-rate mortgages to fixed-rate mortgages without charges for customers. Furthermore, holders of fixed- and floating-rate mortgages are granted the possibility of suspending payment of a few instalments and holders of mortgages granted by other banks are offered the possibility of transferring their mortgage to any branch of the bank, free of charge. Starting from the end of June, in adherence to the Agreement between ABI (Italian Bankers' Association) and the Ministry for the Economy, the bank offered the further renegotiation possibility provided for by the Tremonti Law Decree, which is aimed at facilitating the payment of floating-rate housing mortgages through a mechanism permitting the reduction and stabilisation of instalments. Within the activities aimed at sustaining and favouring access to credit, the new service model, launched in June

and which confirms the Bank's active role in protecting the sustainability of household debts, based on a prior "Financial Check-Up", was fully operational. Through a guided procedure the relationship manager analyses the customer's family budget and identifies his/her financial balance, to help the customer choose the most adequate type of financing. Lastly, a new product for customer protection that guarantees fire risks was developed in combination with new mortgages. In support of Small Businesses, activities in the third quarter were mainly targeted at the development of the tourism sector, through the launch of a specific product catalogue characterised by safeguard loans and products, national cooperation agreements with Confturismo category associations and new analysis models tailored to specific sector characteristics.

In the third quarter the SME Area focused on further development of the Mediocredito Italiano project, the new bank dedicated to sustain branches in the development of SMEs and of the territory. As regards activities aimed at promoting and sustaining alternative energy sources and energy conservation, a new product named "Finanziamento Fotovoltaico" was launched and is dedicated to companies intending to make investments for planning, realising and installing electricity production plants through photovoltaic panels.

The commercial action of the Private Banking Department aimed at the realisation of a single, integrated offer of products and services for all Group's private customers continued in the third quarter of the year. Furthermore, the initiatives, related to the development and launch of new investment products tailored to meet the needs of customer groups in third party UCITS and in individual portfolio management schemes, continued. Moreover, for protection from financial markets volatility, a plan to place bonds issued by the Group was implemented. The integration process of the Group private networks, which will be completed within July 2009, is under implementation and provides for the migration of Intesa Sanpaolo Private Banking to the target platform and the subsequent transfer to the latter of the private lines of Intesa Sanpaolo and of the other network banks.

Banca Prossima, operating in the non-profit sector with 52 local offices and 76 specialists throughout the country, continued the initiatives and projects launched in the previous months and, in particular "Subito 5 per mille", in favour of non-profit organisations that are beneficiaries of the "5 per mille", "San Martino" dedicated to Clerical Entities and "RID anch'io", which allows the supporters of non-profit organisations to make payments free of charge.

The regional banks Casse del Centro (former Intesa Casse del Centro), Banca di Trento e Bolzano and the Banca CR Firenze group not yet integrated in the IT system are not reported on a divisional basis but are represented as autonomous legal entities in the Banca dei Territori's perimeter. In the first nine months of 2008 Casse del Centro highlighted an income before tax from continuing operations of over 141 million euro, 7.2% up with respect to the corresponding period of the previous year, due to the rise in revenues; Banca di Trento e Bolzano achieved an income before tax from continuing operations of 20 million euro, with an 11.3% increase on the first nine months of 2007, as a result of the positive trend of revenues driven by the traditional credit component. The Banca CR Firenze group posted an income before tax from continuing operations of 261 million euro, 4.3% down with respect to the same period of the previous year; however, excluding the negative effects of the financial instruments issued by Lehman Brothers (approximately 11 million euro), net income would be in line with that of the same period of the previous year.

In the third quarter the integration process started between Mediocredito Italiano and Leasint and will lead in the forthcoming months to the centralisation of certain management and governance functions in order to guarantee the consistency of strategic guidelines and management policies. Jointly considered, in the first nine months of 2008, Mediocredito Italiano and Leasint achieved an operating margin of 279 million euro, with a 4.9% rise with respect to the same period of the previous year. Conversely, income before tax from continuing operations recorded a 10.2% reduction, due to higher net adjustments to loans.

In the third quarter the project aimed at the definition of a new mission for Banca CIS continued: in addition to the traditional medium-/long-term corporate loan activities, performed with the specialised contribution of Mediocredito Italiano, in 2009 the bank will become a real territorial bank serving

businesses and households in Sardinia, with full commercial banking operations also thanks to the contribution of the branches of the Parent Company's Sardinia Area.
Consumer credit activities were performed through the Neos group, which in the first nine months of 2008 focused on the improvement of profitability, highlighting an operating margin almost 50% up on the first nine months of 2007, thanks to both an increase of revenues and a reduction of costs.

Banca dei Territori includes also the insurance/social security companies. With regard to EurizonVita, third quarter activities focused on enhancing quality of customer service and of distribution networks and the modernisation and strengthening of the life-product range through "EurizonLife Prospettiva". The actions related to the range were conducted with a view to repositioning investment terms to medium-/long-term maturities, and reallocating the business from the traditional segment to the financial segment, specifically unit-linked policies.
In the first nine months of 2008 EurizonVita posted an income before tax from continuing operations of 114 million euro, down 53.8% with respect to the corresponding period of the previous year, mainly as a result of the performance in the financial management of the traditional products, which were negatively affected by the market context, and by an asset mix overbalanced towards less profitable products.
The investment portfolio totalled 37.5 billion euro, whereas the insurance policies portfolio amounted to 35.9 billion euro, including 20.2 billion euro in financial unit- and index-linked policies.
Also Sud Polo Vita and Intesa Vita (consolidated at equity) recorded lower results for the first nine months with respect to the same period of 2007 mainly due to the decline of financial operations and, in the case of Intesa Vita, to the slowdown of the new business.
In the third quarter of 2008 Intesa Previdenza continued to collect policies from the employees of the private sector, on both a collective and an individual basis, linked to the reform of supplementary social security. At the end of September 2008 the company managed net assets for 1,708 million euro, little more than half of which related to closed-ended funds and the rest to open-ended funds.

Setefi, the company specialised in the management of electronic payment systems, recorded a 5.2% progress in income before tax from continuing operations in the first nine months of 2008, linked to the increase in operations in terms of issues of credit cards, transaction volumes and POS installed.

Corporate & Investment Banking

(in millions of euro)

Income statement/Alternative performance indicators	30.09.2008	30.09.2007 restated (*)	Changes amount	Changes %
Net interest income	1,021	797	224	28.1
Dividends and profits (losses) on investments carried at equity	9	13	-4	-30.8
Net fee and commission income	701	727	-26	-3.6
Profits (Losses) on trading	32	638	-606	-95.0
Income from insurance business	-	-	-	-
Other operating income (expenses)	45	44	1	2.3
Operating income	**1,808**	**2,219**	**-411**	**-18.5**
Personnel expenses	-249	-263	-14	-5.3
Other administrative expenses	-423	-427	-4	-0.9
Adjustments to property, equipment and intangible assets	-9	-11	-2	-18.2
Operating costs	**-681**	**-701**	**-20**	**-2.9**
Operating margin	**1,127**	**1,518**	**-391**	**-25.8**
Goodwill impairment	-2	-2	-	-
Net provisions for risks and charges	-2	-5	-3	-60.0
Net adjustments to loans	-266	-134	132	98.5
Net impairment losses on other assets	-22	-6	16	
Profits (Losses) on investments held to maturity and on other investments	7	-	7	-
Income (Loss) before tax from continuing operations	**842**	**1,371**	**-529**	**-38.6**
Allocated capital	7,540	7,124	416	5.8
Profitability ratios (%)				
Cost / Income ratio	37.7	31.6	6.1	19.3
ROE before tax (annualised)	14.9	25.7	-10.8	-42.0
EVA® (in millions of euro)	55	459	-404	-88.0

(in millions of euro)

	30.09.2008	31.12.2007 restated (*)	Changes amount	Changes %
Loans to customers	95,475	87,880	7,595	8.6
Direct customer deposits	90,877	73,762	17,115	23.2
of which: due to customers	*40,087*	*39,020*	*1,067*	*2.7*
securities issued	*46,808*	*30,528*	*16,280*	*53.3*
financial liabilities designated at fair value through profit and loss	*3,982*	*4,214*	*-232*	*-5.5*

(*) Figures restated where required by international accounting principles, considering the changes in the scope of consolidation and in business unit constituents.

Starting from the beginning of the year, the Corporate & Investment Banking Division included in its organisational structure the activities referred to proprietary portfolio management. Moreover, within the reorganisation of Luxembourg activities, the contribution of business lines between Société Européenne de Banque, Sanpaolo Bank (Luxembourg), Eurizon and Servitia was completed.
The Division's overall results were strongly affected by the negative performance of the proprietary portfolio which registered significant capital losses following the indirect effects of the persisting financial market crisis.

With regard to the income statement, the Corporate & Investment Banking Division closed the first nine months of 2008 with an operating income of 1,808 million euro (13% of the Group's consolidated figure), down 18.5% with respect to the same period of the previous year. The reduction is attributable to profits on trading, affected by the negative performance of the structured credit products and funds investment business lines within the Proprietary Trading area, determined by fair value measurement of the securities portfolio, and by higher capital losses on mutual funds. Excluding profits on trading, the Division's income rose by 12.3%.

Net interest income amounted to 1,021 million euro, a significant expansion (+28.1%) with respect to the same period of 2007, notwithstanding higher competition in the reference markets. The rise was driven, on the one hand, by the expansion of average lending (+16.1%) and funding (+10.3%) volumes, coupled with the still somewhat limited effects of loan re-pricing policies within Corporate Relations management, and on the other hand, by collection of high coupons on German corporate securities held in Banca IMI's portfolio (with negative mark-to-market recorded in profits on trading). Net fee and commission income, 701 million euro, showed a reduction with respect to the first nine months of 2007 (-3.6%), determined by the negative trend of transaction services, mainly due to lower returns of the depositary bank segment and, to a lesser extent, to the investment banking area, namely M&A Advisory. Conversely, the commissions collected from the traditional commercial banking activities recorded a positive trend. Profits on trading, 417 million euro excluding the component referred to the proprietary portfolio, fell 35.6% due to the lower contribution from corporate finance and equity capital market activities performed by Banca IMI, and by merchant banking results that were lower compared with those of the corresponding period of the previous year. Operating costs, 681 million euro, fell (-2.9%), benefiting in particular from reductions in personnel expenses (-5.3%) and, to a lesser extent, in other administrative expenses (-0.9%).

As a result of the performance of revenues and costs described above, operating margin, 1,127 million euro, recorded a 25.8% reduction (+24.4% excluding profits on trading). Net adjustments to loans rose (+132 million euro), because of adjustments related to Lehman Brothers, as well as losses on loans recorded by Intesa Sanpaolo Bank Ireland due to adjustments to loans to Icelandic banks. Income before tax from continuing operations, 842 million euro, showed a 38.6% reduction on the corresponding period of the previous year. Excluding such extraordinary events, as well as profits on trading, income before tax from continuing operations amounted to 956 million euro (+30.4%).

The Division absorbed 30% of Group capital, virtually stable with respect to the first nine months of 2007. In absolute terms, capital registered a rise resulting from the increase in credit risks referred both to the cash component determined by the increase in the loans mainly of the large corporate segment and to the non-cash component especially on corporate foreign network counterparties; this trend more than balanced the reduction in market risks correlated to capital market activities. The sector's performance, affected by the negative results in proprietary trading, as well as by losses on loans to Lehman and Icelandic banks, was reflected in a decline of annualised ROE before tax from 25.7% to 14.9% (+3.2 percentage points excluding profits on trading and the adjustments to the loans to Lehman and Icelandic banks) and in a reduction in value creation from 459 million euro to 55 million euro.

The cost/income ratio was 37.7% against 31.6% in the first nine months of 2007. Excluding profits on trading the indicator shows an improvement of six percentage points.

Volumes intermediated by the Division showed a 15.3% increase from the beginning of 2008. This development is related to the rise in customer deposits (+23.2%), which benefited from the excellent performance of operations in securities, thanks in particular to the placement of Parent Company bonds through the vehicle Intesa Sanpaolo Bank Ireland. Also loans to customers increased (+8.6%), favoured by strategic and marketing actions aimed at increasing the share of wallet and the acquisition of important deals with low probability of default.

The Corporate Relations Department, with a market share exceeding 25%, and an even greater share in the foreign multinational segment, confirmed its absolute leadership also in the third quarter of 2008. Incidence and absolute value of higher-risk assets remained virtually stable thanks to the rise in loans to counterparties with better rating, to constant monitoring of the portfolio's risk profile and to the new rating attribution methods applied from the end of 2007. The service model confirmed its effectiveness in the development of structured finance operations and investment banking also in the mid corporate segment: in the third quarter, 15 operations were concluded, with a predominance of M&A transactions rather than loans. With the aim of developing cross selling and inspired by the practices of major international competitors, a new service model was defined for the mid corporate segment which provides for the identification of private bankers dedicated to the strong development of private-corporate synergies. Commercial activities were supported by the launch of products to sustain growth and strengthen corporate capitalisation and with initiatives in support of the opening of capital to third party investors. With regard to the Italian large corporate segment, in the quarter the Bank took part in the offer for the acquisition of Alitalia made by Compagnia Aerea Italiana. Lastly, in the capital market segment, the Bank replaced certain important competitors who left the market.

The distribution structure of the International Network Department directly covers 33 countries through 16 wholesale branches, 21 representative offices, three subsidiaries and one advisory firm. On 1 August the new Dubai branch became operational: it strengthens Group presence in the Gulf Region and represents a privileged reference point for the investments of Italian companies, for commercial trade and for the promotion of direct investments in Italy. Also at the beginning of August, the Prague representative office was closed and its activities were transferred to the subsidiary VUB Banka. Regarding the plan of integration and rationalisation of the organisational structures, on 30 September Banca Intesa France was merged into Intesa Sanpaolo, with the concurrent transfer of assets to the newly-established Parent Company's Paris branch; in Luxembourg the business lines of Société Européenne de Banque, Sanpaolo Bank (Luxembourg), Eurizon and Servitia were transferred to the Department.
The Department is responsible for the operations of the following banks abroad:

- Société Européenne de Banque, which recorded a net income of 60 million euro in the first nine months of 2008, up by 19.6% compared to the same period of 2007, due to the positive evolution of revenues (+10.1%) driven by interest margin (+27.1%);
- Intesa Sanpaolo Bank Ireland, which closed the first nine months of 2008 with a net loss of 4 million euro compared to a net income of 32 million euro of the same period of 2007, due to adjustments to loans related to write-downs of loans to Icelandic banks;
- Zao Banca Intesa, which recorded a net income exceeding 3 million euro, up by 72% with respect to the corresponding period of 2007, thanks to higher revenues (+39%), mainly generated by the commission segment.

Within the Financial Institutions Department, in the third quarter of 2008 the policy continued to pursue maximum selectivity, focused on operations linked to equity products or debt capital markets with a high commission profile and with lending basically on short maturities. As financial market volatility increased, activities for the period focused on continuous monitoring of existing exposure towards customers and on development of existing facilities. With regard to international payments, interbank flows and commercial payments showed a low but constant growth, determined by the renegotiation of the agreements with the providers initiated in 2007 and continued in 2008 with some major foreign banks. Moreover, as a result of the market crisis, some customers' consolidated assets held within the Group and new customers joined the Group driven by the need to diversify their deposits in banks. In the sub-custody activities a good level of volumes was maintained thanks to an efficient service provided to both broker/dealers and global custodians. In particular, the third quarter was characterised by an increase in trading volumes with reference to both the market and the OTC, by dealing in the markets of small/medium foreign broker/dealers, by the consolidation of clearing and settlement activities of important broker/dealers on global players and by the increase in funds deposited by global custodians within the Group. Within global custody activities, foreign assets of Italian banks were strengthened thanks to efficient services and more competitive pricing than foreign providers. Moreover, as soon as the new operating structure in Luxembourg was ready, all Parent Company sub-deposits were transferred to that structure. Lastly, with the role of correspondent bank, operating volumes increased as a result of both distribution activities in Italy of foreign SICAVs and the already consolidated trend of Italian managers to create new, more attractive and profitable, multi-manager-funds.

Despite the progressive fall in M&A activities in Italy and abroad, in the third quarter of 2008 the Investment Banking Department acted through Banca IMI as advisor for GCL Holding, Pacorini group, Kerself, A2A and Compagnia Aerea Italiana in the acquisition process of the Alitalia and AP Holding assets. In capital increases and placement of equities, it led the capital increases of Pierrel, Prima Industrie and Stefanel. In relation to its activities in debt capital markets it took part in the placement with institutional investors of the Mediobanca issues placed to Group networks, of the puttable/callable issue by Hera and of Poste Italiane issues. In leveraged & acquisition finance activities, credit facilities were granted in support of the acquisition of N&W Global Vending. Furthermore, in the third quarter loan agency activities were intense with the acquisition of important mandates as agent bank, in particular from Romana Building, IVS and East Capital.

Concerning the Merchant Banking Department, as at 30 September 2008 the portfolio held directly and through subsidiaries amounted to 2.6 billion euro, of which 2.3 billion euro invested in 73 companies and 0.3 billion euro in 46 private equity funds. New private equity investments in the third quarter include the entry in the capital of Solar Express and Data Service. Institutional investments include the purchase of a 22.3% stake in GCL Holding LP Sarl. Disinvestments include the sale of the equity investment held in CIFA. As at 30 September 2008 overall equity investments in SMEs held in portfolio were 20 for an invested value of 100 million euro.

The Corporate & Investment Banking Division also comprises the activities of the Capital Markets Department which includes Banca IMI and the capital markets and investment banking business units of the Parent Company Intesa Sanpaolo. In the first nine months of 2008 capital market activities registered good results in risk management and financial product distribution. In particular, credit activities recorded an expansion, notwithstanding the market crisis, since they focused on reduction of risks, on as accurate hedging as possible of the distressed positions and on replacement of the derivatives outstanding with Lehman. Also fixed-income segment activities returned rising results with respect to the first nine months of 2007. With regard to distribution, sales to financial institutions were based on simple and transparent products or protected or guaranteed capital products. With reference to the Group network, in the third quarter preference was given to interest rate products rather than to equity products and, in particular, to Government bonds. Activities with Banca dei Territori on investment products were characterised by placements of interest rate structures on risk management products and focused on customer demand for IRS fixed payer products on short maturities to benefit from the positive spread between Euribor and swap rates. The strong falls of main indices and financial market turbulence determined a contraction of the activities performed by the desks of the Market Hub, which however registered the good performance of the bond area.

Lastly, the Corporate & Investment Banking Division is responsible for the operations carried out by Mediofactoring which, compared to 30 September 2007, registered a 10.6% increase of the outstanding, represented by the stock of receivables acquired and not yet collected. This led to a significant rise in loans to customers (+20.1% in period-end terms, +12.8% in average terms) also thanks to the higher incidence of financing of the loans sold. By contrast, overall turnover as at 30 September 2008 recorded a 1.1% reduction. Operating income amounted to 100 million euro, down 2%, due to the reduction in net fee and commission income (-2.3%) affected by the decrease in turnover and by more attractive conditions conceded to customers and not balanced by the rise in net interest income (+2.9%), which benefited from the expansion of average loans. In the presence of lower net adjustments, Income before tax from continuing operations amounted to 61 million euro, virtually in line with the first nine months of 2007.

Public Finance

(in millions of euro)

Income statement/Alternative performance indicators	30.09.2008	30.09.2007 restated (*)	Changes amount	Changes %
Net interest income	203	150	53	35.3
Dividends and profits (losses) on investments carried at equity	-	-	-	-
Net fee and commission income	41	38	3	7.9
Profits (Losses) on trading	-5	25	-30	
Income from insurance business	-	-	-	-
Other operating income (expenses)	-	6	-6	
Operating income	**239**	**219**	**20**	**9.1**
Personnel expenses	-24	-27	-3	-11.1
Other administrative expenses	-43	-43	-	-
Adjustments to property, equipment and intangible assets	-	-	-	-
Operating costs	**-67**	**-70**	**-3**	**-4.3**
Operating margin	**172**	**149**	**23**	**15.4**
Goodwill impairment	-	-	-	-
Net provisions for risks and charges	1	-1	2	
Net adjustments to loans	-125	-8	117	
Net impairment losses on other assets	-	-6	-6	
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**48**	**134**	**-86**	**-64.2**
Allocated capital	866	815	51	6.3
Profitability ratios (%)				
Cost / Income ratio	28.0	32.0	-4.0	-12.5
ROE before tax	7.4	22.0	-14.6	-66.3
EVA® (in millions of euro)	-52	22	-74	

(in millions of euro)

	30.09.2008	31.12.2007 restated (*)	Changes amount	Changes %
Loans to customers	38,398	33,906	4,492	13.2
Direct customer deposits	8,504	8,282	222	2.7
of which: due to customers	*6,339*	*6,262*	*77*	*1.2*
securities issued	*2,165*	*2,020*	*145*	*7.2*

(*) Figures restated where required by international accounting principles and considering the changes in the business unit constituents.

In the third quarter of 2008 the Public Finance Business Unit performed its activities, for customers in government, public entities, local authorities, public utilities, general contractors, and public and private healthcare structures, through Banca Infrastrutture Innovazione e Sviluppo (BIIS), the leading Italian bank in public finance and one of the first in Europe, formed on 1 January 2008 from the merger of Banca OPI with Banca Intesa Infrastrutture e Sviluppo.

In the first nine months of 2008 Public Finance enjoyed a significant rise in revenues and operating margin, in a difficult market context. In fact, on the domestic front the persistence of the partial interruption of large public works, as well as a climate of greater diffidence towards more advanced financial instruments

were registered; on the international front the worsening of the financial crisis limited the possibilities of active portfolio management and required greater caution in the expansion of loans.
Public Finance closed the first nine months of 2008 with an operating income of 239 million euro, up 9.1% with respect to the corresponding period of the previous year. In particular, net interest income (203 million euro), recorded a significant rise (+35.3%) with respect to the first nine months of 2007, which reflects the increase in average loans to customers (+7.5%), benefiting from higher spreads achieved by developing the liquidity characteristics of the asset portfolio. Net fee and commission income, equal to 41 million euro, registered a 3 million euro increase (+7.9%), thanks to the performance of structuring activities and the stability of operations in the more traditional collection and payment services. Conversely, profits on trading contributed lower revenues for 30 million euro with respect to the first nine months of 2007, due to the unfavourable market situation, also reflected in the valuation of credit risk adjustments on derivatives with customers.
Operating costs amounted to 67 million euro, down 3 million euro (-4.3%), mainly thanks to the reduction in personnel expenses (-11.1%) due to the higher staff efficiency following the integration. The cost/income ratio was 28% (4 percentage points down with respect to the corresponding period of 2007), consistent overall with the mix of transactional operations, of lending/funding and structured finance activities managed by the Business Unit. Consequently, operating margin, 172 million euro, recorded a 15.4% increase with respect to the same period of the previous year (+42.7% excluding profits on trading). Income before tax from continuing operations amounted to 48 million euro, compared to 134 million euro recorded in the first nine months of 2007, heavily affected by the trend of adjustments to loans (+117 million euro with respect to the same period of the previous year) as a result of the 75% adjustment to the Credit Linked Notes held by BIIS with underlying securities issued by Lehman Brothers Treasury Co BV guaranteed by Lehman Brothers Holdings Inc.. Excluding this extraordinary event, as well as profits on trading, income before tax from continuing operations amounted to 152 million euro (+39.4%).
The capital allocated amounted to 866 million euro, up from the first nine months of 2007 in relation to the development of lending operations. Annualised ROE before tax showed a decline from the values of the corresponding period of the previous year due to the conditions described above (+5.6 percentage points excluding profits on trading and the effects of the Lehman Brothers' default).

With regard to the main balance sheet figures, loans to customers, 38,398 million euro, rose 13.2% from the beginning of the year, in a context of containment of the domestic public debt (which also implied the repurchase of significant tranches of health receivables of public bodies) and of the slowing down of infrastructure investments. As of the beginning of the year the trend of loans to customers was significantly influenced by the effects of the reclassification of certain debt securities from the "available for sale" to the "loans" category, as already illustrated in the chapter "Balance sheet aggregates". Excluding such effects, loans recorded +1.5% growth rate.
Direct customer deposits, 8,504 million euro, recorded a 2.7% increase, mainly thanks to the rise in securities issued.

In the third quarter of the year, in order to assist and promote the development of large infrastructures in the country, a syndicated loan was stipulated, in a pool with another bank, for the realisation of the Milan-Serravalle motorway and of a stretch of the Milan external ringroad. Moreover, advisory activities aimed at favouring the realisation of the Brescia-Milan (BreBeMi) motorway link continued.
In support of health services, universities and scientific research, consultancy activities for the Fondazione Parco Tecnologico Padano continued with a feasibility study of the project for the new University Pole at Lodi.
For the improvement of public and public utility services, the loan to Dolomiti Energia – the company managing production and sale of electricity in Trentino Alto Adige - should be mentioned. It is aimed at the acquisition of thermoelectric power plants from Enel and Edison and the subscription of part of the bonds issued by the company itself. With reference to the sector of alternative energy sources with low environmental impact, a loan was granted for the realisation of a combined plant for the production of pellets and the co-generation of steam-electrical power in the Province of Pavia; moreover, Public Finance is taking part in various projects for the realisation of wind-power and photovoltaic plants in Sicily and in Pulia.
As part of activities in support of the financial balance of the public sector, disbursements continued to finance long-term investments of Local Entities including the Piedmont Region, the Province of Milan and the Municipalities of Rome and Modena.

Among urban projects and projects for territorial development, a loan was stipulated for the realisation of the EUR New Congress Centre in Rome; for this project, considered one of the most important architectural works foreseen in the capital, BIIS had previously played the role of mandated lead arranger and coordinator of the syndicate of financing banks.
Within the interventions in favour of urban mobility, advisory activities continued for the construction and management of over 40 car parks in the Municipality of Rome, for the realisation of the Michelino car park in Bologna and the new car park of the Bergamo hospital.
Lastly, in the airport infrastructure sector the loan to SEA - Società Esercizi Aeroportuali, for the modernisation of the Malpensa airport, which will benefit from funds granted by the European Investment Bank, should be noted.
Public and infrastructure finance activities abroad included projects for the realisation of road and motorway links in Croatia, Greece, Portugal and the United States. In the Slovenian Republic a loan was stipulated in favour of Luka Koper, the state company responsible for the management of port and logistic services in the port of Koper. In the energy sector initiatives were carried out in Spain and Russia.

International Subsidiary Banks

(in millions of euro)

Income statement/Alternative performance indicators	30.09.2008	30.09.2007 restated (*)	Changes amount	Changes %
Net interest income	1,049	874	175	20.0
Dividends and profits (losses) on investments carried at equity	2	1	1	
Net fee and commission income	464	403	61	15.1
Profits (Losses) on trading	158	219	-61	-27.9
Income from insurance business	-	-	-	-
Other operating income (expenses)	-5	-3	2	66.7
Operating income	**1,668**	**1,494**	**174**	**11.6**
Personnel expenses	-454	-398	56	14.1
Other administrative expenses	-326	-284	42	14.8
Adjustments to property, equipment and intangible assets	-107	-94	13	13.8
Operating costs	**-887**	**-776**	**111**	**14.3**
Operating margin	**781**	**718**	**63**	**8.8**
Goodwill impairment	-	-	-	-
Net provisions for risks and charges	-5	-7	-2	-28.6
Net adjustments to loans	-134	-117	17	14.5
Net impairment losses on other assets	-3	-1	2	
Profits (Losses) on investments held to maturity and on other investments	6	4	2	50.0
Income (Loss) before tax from continuing operations	**645**	**597**	**48**	**8.0**
Allocated capital	2,029	1,582	447	28.3
Profitability ratios (%)				
Cost / Income ratio	53.2	51.9	1.3	2.5
ROE before tax (annualised)	42.5	50.5	-8.0	-15.8
EVA® (in millions of euro)	282	301	-19	-6.3

(in millions of euro)

	30.09.2008	31.12.2007 restated (*)	Changes amount	Changes %
Loans to customers	29,393	23,725	5,668	23.9
Direct customer deposits	29,800	27,210	2,590	9.5
of which: due to customers	*27,579*	*25,984*	*1,595*	*6.1*
securities issued	*2,221*	*1,226*	*995*	*81.2*

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

The International Subsidiary Banks Division is responsible for activities in foreign markets where the Group is operational through commercial banking subsidiaries and associates, mainly active in retail banking. The distribution structure, including recent acquisitions, directly covers 13 countries and is made up of 1,911 branches.

In the first nine months of 2008 the Division’s activities showed high growth rates in all economic margins and operating aggregates.
Operating income recorded an 11.6% increase compared to the first nine months of 2007, rising to 1,668 million euro.

Specifically, net interest income reached 1,049 million euro, with a 20% rise compared to the 874 million euro of the first nine months of the previous year. The increase is attributable to the growth in average volumes (+15.4%), sustained by the rise in loans to customers (+23.4%) and in direct customer deposits (+13.8%). The rise in net interest income is attributable for 46 million euro to VUB Banka, for 41 million euro to Banca Intesa Beograd, for 34 million euro to KMB Bank and for 31 million euro to Privredna Banka Zagreb.
Net fee and commission income grew by 15.1% (464 million euro compared to 403 million euro) specifically due to VUB Banka (+14 million euro), Privredna Banka Zagreb (+10 million euro), CIB Bank (+10 million euro) and Banca Intesa Beograd (+9 million euro). This trend benefited from higher revenues connected to the positive development of loans to customers, as well as to the increase in insurance products and mutual funds operations.
Profits on trading decreased to 158 million euro from 219 million euro in the first nine months of 2007, mainly due to the poor performance recorded by Bank of Alexandria (-68 million euro), Privredna Banka (-11.5 million euro) and KMB Bank (-8 million euro), linked to the financial market crisis, which entirely absorbed the positive result of CIB Bank (+16 million euro).
Operating costs grew by 14.3% reaching 887 million euro. Personnel expenses increased by 14.1% following the expansion of the distribution network, the adjustment of salaries to inflation and a different incentive policy. Administrative expenses and amortisation and depreciation increased by 14.8% and 13.8% respectively, primarily determined by the rise in operating centres, with a consequent impact on logistic, infrastructure and IT expenses.
Consequently, operating margin rose to 781 million euro (+8.8%). Considering net adjustments to loans of 134 million euro, up 14.5%, with respect to the first nine months of 2007, income before tax from continuing operations amounted to 645 million euro (+8%).
Allocated capital represented 8% of the Group's capital, and amounted to 2,029 million euro, with a considerable rise on the level recorded in the first nine months of the previous year. The trend of economic results and capital determined a reduction of the annualised ROE before tax to 42.5% (from 50.5% of the corresponding period of last year). Value creation, expressed in terms of EVA®, increased slightly to 282 million euro.

In the first nine months of 2008, Banka Koper recorded an operating income of 74 million euro, with a 13.7% rise on the corresponding period of 2007. This was due to higher net interest income (+13.4%), which benefited from i) a 27% increase in average volumes with customers, ii) higher fee and commission income (+4.4%) on trading and distribution of mutual funds and on credit cards, and iii) profits on trading which amounted to 5 million euro compared to the 2 million euro of the corresponding period of 2007, thanks to the sale of Petrol shares and of LjStock Exchange shares in acceptance of the public tender launched by the Vienna Stock Exchange in June. Operating costs recorded a 10% increase as a result of the rise in personnel expenses, due to an increase in the number of employees and, to a lesser extent, in amortisation and depreciation on fixed assets. Net income amounted to 22 million euro, against 18 million euro of the same period of 2007.

The VUB Banka group recorded an operating margin of 181 million euro, with a 26.4% increase compared to the first nine months of 2007. Operating income grew by 20.8%, partly as a result of local currency appreciation and partly due to the positive performance of net interest income, which benefited from the increase in average volumes with customers (+41% loans to customers; +20% customer deposits) and spreads, and net fee and commission income, which rose in all segments. Operating costs amounted to 158 million euro, up 14.9% (+7.6% excluding the effect of currency appreciation) due to higher personnel expenses and higher amortisation of intangibles deriving from the acquisition of a leasing company. Net income amounted to 124 million euro, up 26.2%.

The CIB Bank group recorded an operating income of 401 million euro, up 10% compared to the corresponding period of the previous year. The rise in revenues is due to the increase in profits on trading (+16.1%) attributable to the rise in coupons from derivatives, to net fee and commission income (+10%) which benefited from higher operations in loans (especially project finance), and to net interest income (+6.4%) due to the rise in average intermediated volumes with customers (+19.5% loans to customers, +5% customer deposits) which offset the reduction in the total spread following the increase in system competitiveness. The rise in operating costs (+11%) was determined by personnel expenses, administrative expenses and higher amortisation on new investments in software. Taking account of higher net adjustments to loans, net income amounted to 106 million euro, 8.6% down compared to the first nine months of the previous year.

In the first nine months of 2008, the Privredna Banka Zagreb group's operating income amounted to 354 million euro (+8.8% compared to the same period of the previous year). More specifically, net interest income (+15.7%) benefited from the growth in intermediated volumes and spreads, whereas net fee and commission income (+9.2%) was driven by the development of credit cards. The rise in net interest income and net fee and commission income more than offset the reduction in profits on trading (-40.2%) which was affected by the negative market trend. Operating costs rose 8.5%, linked to the increase in personnel expenses due to the rise in the number of employees, amortisation and depreciation, deriving from the expansion of the distribution network, and administrative expenses, in relation to higher logistic and service costs. The above-mentioned trends brought operating margin to 182 million euro (+9%). Net income amounted to 131 million euro, up 3.8% on the corresponding period of 2007.

Banca Intesa Beograd registered an operating margin of 104 million euro for the first nine months of 2008, almost more than double the figure for the same period of 2007. The increase in operating income (+46.3%) amply offset the rise in operating costs (12.9%) determined by higher personnel expenses (+10.5%) and administrative expenses (+19.3%). Revenues were positively influenced by the favourable trend of net interest income (+51.7%) that benefited from the increase in average volumes with customers (+39% loans to customers, +25% customer deposits) following the expansion in operations and the rise in spreads. Increases were also recorded by profits on trading, thanks to higher income from foreign exchange trading and from a capital gain generated by the sale of an equity investment, and net fee and commission income, thanks to the good trend in credit cards, loans and payment services. Net income amounted to 71 million euro against 39 million euro in the corresponding period of 2007.

Intesa Sanpaolo Banka Bosna i Hercegovina closed the first nine months of 2008 with an operating margin of 5 million euro, with a 4.6% increase compared to the corresponding period of the previous year. The rise in revenues (+11.7%) is attributable to net interest income (+13.4%), that benefited from higher average loans to customers (+41.7%), and to net fee and commission income (+22.9%) on current accounts, guarantees and foreign exchange. Operating costs, due to the expansion of the branch network according to the business plan, rose by 14.9%, attributable to both personnel and administrative expenses. After higher net adjustments to loans (+5.1%), partly due to additional provisions for consumer credit, net income amounted to 0.9 million euro, against 0.4 million euro in the first nine months of 2007.

Intesa Sanpaolo Bank Albania recorded a 72.1% increase in operating margin (15.5 million euro). This performance was achieved through the rise in net interest income attributable to the expansion in average volumes with customers (+12% loans to customers; +18% customer deposits) and in spreads. Operating costs rose 5.8% due to higher amortisation and depreciation, as well as higher administrative expenses linked to the expansion of the branch network and to advertising and personnel expenses.

In the first nine months of 2008 Intesa Sanpaolo Bank Romania registered an operating margin of 10 million euro, an 87% rise over the corresponding period of 2007. Operating income (+54.2%) benefited from the good performance of net interest income (+94.3%) linked to the increase in average volumes with customers (+60% loans to customers) and in spreads. Net fee and commission income also rose (+22.3%), driven by higher operations on loans, payments and guarantees. Profits on trading recorded a 29.7% increase due to higher profits on foreign exchange operations and on FX Swaps (Foreign Exchange Swaps). The growth in operating costs (+39.8%) can be attributed to the rise in human resources and to the development of the distribution network. Net income amounted to 7 million euro (+45.7% on the first nine months of 2007).

In the first nine months of 2008 KMB Bank closed the income statement with a net income of 15 million euro, slightly up (+2.6%) with respect to the corresponding period of the previous year. In detail, the rise in net interest income benefited from higher intermediated volumes (+55% average loans to customers; +40% direct customer deposits), which more than offset the contraction in spreads attributable to the generalised reduction in market interest rates. Operating costs rose by 51.7% due to the increase in personnel expenses determined by the rise in the number of employees and in administrative expenses, in particular real estate and IT, following the expansion of operations. Net adjustments to loans rose 37.3% due to higher loans disbursed.

Bank of Alexandria's net income was 36 million euro, against 65 million euro in the first nine months of 2007. Operating income decreased (-44.2%) due to the reduction in profits on trading mainly for the valuation component. This trend absorbed the increase in net interest income (up to 65 million euro from the 57 million euro of the first nine months of 2007) and in net fee and commission income (+30.6%) that increased in the payment systems and mutual funds components. Operating costs rose 11.9%: in particular, personnel expenses were up 11.7% and administrative expenses 19.4% due to the expansion of the network.

Eurizon Capital

(in millions of euro)

Income statement/Alternative performance indicators	30.09.2008	30.09.2007 restated (*)	Changes amount	Changes %
Net interest income	5	7	-2	-28.6
Dividends and profits (losses) on investments carried at equity	-	-	-	-
Net fee and commission income	243	273	-30	-11.0
Profits (Losses) on trading	9	5	4	80.0
Income from insurance business	-	-	-	-
Other operating income (expenses)	2	3	-1	-33.3
Operating income	**259**	**288**	**-29**	**-10.1**
Personnel expenses	-44	-45	-1	-2.2
Other administrative expenses	-67	-80	-13	-16.3
Adjustments to property, equipment and intangible assets	-2	-3	-1	-33.3
Operating costs	**-113**	**-128**	**-15**	**-11.7**
Operating margin	**146**	**160**	**-14**	**-8.8**
Goodwill impairment	-	-	-	-
Net provisions for risks and charges	-1	-3	-2	-66.7
Net adjustments to loans	-	-	-	-
Net impairment losses on other assets	-	-	-	-
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**145**	**157**	**-12**	**-7.6**
Allocated capital	109	101	8	7.9
Profitability ratios (%)				
Cost / Income ratio	43.6	44.4	-0.8	-1.8
ROE before tax (annualised)	177.7	207.8	-30.1	-14.5
EVA® (in millions of euro)	96	100	-4	-4.0

(in millions of euro)

	30.09.2008	31.12.2007	Changes amount	Changes %
Assets under management	145,411	180,693	-35,282	-19.5

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

In the framework of the reorganisation of the Group's asset management sector, aimed at centralising individual and collective management activities in Eurizon Capital Sgr, in July IT and fund administration businesses were spun off from Eurizon Capital SA (Luxembourg) and Eurizon Alternative Investments SGR was split in Eurizon A.I. SGR.

In the third quarter of 2008 the main initiatives carried out by Eurizon Capital concerned the harmonisation of the offer range. In particular, as part of individual portfolio management, the rationalisation of outstanding portfolio schemes was concluded in July through the alignment of the investment policy of the old lines to that of the new lines distributed; furthermore, in the same month the new monetary line called "GP Investimento Private Cash" was launched to complete the product range dedicated to the private customers of Intesa Sanpaolo Private Banking.
Regarding Luxembourg funds, in August the "Portable Alpha" was launched as a segment of the "Eurizon Innovation Fund", the umbrella fund tailored for internal fund users.

Lastly, with reference to speculative funds, in July the "Nextra" and "Brera" funds of Eurizon Alternative Investments SGR changed their names to "Eurizon".

As regards placers, in the third quarter agreements were drawn up with six new counterparties for the distribution of mutual funds.

Overall assets under management of Eurizon Capital totalled 145.4 billion euro at the end of September 2008, down 19.5% from the beginning of the year, due to the outflow of mutual funds, which affected all the main players in the sector, UCITS, retail and institutional asset management and almost all types of funds.
Operating income for the first nine months of 2008, amounting to 259 million euro, decreased 10.1% compared to the corresponding period of the previous year because of the significant contraction in assets under management due to a negative net collection and the continuous decrease in market performance. Income before tax from continuing operations totalled 145 million euro, down 7.6% with respect to the same period of 2007. Capital absorbed amounted to 109 million euro, up 8 million euro compared to the first nine months of 2007. Annualised ROE before tax reached 177.7%, in line with the high values characteristic of this Business Unit, due to limited absorption of capital compared to the considerable volumes of assets managed by the company and placed by the geographically widespread banking networks of the Group. EVA®, which measures value creation, decreased from 100 million euro to 96 million euro.

Banca Fideuram

(in millions of euro)

Income statement/Alternative performance indicators	30.09.2008	30.09.2007	Changes	
			amount	%
Net interest income	117	92	25	27.2
Dividends and profits (losses) on investments carried at equity	-	1	-1	
Net fee and commission income	373	441	-68	-15.4
Profits (Losses) on trading	8	7	1	14.3
Income from insurance business	-	-	-	-
Other operating income (expenses)	5	2	3	
Operating income	**503**	**543**	**-40**	**-7.4**
Personnel expenses	-95	-105	-10	-9.5
Other administrative expenses	-141	-137	4	2.9
Adjustments to property, equipment and intangible assets	-11	-12	-1	-8.3
Operating costs	**-247**	**-254**	**-7**	**-2.8**
Operating margin	**256**	**289**	**-33**	**-11.4**
Goodwill impairment	-	-	-	-
Net provisions for risks and charges	-30	-27	3	11.1
Net adjustments to loans	-	1	-1	
Net impairment losses on other assets	-3	-	3	-
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**223**	**263**	**-40**	**-15.2**
Allocated capital	345	345	-	-
Profitability ratios (%)				
Cost / Income ratio	49.1	46.8	2.3	4.9
ROE before tax (annualised)	86.3	101.9	-15.6	-15.3
EVA® (in millions of euro)	134	176	-42	-23.9

(in millions of euro)

	30.09.2008	31.12.2007	Changes	
			amount	%
Assets under management	41,724	50,753	-9,029	-17.8

The initiatives taken by Banca Fideuram in the third quarter of 2008 were carried out in coherence with the objective of consolidating market leadership through the development of its key strengths. In particular, actions on the product range were taken to strengthen the core business, to develop highly innovative products, to identify very advanced multi-manager solutions and to provide investment services tailored for private customers. These actions led, on the one hand, to the review of existing products to adjust them to the market context (supplementary social security reform and the coming into force of the MiFID legislation) and, on the other hand, to the development of a product range dedicated to private customers, in confirmation of the strategic importance of private banking within the group. With regard to insurance products, actions were addressed to new solutions characterised by a higher consultancy content and by greater flexibility.

At the end of September 2008 assets under management totalled 63 billion euro, down 8.1% with respect to the end of December 2007 due to the negative performance of financial markets, against a net positive collection of 404 million euro (compared to the 828 million euro of the first nine months of 2007). Net inflow of assets under administration recorded a significant improvement of 4.8 billion euro from 2.1

billion euro in the first nine months of 2007, whilst the net outflow of assets under management was 4.4 billion euro (1.2 billion euro in the corresponding period of 2007). The trend in net collection shows a recomposition of all asset under management segments in favour of direct investments in securities and in repurchase agreements that mitigated the negative effects of the current market context.
The number of private bankers reached 4,255 units, down 25 units from the beginning of the year.
Income before tax from continuing operations amounted to 223 million euro, a 15.2% reduction with respect to the same period of the previous year. This result is mainly due to the decline in net fee and commission income, linked to the reduction in average assets under management and partly, to a repositioning of the product mix towards products less profitable for the bank, which more than offset the improvement in net interest income (attributable to the growth in intermediated volumes, the rise in market interest rates and the higher profitability of assets). Moreover, income before tax from continuing operations was affected by the increase in net impairment losses on other assets, that include adjustments to the exposure towards Lehman Brothers (approximately 2 million euro), classified as doubtful in the third quarter of the year.
The capital absorbed in the first nine months of 2008 by Banca Fideuram amounted to 345 million euro, in line with that of the same period of the previous year. Economic results determined a decrease in annualised ROE before tax to 86.3%. High profitability is typical of the asset gathering segment which collects large saving volumes against a limited absorption of capital.
EVA®, which measures value creation, decreased from 176 million euro to 134 million euro.

Corporate Centre

The Corporate Centre is responsible not only for direction, coordination and control of the whole Group, but also for treasury.

The Corporate Centre closed the first nine months of 2008 with an operating income of 370 million euro, up 3.9% with respect to the corresponding period of the previous year. Operating costs rose due to personnel expenses, which in the first nine months of 2007 included the benefits generated by the actuarial recalculation of employee termination indemnities (excluding this, personnel expenses would have been lower by over 5%). Net provisions for risks and charges recorded a significant reduction with respect to the first nine months of the previous year, which had been affected by considerable charges for the settlement of major litigations. Profits on investments held to maturity and on other investments benefited from the capital gain generated by the sale of Agos and IMMIT. Overall, income before tax from continuing operations amounted to 266 million euro, against a 39 million euro loss in the first nine months of 2007.

The Treasury Department includes the service activities in euro and in foreign currencies, the integrated management of requirements/surpluses of liquidity, financial risks and settlement risks. In the third quarter of 2008 Intesa Sanpaolo continued to play a primary role within the domestic market settlement systems, as direct member and supplier of settlement services to Group and non-Group Italian and foreign banks. Treasury settlement activities centralised in the Parent Company recorded on average approximately 27,000 daily transactions for an exchange value of approximately 46 billion euro between Target2 and EBA. The Treasury continued to take an active part in the Italian and European working groups involved in the projects for the development of new settlement systems for transactions in securities (Target2 Securities – T2S) and for the collateral management (Correspondent Central Banking Model 2 – CCBM2), the continuation of which was officially formalised by the ECB's Governing Council on 17 July 2008.

With regard to the money market, the market crisis originated by US subprime loans, which had characterised all the first half of the year, worsened at the end of the third quarter after a virtually stable phase in the summer, due to problems that hit US banks first and spread later to the European institutions that were either nationalised or covered by state guarantee right at the end of September. The role of Central Banks, aimed at maintaining an adequate level of liquidity in the system, was again important in the third quarter. At the end of September the ECB ran extraordinary auctions almost daily, with constant inflows of liquidity far exceeding the physiological amounts needed by the system. The FED, in co-ordination with the main Central Banks, provided significant inflows of liquidity in dollars, mainly through the Term Auction Facility. Tensions on the money market materialised with the progressive widening of the spreads between interest rates on interbank deposits and the corresponding rates on derivative products as a result of the rise of the liquidity premium; in the final part of the quarter a progressive contraction in the volumes of deposits with maturities beyond overnight was registered in the interbank market. In the third quarter, both the ECB and the FED maintained policy rates unchanged. At the beginning of September the ECB made the biennial revision of the rules applied to the collateral utilised for the Eurosystem's monetary policy operations, adjusting the guarantee margins of certain categories of eligible assets. In this context the Bank pursued the objective of prolonging the maturities of liabilities, in order to stabilise funding and guarantee liquidity with maturities over three months. This profile also allowed the effective management of the market liquidity crisis at the end of the quarter, when market transactions, concentrated only on very short maturities, led to a partial reduction of the average maturity of debt. The main short-term funding instrument was the recourse to programmed issues of commercial papers and certificates of deposit (both Commercial/Yankee CD in USD through the New York Branch, and ECP/CD through the Irish subsidiary); this market permitted to roll over transactions, even if with maturities shorter than usual.

With regard to Credit Portfolio Management and Structured Operations activities, on 4 August 2008 a securitisation on a portfolio of performing residential mortgages amounting to 8 billion euro was finalised. On 28 March 2008 these loans were sold without recourse to a vehicle company named Adriano Finance Srl, established pursuant to Law 130/99, that issued RMBS securities: a senior security (Class A) for 7.6 billion euro and a junior security (Class B) for 0.4 billion euro. Both tranches are centralised in Monte Titoli and have been totally subscribed by the Bank. The sale price, corresponding to the book value of the loans at the date of effect, was paid by the SPV to the Bank at the date of issue of the securities. The Bank also granted to the vehicle a subordinated loan with limited recourse (with maturity equal to the legal maturity of the securities) of 50 million euro that was utilised at the date of issue of the securities for the creation of the Cash Reserve requested by the Rating Agencies.

In the management of treasury securities and liquidity portfolios, the adopted strategy privileged: self-liquidation of the portfolio, maintaining a short-term profile; issuers with a relatively low exposure to funding in the wholesale market; issues with high outstanding so as to guarantee adequate liquidity in normal market conditions or covered issues with significant spreads and short maturities; a portfolio of eligible securities with the ECB. On the domestic electronic repurchase agreement market, with underlying eurozone Government securities, the Bank continued to play a significant role with regard to the liquidity of that market.

The "funding" macro-area is responsible for medium-/long-term funding, through both domestic bond issues and recourse to international markets. In the third quarter of 2008 funding operations were concluded on international markets for a total of 2.9 billion euro. Given the serious international financial crisis and the strong pressure on bond markets, no public issue was made. Private placements in the Euromarket totalled 1.6 billion euro, including 250 million euro of perpetual preference shares callable in 2018. In this period the Bank opened passive deposits for approximately 1.3 billion euro funded by the collection with the same maturity made by the New York and Hong Kong branches and by the Luxembourg SEB also through the issue of Certificates of Deposit in local currency. In the third quarter the total amount of Intesa Sanpaolo's bond issues placed in the domestic market amounted to 5.1 billion euro, of which one billion euro of subordinated Lower Tier 2 securities at fixed rate with an average maturity of five years. Within securities placed, plain vanilla securities represented 58.2% of the total whereas structured bonds 41.8%. Breakdown by average maturity showed a concentration on maturities of two and five years with an incidence of respectively 78.9% and 21.1%.

With regard to management of human resources, in the third quarter of 2008, the incentive-driven exit plans continued, mainly through extraordinary recourse to the Solidarity Allowance of the banking sector (pursuant to Ministerial Decrees 158 of 2000 and 226 of 2006) as defined by the agreements signed on 1 December 2006 and 1 August 2007. For the purpose of fully meeting the objectives of structural reduction of the labour cost as set out in the 2007-2009 Business Plan, a new agreement was signed with the Trades Unions on 8 July 2008, whereby a further 2,500 excess employees emerge with respect to the staff present on 31 March 2008. This agreement, which also includes the banks of the Banca CR Firenze group and Banca Fideuram group, provides for the exit of those who are entitled to retirement within 31 March 2008 and for the access to the Solidarity Allowance for those entitled to retirement (the so-called window) within 1 January 2015, giving the pre-emption right to those whose applications for the Allowance were in excess of the limits defined in the previous agreement of 1 August 2007. Considering the applications presented up to the end of October, the target reduction set out in the agreement was achieved.

Risk management

BASIC PRINCIPLES

The policies relating to risk acceptance are defined by the Parent Company's Administrative Bodies (Supervisory Board and Management Board), with support from specific Committees.

The Parent Company is in charge of overall direction, management and control of risks. Group companies that generate credit and/or financial risks are assigned autonomy limits and each has its own control structure.

In 2007, risk measurement and management tools were integrated, enabling the preparation of a control framework for Group risks capable of assessing risks accepted according to the regulatory and economic prospects. The comparison with capital endowment allows monitoring of the Group's capital adequacy, which is periodically reported to Top Management.

From an operating standpoint, measurement of risks and their quantification in capital measures support company decisions through a system of capital allocation to business lines and contribute to the calculation of risk-adjusted profitability measures (RORAC - Return On Risk Adjusted Capital) applied to the single desk, the various banking books and the business lines; these therefore represent a key system to orient management decisions and define the Group's financial structure.

BASEL 2 REGULATIONS AND THE INTERNAL PROJECT

In June 2004, the Basel Committee on Banking Supervision published the final version of the Capital Accord ("Basel 2"), adopted by the European Union at the end of 2005 through the Directive on Capital Adequacy and by Italy with Legislative Decree 297 of 27 December 2006.

The new Accord came into effect as of 1 January 2007, but the Intesa Sanpaolo Group exercised the faculty provided for by Community regulations to maintain the previous system until 1 January 2008; consequently, starting from 31 March 2008, for the purpose of calculating solvency ratios, risk-weighted assets are determined on the basis of the application of the new rules defined by Basel 2 regulations.

Very briefly, the Accord provides for new quantitative rules to establish the minimum capital requirement to cover credit, market and operational risks:

- for credit risks, the new rules introduce a greater degree of correlation between capital requirements and risks by acknowledging ratings and other credit risk measurement tools. The Accord sets out a Standardised approach together with two increasingly sophisticated approaches based on internal risk management (IRB) tools;
- for market risks, the legal regulations previously in force continue to apply;
- the new Accord introduces capital absorption for operational risks, which can also be measured using three increasingly analytical approaches (Basic Indicator, Standardised and Advanced Measurement – AMA).

Lastly, capital adequacy must also be ensured, as provided for by Pillar 2, for a wider range of risks which must at least include: financial risks in the banking book, liquidity risks, strategic risks, risks on equity investments and insurance activities, risks deriving from securitisations, residual credit risks and reputational risks.

The regulations are designed to promote the adoption of more sophisticated methods, in both credit risks and operational risks, through a lower absorption of capital. However, in order to access these options, the banks must satisfy a set of minimum requirements for risk management and control methodologies, to be verified by the Supervisory authority.

The greatest advantages will come from the management and operating results obtained from the systematic application of the new methodologies that should make it possible to improve risk management and control capabilities as well as increase the efficiency and effectiveness of customer service.

In order to profit from these opportunities, in 2007 Intesa Sanpaolo launched the "Basel 2 Project", with the mission of preparing the Group for the adoption of advanced approaches, building on the pre-merger experiences of Intesa and SANPAOLO IMI.

With respect to credit risks, the Corporate rating model and the Group's credit process were defined in 2007, in compliance with the rules of the New Accord. The latter sets out the use of internal ratings as the

essential element in credit approval and management decisions. Following the recent conclusion of the system's pre-validation phase by the Supervisory authority, the validation request is being prepared.
Moreover, roll-out of rating models for the SME Retail and Residential Mortgages segments is under way on network banks and specialised companies of the Group's Italian network. The completion of the loss given default models, expected within the end of the year, will permit adoption of advanced models, for both the Corporate and the Retail portfolio, in 2009, according to the progressive extension plan presented to the Supervisory authority.
As concerns operational risks, the pre-validation phase has also been completed and the fine-tuning required to send the validation request is under way, and access to the AMA method should occur in 2009.
Moreover, in the second half of 2008, the Group presented the first report of the prudential control process for capital adequacy (ICAAP) as "class 1" banking group, according to Bank of Italy classification, based on the extensive use of internal methodologies for measurement of risk, internal capital and total capital available.

Before the Bank of Italy issues the authorisation for the use of internal risk measurement tools for the determination of capital requirements with advanced approaches, capital requirements are calculated through the aforesaid Standardised approach which entails:
- calculation of credit risk-weighted assets calibrated on the risk profile of the counterparties, through the use of ECAI ratings for the determination of risk weights; for unrated counterparties weighting rules are similar to the current ones, applying different risk weights on the basis of the type of counterparty and a preferred treatment for retail and mortgage exposures;
- new credit risk mitigation techniques, which permit a considerable expansion in the range of eligible instruments (on- and off-balance sheet netting, financial collaterals, personal guarantees/credit derivatives, mortgages on residential, commercial, industrial and other properties), accompanied however by a more specific indication of the juridical, economic and organisational eligibility requirements for the recognition for prudential purposes and methods to calculate risk mitigation associated to their use;
- introduction of a specific capital requirement for operational risks, calculated as a percentage of gross income, which varies across the single standardised Business Lines in which the various activities of Group companies have been broken down.

The Group's capital requirements calculated using standardised methods include a limited benefit connected to the application of the new Basel 2 regulations, since the reduction in the requirement for credit risk is almost equivalent to the new estimated requirement for operational risk.

CREDIT RISKS

Intesa and SANPAOLO IMI's long experience in risk management techniques has provided the Group a large set of risk measurement and management techniques and instruments, capable of ensuring analytical control over the quality of loans to customers and financial institutions, and loans subject to country risk.
With particular reference to loans to customers, risk management uses different rating models on the basis of the borrower's segment (corporate, Italian public sector entities, Small Businesses, Mortgages, Personal Loans), and in terms of industry and size.
Credit strategies and policies address:
- portfolio diversification, limiting the concentration of exposures on single counterparties/groups, single sectors or geographical areas;
- efficient selection of the single borrowers via an attentive creditworthiness analysis aimed at containing default risk, notwithstanding the objective of privileging commercial lending or loans to support new production capacity with respect to merely financial interventions;
- control of relationship characteristics, carried out with information technology procedures and systematic surveillance of the relationships which present irregularities, both aimed at rapidly identifying any signs of deterioration in risk exposures.

The quality of the loan portfolio is constantly monitored by specific operating checks for all the phases of loan management (analysis, granting, monitoring, management of non-performing loans).
The management of credit risk profiles of the loan portfolio is assured, starting from the analysis and granting phases, by:
- regulations on Credit policies;
- checks on the existence of the necessary conditions for creditworthiness, with particular focus on the client's current and prospective capacity to produce satisfactory income and congruous cash flows;

- the assessment of the nature and size of proposed loans, considering the actual requirements of the counterparty requesting the loan, the course of the relationship already in progress and the presence of any relationship between the client and other borrowers.

Credit quality

The overall non-performing loan portfolio is continually monitored through a predetermined control system and periodic managerial reporting. In particular, such activities are performed using measurement methods and performance controls that permit the construction of synthetic risk indicators. They interact with processes and procedures for loan management and for credit risk control and allow timely assessments to be formulated when any anomalies arise or persist.
The positions to which the synthetic risk index attributes a high risk valuation, which is confirmed overtime, are intercepted and are allocated in different categories based on the risk profile. Exposures with entities in default or in basically similar situations are classified in doubtful loans; exposures with entities in temporary difficulties, deemed solvable in a congruous period, are classified in substandard loans; positions for which the bank (or a group of banks), due to the deterioration of the economic and financial conditions of the borrower, permits a modification in the original contractual terms, are classified in restructured loans. Lastly, non-performing loans include loans past due by over 180 days.

(in millions of euro)

	30.09.2008			31.12.2007 restated (*)			Changes
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Doubtful loans	12,031	-8,512	3,519	10,740	-7,595	3,145	374
Substandard and restructured loans	6,853	-1,752	5,101	5,534	-1,565	3,969	1,132
Past due loans	1,813	-190	1,623	1,355	-136	1,219	404
Non-performing loans	**20,697**	**-10,454**	**10,243**	**17,629**	**-9,296**	**8,333**	**1,910**
Performing loans	362,476	-2,432	360,044	341,538	-2,308	339,230	20,814
Loans represented by performing securities	15,937	-429	15,508	7,617	-8	7,609	7,899
Loans to customers	**399,110**	**-13,315**	**385,795**	**366,784**	**-11,612**	**355,172**	**30,623**

(*) Figures restated where required by international accounting principles and considering the changes in the scope of consolidation.

The table shows a rise in non-performing loans, with respect to the Annual report 2007, of 1,910 million euro (+22.9%); the relative average coverage totalled approximately 51%. In particular, doubtful loans represented only 0.9% of loans to customers (percentage in line with that at 31 December 2007). Substandard and restructured loans, up 1,132 million euro with respect to the end of 2007, are assisted by provisions of approximately 26%. Past due loans also increased, with a degree of coverage of 10%. Lump-sum adjustments on the banking book of performing loans correspond to approximately 0.7% of gross exposures, unchanged with respect to the end of the previous year and congruous to cover the intrinsic risk of performing loans. Risk implicit in performing loans is calculated collectively on the basis of the risk configuration of the entire portfolio analysed via models which consider the Probability of Default (PD) and the Loss Given Default (LGD).
Performing loans represented by securities considerably increased with respect to 31 December 2007 due to the reclassification of debt securities; before the reclassification 421 million euro of capital losses were recorded on these securities.

MARKET RISKS

TRADING BOOK

The activities for the quantification of trading risks are based on daily and periodical estimates of the sensitivity of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:

- interest rates;
- equity and market indices;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps;
- spreads in issued bonds;
- correlation instruments;
- dividend derivatives;
- ABS.

For certain of the abovementioned risk factors, the Supervisory authority validated the internal models for the regulatory measurement of capital absorption of both Intesa Sanpaolo (internal model extended during 2007 to the books of the former SANPAOLO IMI Finance Department) and Banca IMI (the internal model, previously validated for the former Banca Caboto component, was extended, in the first quarter of 2008, to the former Banca IMI portfolios). Moreover, also the model relative to credit derivatives (credit default swaps) has been validated for Intesa Sanpaolo.

The analysis of market risk profiles relative to the trading book uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).

The following paragraphs provide the estimates and evolution of operating VaR, defined as the sum of VaR and of simulation on illiquid parameters. VaR estimates are calculated daily based on simulations of historical time-series, a 99% confidence level and 1-day holding period.

In the third quarter of 2008, the market risks originated by Intesa Sanpaolo and Banca IMI decreased with respect to the averages for the second quarter of 2008. The average operating VaR for the period was 41.6 million euro (including risk of the CDO book calculated with a specific methodology similar to an illiquid parameter simulation).

Daily operating VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI [(a)]

(in millions of euro)

	2008					2007			
	average 3rd quarter	minimum 3rd quarter	maximum 3rd quarter	average 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	31.5	29.3	36.3	27.9	29.4	30.0	20.0	18.5	16.5
Banca IMI	10.1	8.2	15.5	12.9	9.0	8.2	6.7	6.1	6.9
Group	**41.6**	**38.2**	**50.4**	**50.8**	**38.4**	**38.2**	**26.7**	**24.6**	**23.4**

[(a)] Each line in the table sets out past estimates of daily operating VaR calculated on the quarterly historical time-series respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for Intesa Sanpaolo and Banca IMI are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

For Intesa Sanpaolo the breakdown of risk profile in the third quarter of 2008 with regard to the various factors shows the prevalence of the hedge fund risk, which made up 33% of total operating VaR; for Banca IMI share risk was the most significant and represented 31% of total VaR.

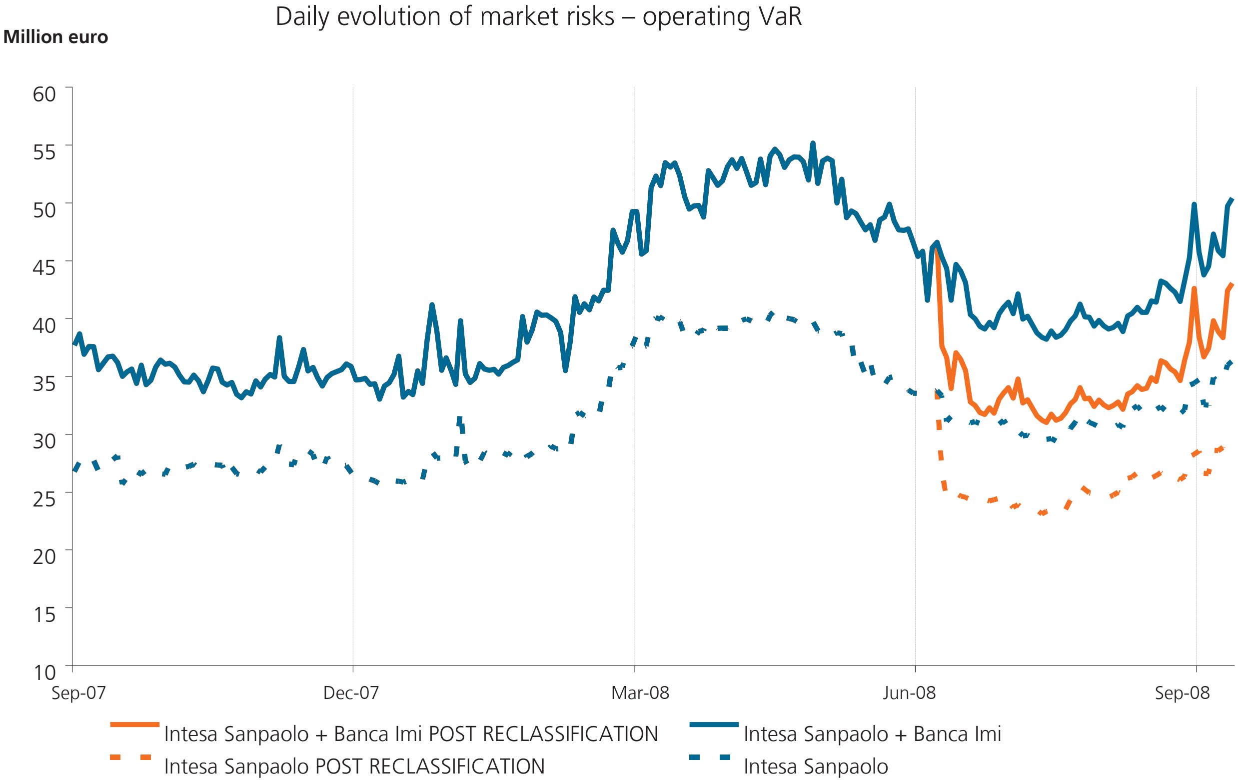
Contribution of risk factors to overall operating VaR[(a)]

3nd quarter 2008	Shares	Rates	Credit spread	Foreign Exchange	Hedge fund	Other parameters
Intesa Sanpaolo	9%	16%	10%	2%	33%	30%
Banca IMI	31%	25%	18%	4%	-	22%
Group	**16%**	**19%**	**13%**	**3%**	**22%**	**27%**

[(a)] Each line in the table sets out the contribution of risk factors considering the overall operating VaR 100%, calculated as the average of daily estimates in the third quarter 2008, broken down between Intesa Sanpaolo and Banca IMI.

Operating VaR in the last twelve months is set out below. In the third quarter there was a decrease in VaR due to the lower operations and to a lower incidence in the calculation of VaR of the past scenarios of August 2007 (start of the subprime crisis).
At the end of the period a rise in risk measure occurred due to higher market volatility related to the post Lehman crisis.
Moreover, the graph also shows the trend of VaR estimated after the reclassification (from HFT to LR), permitted by IAS regulations in October, which was decided for certain very-illiquid products, with backdated effects as of 1 July 2008 (mostly ABS). The effect of the reclassification on average VaR for the period was an approximately 7.1 million euro reduction (the Group's average for the third quarter moves from 41.6 to 34.5 million euro).

Daily evolution of market risks – operating VaR



Risk control relative to the trading activities of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The impact on the income statement of selected scenarios relative to the evolution of stock prices, interest rates, credit spreads and foreign exchange rates at the end of September are summarised in the following table.

In particular:

- for positions on stock markets, a "bearish" scenario, that is a 5% decrease in stock prices with a simultaneous 10% increase in volatility would have led to a 14 million euro loss; a "bullish" scenario, that is a 5% rise in stock prices with a simultaneous 10% decrease in volatility would have led to an 11 million euro gain;
- for exposures to interest rates, a parallel +25 basis point shift in the yield curve would have led to a 3 million euro loss, while a -25 basis point parallel shift would have led to a 3 million euro gain;
- for exposures affected by changes in credit spreads, a 25 basis point widening in spreads would lead to a 59 million euro loss, of which 26 million euro attributable to structured credit products (SCP);
- lastly, with reference to exposures on the EUR/USD FX market, the portfolio's position was basically protected from both devaluation and revaluation of the US Dollar due to the effect of option structures aimed at protecting from directional movements.

(in millions of euro)

	Equity		**Interest rates**		**Credit spreads**		**Foreign Exchange rates**	
	volatility +10% and prices -5%	**volatility -10% and prices +5%**	**-25bp**	**+25bp**	**-25bp**	**+25bp**	**-10%**	**+10%**
Group	-14	11	3	-3	60	-59	10	6
of which SCP					*26*	*-26*		

INFORMATION ON FINANCIAL PRODUCTS

The negative phase of financial markets and the difficulties which affected primary financial institutions, led – as is generally known – supranational and national Supervisory authorities to recommend the utmost transparency in the disclosure with shareholders and investors of credit and market risk exposure accepted in the various forms, directly or through vehicles. It is therefore useful to provide an update with respect to information included in the Half-yearly report as at 30 June 2008.

DETERMINATION OF THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Information in this chapter integrates the accounting principles adopted by the Intesa Sanpaolo Group, and explicitly explains valuation concepts and parameters.
In the preparation of information, a clear and simple approach is adopted, avoiding where possible excessive technicalities.
Since these are, in any case, complex disclosures, as usual a glossary of the main English and mathematical terms used in the interim statement is also provided.

General Principles

IAS/IFRS prescribe that products in the trading portfolio must be recorded at fair value through profit and loss. The existence of official prices in an active market[1] represents the best evidence of fair value and these prices must be used with priority (effective market quotes) for the registration of financial assets and liabilities in the trading portfolio.
When the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, bid-offer spreads and volatility which are not sufficiently contained, it is necessary to abandon direct reference to market prices and apply models which by mostly using market parameters may determine an appropriate fair value for financial instruments.
If there is no active market, fair value is determined using valuation techniques aimed at ultimately establishing what the transaction price would have been on the measurement date, in an arm-length exchange, motivated by normal business considerations. Such techniques include:

- reference to market values indirectly connected to the instrument to be valued and presumed from products with the same risk profile (comparable approach);
- valuations performed using – even partly – inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the person making the assessment (Mark-to-Model).

The choice between the aforesaid methodologies is not optional, since they must be applied according to a hierarchy: more specifically, if a published price quotation in an active market exists, one of the other valuation approaches may not normally be used.
In the current context of financial turbulence, Accounting authorities intervened to regulate market situations in which many financial instruments show prices which are affected by severe illiquidity. The IASB, together with the homologous US body (FASB), issued guidance on this subject which underlines the possibility of using inputs from non "dislocated[2]" markets or internal inputs instead of prices struck on dislocated markets. In substance it means treating certain financial instruments no longer using so called "level 1" measures (effective market quotes) but on the basis of "level 2" (comparable approach) or "level 3" (mark to model approach).

[1] A financial instrument is considered as quoted on an active market if the quotations, reflecting normal market transactions, are promptly and regularly available through organised markets (exchanges), brokers, intermediaries, companies operating in the sector, quotation services or authorised bodies, and such prices represent effective and regular market transactions taking place over a normal period of reference. The criteria to determine price reliability are described in the paragraph on identification, certification and treatment of market data.

[2] The market for a given issuer is considered by Intesa Sanpaolo to be dislocated on the basis of the following indicators, which must be assessed with utmost reasonableness, also considering historical trends:
- prices not constantly available;
- prices not constantly reliable;
- wide bid-offer spreads;
- volatility over time of the prices referred to the same instrument;
- volatility between price suppliers of prices referred to the same instrument;
- size of the difference, if positive, between spreads incorporated in prices in the funded market, where available and spreads incorporated in prices, where significant, of the Credit Default Swap (CDS) market for a given issuer.

In addition to these elements, a particularly significant indicator of dislocation is that for a given issuer there is an inverted CDS curve, which means a higher risk of default in the short/medium term with respect to the medium/long term.

Hierarchy of fair value

As described above, the hierarchy of measurement models, i.e. of the approaches adopted for fair value measurement, attributes absolute priority to effective market quotes for valuation of assets and liabilities or for similar assets and liabilities (comparable approach) and a lower priority to non-observable and, therefore, more discretional inputs (mark-to-model approach).

1. Effective market quotes

In this case the valuation is the price of the same financial instrument to be measured on the basis of prices quoted on an active market.

The percentage (determined in relation to fair value in case of derivatives) of instruments valued with this methodology on the total of instruments measured at fair value is set out below:

Financial assets:		
- cash	76.5%	58.5 billion euro
- derivatives	2.9%	0.9 billion euro
Financial liabilities:		
- cash	9.3%	2.7 billion euro
- derivatives	4.2%	1.2 billion euro

The value of financial instruments measured through effective market quotes was practically unchanged with respect to last June, despite a higher percentage incidence, with reference to cash assets on total assets measured at fair value, due to the lower percentage incidence of instruments measured through level 2 methods.

2. Valuation Techniques: Comparable Approach

In this case the valuation is not based on the price of the same financial instrument to be measured, but on prices or credit spreads presumed from official quotes of instruments which are similar in terms of risk factors, using a given calculation methodology (pricing model).

The use of this approach requires the search for transactions on active markets relative to instruments which are comparable in terms of risk factors with the instrument to be measured.

Calculation methodologies (pricing models) used in the comparable approach reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretional parameters – parameters for which values may not be presumed from quotes of financial instruments present on active markets or fixed at levels capable of reproducing quotes on active markets – which significantly influence the final valuation.

The percentage (determined in relation to fair value in case of derivatives) of instruments valued with this methodology on the total of instruments measured at fair value is set out below:

Financial assets:		
- cash	18.9%	14.4 billion euro
- derivatives	96.0%	27.2 billion euro
Financial liabilities:		
- cash	90.7%	25.9 billion euro
- derivatives	94.3%	26.4 billion euro

As concerns cash assets, the decrease with respect to last June (- 9.2 billion euro), was ascribable for almost 9 billion euro to the reclassification in loans of securities following the amendment to IAS 39.

3. Valuation Techniques: Mark-to-Model Approach

In this case valuations are based on various inputs, which are not presumed directly from parameters which may be observed on the market and therefore imply estimates and assumptions on the part of the valuator.

In particular, with this approach the valuation of the financial instrument uses a calculation methodology (pricing model) which is based on specific assumptions of:

- the development of future cash-flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where these

are not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The percentage (determined in relation to fair value in case of derivatives) of instruments valued with this methodology on the total of instruments measured at fair value is set out below:

Financial assets:		
- cash	4.6%	3.5 billion euro
- derivatives	1.1%	0.3 billion euro
Financial liabilities:		
- cash	---	
- derivatives	1.5%	0.4 billion euro

Cash financial assets included investments in equities amounting to 1.5 billion euro classified in securities available for sale.

Again as concerns cash financial assets, the decrease with respect to the figure of last June (-1 billion euro), was almost entirely ascribable to the reclassification in loans of syndicated loans following the amendment to IAS 39.

STRUCTURED CREDIT PRODUCTS

The business model: objectives, strategies and relevance

For Intesa Sanpaolo structured credit operations have always been instrumental to proprietary trading activities and had been carried out in the past, within operating limits which ensure a matching between volumes and the Group's risk propensity, with a typical carry-trade approach aimed at generating appreciable returns on investment of capital in assets deemed to have good credit quality. Conversely, the Group never applied the Originate-to-Distribute model with reference to these products. The most recent strategies regarding structured credit products focus on management of existing investments and do not involve a review of a reference business model.

In 2008 the approach applied with good results in the second half of 2007 was confirmed and is based on gradual portfolio reduction (sales and unwinding) and risk profile management achieved via short positions on derivative markets on indices (ABX and CMBX). This process was facilitated by the limited volume of the structured credit portfolio and of the high incidence of unfunded structures in the portfolio. Activities continued in the third quarter for the elaboration of specific strategies to devise the most opportune decisions for each transaction in terms of risk retention, disposal or, at least partial, hedging.

Highlights

Before illustrating results as at 30 September 2008, please note that the quali-quantitative composition of investments in structured credit products (affected to different extents by the events occurred in financial markets starting from the second half of 2007), was practically unchanged compared to the end of last year and of last semester. The high overall quality of the portfolio was confirmed also at the end of the first nine months of the year, and is documented by the following indicators:

- 98% of exposure is Investment Grade;
- 85% of such exposures has a Super senior (54%) or AAA (31%) rating;
- only 1% has a BBB rating;
- 46% of exposure presents a vintage[3] prior to 2005;
- 29% had a 2005 vintage;
- only 8% of exposure referred to the US Residential area, and 29% referred to the US non residential area;
- the remaining exposure (63% of the total) almost fully (56%) referred to the European area.

Considering underlying contract types, approximately one third of the exposure is represented by ABS (14%) and RMBS (15%); the rest is almost entirely made up of CDOs (29%) and CLOs (37%); CMBS represent 5% of the total.

The structured credit products affected by the financial crisis, until 30 June 2008 classified almost entirely in the trading portfolio[4], were partly reclassified following the amendments to IAS 39 issued last October. Therefore, in the tables below, structured credit products are shown separating the part which remained in the trading portfolio from the part reclassified under loans. In the income statement the effects of both aggregates are recorded in "Profits (Losses) on trading – Caption 80". For the part which is reclassified, the effect on the income statement was recorded under "Profits (Losses) on trading – Caption 80" until 1 July 2008, in accordance with provisions of amendments of accounting regulations. To facilitate the reading of the tables and the contents of the figures for products reclassified under loans figures for previous periods are restated.

The information set out below refers to the entire Group; where present, any effects and positions, which are in any case immaterial, ascribable to entities other than the Parent Company, are specifically highlighted in the comments.

In the summary tables provided below, table (a) sets out risk exposure as at 30 September 2008 and income statement captions (sum of realised charges and profits, write-downs and write-backs) of the first nine months of the year, compared with the corresponding values recorded as at 30 June 2008 and 31 December 2007.

[3] Date of generation of the collateral underlying the securitisation. It is an important factor in the assessment of the risk of the mortgages underlying securitisations since, especially in the US, the phenomenon of mortgages granted to entities with inadequate income and with low prior assessment of documentation became significant as of 2005.

[4] In the Half-yearly report as at 30 June 2008 exceptions were:

- certain securities classified as available for sale: mostly positions pertaining to the Romulus vehicle, entity subject to full consolidation, already present as at 31 December 2007 (see the note to the Table US subprime exposures and subsequent references); available for sale portfolio also included and still includes a position of the Parent Company, also coming from the aforesaid vehicle (see ii of par. "Contagion" area) as well as a limited number of securities ascribable to Carifirenze (see i of par. Other structured credit products);
- a portion of the securities held by Banca Intesa Infrastrutture Innovazione e Sviluppo, not registered in the summary table, almost entirely recorded under Loans & Receivables, which actually do not entail a particularly risky position (see par. Monoline risk).

Table (b) sets out figures related to s.c. structured packages, normally made up of an asset (security) whose credit risk is entirely hedged by a specific credit default swap. Risk exposure in the table refers to the protection seller and not to the issuer of the asset hedged. For a more complete description of exposures of this type see the specific paragraphs (Monoline risk and Non monoline packages).

The conversion into euro of values expressed in USD as at 31 December 2007 occurred at an exchange rate of 1.4721 euro per dollar, as at 30 June 2008 at an exchange rate of 1.5764 euro per dollar and, as at 30 September 2008, at an exchange rate of 1.4303 euro per dollar.

Structured credit products: summary tables

a) Exposure in funded and unfunded ABS/CDOs

(in millions of euro)

Financial assets held for trading	**30.09.2008**		**30.06.2008**		**31.12.2007**	
	Risk exposure (*) (including write-downs and write-backs)	**Income Statement Profits (Losses) on trading**	**Risk exposure** (*) (including write-downs and write-backs)	**Income Statement Profits (Losses) on trading**	**Risk exposure** (*) (including write-downs and write-backs)	**Income Statement Profits (Losses) on trading**
US subprime exposure	**6**	**-5**	**-8**	**-6**	**-40**	**-163**
Contagion area	**294**	**-88**	**348**	**-70**	**521**	**-142**
- Multisector CDOs	197	-41	256	-30	375	-57
- Alt-A	-	-	-	-	-	-
- TruPS	97	-47	92	-40	146	-85
- Prime CMOs	-	-	-	-	-	-
Other structured credit products	**3,201**	**-78**	**3,231**	**-45**	**3,561**	**-108**
- Funded European/US ABS/CDOs	405	-13	655	-10	810	-23
- Unfunded super senior CDOs	3,192	-46	3,021	-20	3,173	-87
- Other	-396	-19	-445	-15	-422	2
Total	**3,501**	**-171**	**3,571**	**-121**	**4,042**	**-413**
in addition to:						
"Short" positions of funds	-	39	-	17	-	40
Total Financial assets held for trading	**3,501**	**-132**	**3,571**	**-104**	**4,042**	**-373**

Loans	**30.09.2008**		**30.06.2008**		**31.12.2007**	
(reclassification following amendments to IAS 39 of 15 October 2008)	**Risk exposure** (*) (including write-downs and write-backs)	**Income Statement Profits (Losses) on trading**	**Risk exposure** (*) (including write-downs and write-backs)	**Income Statement Profits (Losses) on trading**	**Risk exposure** (*) (including write-downs and write-backs)	**Income Statement Profits (Losses) on trading**
US subprime exposure	**6**	**-**	**-6**	**-**	**-9**	**-**
Contagion area	**141**	**-5**	**132**	**-5**	**166**	**-21**
- Multisector CDOs	13	-	12	-	18	-
- Alt-A	80	-2	75	-2	93	-20
- TruPS	-	-	-	-	-	-
- Prime CMOs	48	-3	45	-3	55	-1
Other structured credit products	**2,006**	**-57**	**1,878**	**-57**	**1,834**	**-70**
- Funded European/US ABS/CDOs	1,766	-57	1,657	-57	1,553	-70
- Unfunded super senior CDOs	-	-	-	-	-	-
- Other	240	-	221	-	281	-
Total	**2,153**	**-62**	**2,004**	**-62**	**1,991**	**-91**
in addition to:						
"Short" positions of funds	-	-	-	-	-	-
Total Loans	**2,153**	**-62**	**2,004**	**-62**	**1,991**	**-91**
Total	**5,654**	**-194**	**5,575**	**-166**	**6,033**	**-464**

(*) The column "Risk exposure" sets out: for securities, fair value; for derivatives, the nominal value of the contract, net of write-downs and write-backs recorded at reference date. Such amounts correspond, for "long" positions, to the maximum potential loss (in the event of a 100% default and a recovery rate of 0). For "short" positions, vice versa, they indicate the maximum potential gain (in the same scenario in terms of default and recovery levels).

b) Exposure in packages

(in millions of euro)

Detailed table	**30.09.2008**		**30.06.2008**		**31.12.2007**	
	Credit exposure to protection seller (CDS fair value) post write-down	**Income Statement Profits (Losses) on trading**	**Credit exposure to protection seller** (CDS fair value) post write-down	**Income Statement Profits (Losses) on trading**	**Credit exposure to protection seller** (CDS fair value) post write-down	**Income Statement Profits (Losses) on trading**
Monoline risk	27	-30	12	-34	61	-25
Non monoline packages	239	-12	197	-3	454	-5
Total	**266**	**-42**	**209**	**-37**	**515**	**-30**

For a more detailed description of the performance attributable to the different products included in the scope of the present disclosure see the summary below. It should be noted, however, that the "long" position in US Subprime was unchanged compared to 30 June 2008. The change in the net position in the quarter is attributable to the management of hedges on ABX indices.
As concerns the income statement, in the period under consideration, the incidence of the loss attributable in particular to US Subprime exposures dropped further compared to the previous quarter, in absolute and relative terms, due to the valuations recorded at the end of 2007 and the effectiveness shown in the nine months of the year by hedges.
More specifically, the negative result of the structured credit products in the nine months (-236 million euro) is mostly attributable to the following three areas:

- CDOs unfunded (-95 million euro) with an important presence of US RMBS not classified as subprime (see i. of par. "Contagion" area) and TRUPS in collateral (see iii. of par. "Contagion" area), in addition to transactions classified as super senior CDOs unfunded (see ii. of par. "Other structured credit products";
- European and US ABS (-70 million euro) for which, following the reclassification connected to the amendment to IAS 39, crystallised as at 1 July 2008 the income statement effect of the process of widening of the spread, which started in the first quarter of 2008, due to concerns related to the economic slowdown under way in Europe and to persisting market illiquidity;
- exposure in packages (-42 million euro), deriving from the combined effect of a reduction, which occurred in the third quarter, in monoline spreads which occurred in the credit default swap market and of a widening in the same spreads for counterparties other than monoline insurers and which led to an increase in the credit risk adjustment on the contracts stipulated with such counterparties.

The aggregate included, as at 30 September 2008, bonds which were reclassified in loans for a total nominal value of 2,337 million euro, corresponding to a risk exposure of 2,153 million euro. The negative result of structured products, without the effects of the aforesaid reclassifications, would have increased to -343 million euro; the positive effect of the reclassification on the income statement amounted to 107 million euro.

US subprime exposure

As at 30 September 2008 the qualitative composition of exposure to US Subprime did not significantly change with respect to the previous quarters. The risk on these investments was managed and reduced via "short" positions on ABX indices. As at 30 September 2008 there were in the portfolio ABS, CDOs funded and CDOs unfunded super senior for a nominal value of 256 million euro (243 million euro as at 30 June 2008), corresponding to a risk exposure of 33 million euro, unchanged with respect to 30 June 2008. The relative impact on the income statement in the first three quarters was -28 million euro (-27 million euro as at 30 June 2008).
Considering "short" positions in derivatives stipulated for dynamic hedging purposes, the net position as at 30 September 2008, inclusive of products reclassified in loans, amounted to 264 million euro in terms of nominal value (169 million euro as at 30 June 2008) and to 12 million euro in terms of risk exposure (-14 million euro as at 30 June 2008), while the overall incidence on the income statement in the first three quarters was negative for -5 million euro (-6 million euro as at 30 June 2008). The aggregate also includes a CDO which, classified as available for sale by the Romulus vehicle, was reclassified in loans for a nominal value of 9 million euro, equal to a risk exposure of 6 million euro. The positive effect of this reclassification was recorded in the valuation reserve under shareholders' equity and amounted to 1 million euro.

"Contagion" area

The qualitative composition of the portfolio did not significantly change in the third quarter. The results of the area affected by the "contagion effect" which occurred as a result of the subprime mortgage crisis may be summarised as follows:

i. ***Multisector CDO***: considering unrealised gains/losses, as well as hedges on CMBX indices entered into in the year[5], net exposure to risk was 210 million euro (256 million euro as at 30 June 2008) and also included 13 million euro of securities of the Romulus vehicle which were reclassified in loans. The effect on the income statement ascribable to the positions (including those on CMBX indices and certain positions in single name credit default swaps on correlated counterparties) was -41 million euro (-30 million euro as at 30 June 2008). Considering the Group's investment in funds which had taken "short" positions on the US credit market, which generated a +39 million euro result in the income statement (+17 million euro as at 30 June 2008), the overall contribution of this area was -2 million euro (-13 million euro as at 30 June 2008).

[5] But not in "short" positions of Funds.

ii. *Alt-A - Alternative A Loan*: the bonds included in this area were reclassified in loans. The nominal value of these securities reclassified was 89 million euro and risk exposure of 80 million euro (75 million euro as at 30 June 2008). The area led to record -2 million euro in the income statement, unchanged with respect to 30 June 2008 due to the effect of the reclassification. The latter determined a positive effect of 5 million euro.

iii. *TruPS – Trust Preferred Securities of REITs (Real Estate Investment Trust):* financial instruments in the aggregate are mostly unfunded. Risk exposure, considering write-downs and write-backs, totalled 97 million euro (92 million euro as at 30 June 2008) and the result ascribable to these positions was -47 million euro (-40 million euro as at 30 June 2008).

iv. *CMO Prime*: the aggregate includes bonds for a nominal value of 52 million euro (49 million euro as at 30 June 2008) reclassified in loans. Risk exposure connected to such securities totalled 48 million euro (45 million euro as at 30 June 2008) and the impact on the income statement was almost -3 million euro, unchanged with respect to 30 June 2008 as a result of the reclassification. The latter determined a positive effect on the income statement of 8 million euro.

Other structured credit products

The effects of the crisis which hit US financial markets progressively spread to the entire sector of structured credit products, including instruments with underlying assets not originated in the US.
The various types of products attributable to this last segment are described below. In the first nine months of 2008 they negatively affected the income statement for 135 million euro, with a -33 million euro contribution in the third quarter.

i ABS/funded CDOs

- European ABS/CDOs

  The portfolio as at 30 September 2008 amounted to 2,237[6] million euro of nominal value (2,353 million euro as at 30 June 2008), equal to a risk exposure of 2,091 million euro (2,226 million euro as at 30 June 2008), and its qualitative composition did not significantly change in the third quarter. At the end of the third quarter, the relative impact on the income statement amounted to -60 million euro[7], with no impact in the third quarter, especially due to the reclassification occurred following the amendment to IAS 39, which involved almost the whole of the portfolio. Reclassification determined a 94 million euro benefit on the income statement.
- ABS/CDO US

  Also for this segment qualitative composition did not significantly change in the third quarter. These are securities with US underlying for an overall nominal value of 90 million euro (94 million euro as at 30 June 2008) whose characteristics partly permitted their reclassification in loans. The impact on the income statement was -10 million euro (-7 million euro as at 30 June 2008).

ii *Unfunded super senior CDOs*

- Unfunded super senior Multisector CDOs

  This component, 772 million euro of nominal value as at 30 September 2008 (703 million euro as at 30 June 2008), comprised super senior positions with High Grade, widely diversified collateral or characterised by high credit quality RMBS and therefore not included, as such, in the "contagion" area. In the nine months, their impact on the income statement amounted to -14 million euro (+1 million euro from realised net income, -15 million euro from valuation), with a -9 million euro contribution in the third quarter.
- Unfunded super senior Corporate Risk CDOs

  Super senior in this residual category amounted to 2,556 million euro of nominal value as at 30 September 2008 (2,420 million euro as at 30 June 2008). In the first nine months of the year, their impact on the income statement amounted to -32 million euro (+2 million euro from realised net income, -34 million euro from valuation), with a -17 million euro contribution in the third quarter.

[6] Of which 671 million euro pertaining to Banca IMI and 9 million euro pertaining to Carifirenze, the latter are classified in securities available for sale.
[7] Of which -8 million euro ascribable to Banca IMI.

iii. *Other: residual aggregate which includes*:

- Other unfunded "short" positions.
  These comprise net "short" positions as at 30 September 2008 for a nominal value of 383 million euro (434 million euro as at 30 June 2008). In the nine months, their impact on the income statement amounted to -19 million euro (-3 million euro of realised net charges, -16 million euro from valuation, mostly attributable to two "long" positions included in the category), with a -4 million euro contribution in the third quarter.
- Funded ABS/CDOs of the Romulus vehicle
  These comprise securities classified as at 30 June 2008 as available for sale and reclassified, following the amendments to IAS 39, in loans as at 30 September 2008. The nominal value of such securities amounted to 278 million euro (255 million euro as at 30 June 2008) with a credit risk exposure of 240 million euro. The capital losses, recorded in a valuation reserve under Shareholders' equity, amounted to 38 million euro (34 million euro as at 30 June 2008). The reclassification of the securities led to a positive effect on the reserve of 9 million euro.

Monoline risk

Intesa Sanpaolo presents no direct exposure to monoline insurers (insurance companies specialised in the coverage of default risk of bonds issued by both public entities and corporates), but only indirect positions connected to hedging derivatives purchased from monoline insurers to buy protection on the default risk of assets held by the Group, which therefore only generate counterparty risk. Such hedging derivatives are part of two types of activities performed by Intesa Sanpaolo: packages and fully hedged credit derivatives transactions.

As at 30 September 2008, credit risk exposure on the aforesaid protection purchases from monoline insurers amounted to 60 million euro, compared to 47 million euro as at 30 June 2008. On this exposure, write-downs of 35 million euro were recorded, compared to 43 million euro as at 30 June 2008, with a negative impact on the income statement which decreased to 23 million euro (-29 million euro as at 30 June 2008). Net credit risk exposure to the protection seller therefore totalled 25 million euro (4 million euro as at 30 June 2008).

Intesa Sanpaolo's activities in fully hedged derivatives are made up of the simultaneous purchase and sale of protection on the same reference entity (underlying asset) with two different counterparties. In the third quarter there were activities performed to reduce overall exposure to the monoline counterparty of these transactions.

As at 30 September 2008, credit risk exposure on the aforesaid protection purchases from monoline insurers decreased to 16 million euro, compared to 24 million euro as at 30 June 2008. On this exposure, write-downs of 14 million euro were recorded, compared to 16 million euro as at 30 June 2008. The overall impact on the income statement was -7 million euro as at 30 September 2008 (-5 million euro as at 30 June 2008), also as a result of the aforesaid reduction of exposure to the monoline insurer. Net credit risk exposure to the protection seller therefore totalled 2 million euro (8 million euro as at 30 June 2008).

In conclusion, as at 30 September 2008, credit risk exposure with monoline insurers due to counterparty risk amounted to 76 million euro, compared to 71 million euro as at 30 June 2008; this exposure has been provisioned with 49 million euro for the downgrade of the counterparty, compared with the 59 million euro of 30 June 2008, with a negative impact on the income statement at the end of September of 30 million euro, (+4 million euro in the third quarter). Net of downgrades of the counterparty, the exposure to the protection seller, for the transactions contained in the aggregate, was 27 million euro (12 million euro as at 30 June 2008).

Non-monoline packages

This category includes packages with assets with specific hedges stipulated with international banks. As at 30 September 2008 these positions amounted to 1,547 million euro in terms of nominal value and presented a fair value of 1,290 million euro (1,269 million euro as at 30 June 2008). The decrease in the fair value of hedged assets generated an increase in credit exposure to credit derivative counterparties from 205 million euro as at 30 June 2008 to 257 million euro as at 30 September 2008. This exposure was written down by 18 million euro (8 million euro as at 30 June 2008). Consequently, a negative impact of -12 million euro was recorded in the income statement (-3 million euro as at 30 June 2008) with a contribution of the third quarter of -9 million euro.

INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPEs)

For the purpose of this analysis, legal entities established to pursue a specific, clearly-defined and limited objective are considered Special Purpose Entities:

- to raise finance on the market by issuing specific financial instruments;
- to acquire, sell, manage specific assets, separating them from the financial statements of the Originator;
- to develop and/or finance a specific business initiative, capable of generating, through an economic activity, cash flows which permit the complete reimbursement of the debt;
- to finance the acquisition of a target company which, through its economic activity, will be capable of generating cash flows for the SPE which permit the complete reimbursement of the debt;
- to manage the credit risk connected to their portfolio of financial assets through both protection purchases and sales with counterparties represented by SPEs (used by both the American market and the European market for synthetic portfolio securitisations). In such transactions the Bank accepts credit risk or counterparty risk with the SPE, depending on the nature of the transaction.

The sponsor of the transaction is normally an entity which requests the structuring of a transaction in a SPE for the purpose of reaching certain objectives. In some cases the Bank is the sponsor and establishes a SPE with the objective of raising finance, securitising its assets, offering customers a financial service.
There are no changes in the consolidation criteria with respect to those adopted in the previous year.

The types of transactions in SPEs related to Intesa Sanpaolo's current operations are set out below.

Funding SPEs

Entities established abroad to raise finance on particular markets: the funding SPEs issue financial instruments, normally guaranteed by Intesa Sanpaolo, and reverse funding to the Parent Company.
These SPEs, which have registered office in the US, and are part of the Group's scope of consolidation ex IAS 27, are: Intesa Funding LLC, San Paolo IMI US Financial CO., IntesaBCI Preferred Capital Company LLCIII, IntesaBCI Preferred Securities Investor Trust, SanPaolo IMI Capital Company LLC1.
In the third quarter of 2008 the liabilities of the vehicles BCI U.S. Funding LLCI, BCI U.S. Funding LLCII and BCI U.S. Funding LLCIII were extinguished. For these companies and for Bank Overseas and Intesa Preferred Capital Company LLC – whose liabilities had been extinguished in the first half of 2008 – the closing process was commenced.

The total assets of these vehicles are almost entirely made up by loans to the Parent Company Intesa Sanpaolo and amounted to 12.1 billion euro as at 30 September 2008 (13.5 billion euro in June), with issued securities – entirely guaranteed by the Parent Company – of 12 million euro (13.4 billion euro in June).

SPEs for insurance products

These are entities (UCITS) established for the purpose of investing internal funds of the unit linked and index linked products of Eurizon Vita and Eurizon Life. The latter retain the majority of the risk and rewards; SPEs for insurance products are consolidated ex IAS 27 / SIC 12.
In the Group there are 64 entities of this type with total assets of 10.4 billion euro (11.2 billion euro as at 30 June 2008).

Securitisation SPEs

These are funding SPEs which permit an entity to raise resources with the securitisation of part of its assets. In particular, the spin-off of a package of balance sheet assets (generally loans) and its subsequent transfer to a vehicle which, to finance the purchase, issues securities later placed on the market or through a private placement. Resources raised in this way are reversed to the seller while commitments with underwriters, are met using the cash flows generated by the loans sold.
SPEs of this type, which are part of the scope of consolidation as at 30 September 2008 ex IAS 27 or SIC 12, are: Intesa Sec S.p.A., Intesa Sec 2 S.r.l., Intesa Sec 3 S.r.l., Intesa Sec NPL S.p.A., Intesa Lease Sec S.r.l., Split 2 S.r.l. and Adriano finance.
All these companies, incorporated under Italian law, have been used to securitise the performing assets (mortgage loans, leasing contracts) or non-performing assets (mortgage loans) of Intesa Sanpaolo or Group companies.
Augusto, Colombo and Diocleziano are securitisation vehicles of assets (residential mortgages), mostly to finance of long-term mortgages and public works, of companies subject to joint control and later sold. Securities held are measured at fair value, as in previous years.

For the securitisations prior to 1 January 2004 (Intesa Sec, Intesa Sec 2, Intesa Sec Npl and Intesa Lease Sec.), the Group availed itself of the exemption from compliance to IAS/IFRS permitted on first-time adoption by IFRS 1 and, thus, assets or liabilities sold and derecognised, based on previous accounting principles and deriving from securitisations, have not been recorded in the financial statements. For transactions stipulated after that date provisions of IAS 39 on derecognition of financial assets and liabilities are applied.
Total assets of the companies Intesa Sec S.p.A., Intesa Sec 2 S.r.l., Intesa Sec 3 S.r.l., Intesa Sec NPL S.p.A., Intesa Lease Sec S.r.l., Split 2 S.r.l. and Adriano Finance are almost entirely made up of securitised assets (respectively performing mortgages for Intesa Sec, performing residential mortgages for Intesa Sec 2, Intesa Sec 3 and Adriano Finance, doubtful mortgages for Intesa Sec Npl, performing leasing contracts for Intesa Lease Sec. and Split 2) and by liquidity. Total assets of Augusto, Colombo and Diocleziano are instead almost entirely made up by long-term mortgages.
Note that:
- at the beginning of August performing residential mortgages amounting to approximately 8 billion euro were securitised (in two tranches: one senior, class A, of 7,558 million euro and one junior, class B, of 440 million euro), through the vehicle Adriano Finance;
- the companies ISP CB Ipotecario S.r.l., ISP CB Pubblico S.r.l. and ISP Sec 4 S.r.l., are not yet operational as at 30 September;
- the vehicle Cr Firenze Mutui srl., belonging to the Carifirenze group, was acquired in the first half. This vehicle, with own underlying assets represented by performing mortgages, is consolidated at equity;
- following the resolution of the Shareholders' Meeting of 7 May 2008, the vehicle Sec NPL 2 S.r.l. (now Calit S.r.l) modified its corporate purpose, which now sets out financial and operating leasing activities of equipment and real estate.

Overall, total assets of securitisation SPEs amounted to 13.5 billion euro as at 30 September 2008 (6.2 billion euro in June 2008), with issued securities of 13.9 billion euro (6.0 billion euro as at June 2008), of which 8.4 billion euro (0.4 billion euro as at June 2008) repurchased by the Parent Company.

Furthermore, pursuant to the aforesaid SIC 12, Intesa Sanpaolo controls: Romulus Funding Corporation, a company which acquires financial assets, represented by loans or securities, with eligibility criteria originated by Bank customers, financing the purchase via the issue of Asset Backed Commercial Papers; Duomo Funding PLC, an entity which performs an activity similar to that of Romulus Funding Plc. but, is limited to the European market, and is financed with funding contracts with Romulus.
In the first half an AFS security of the vehicle was transferred to the Parent Company, which impaired it for approximately 7.5 million euro; an amount equal to the allowance for risks and charges, set up at the end of 2007 in connection to the guarantee given to Romulus, of 8 million euro was reversed to the income statement.
As at 30 September 2008 the entire AFS securities portfolio of Romulus – which had the characteristics for reclassification provided for by EC Regulation of 15 October 2008 on the classification of financial instruments – was reclassified in the Loan and receivable category at the fair value of 30 June 2008. This led to a positive effect on the AFS reserve in the third quarter of 12.5 million euro.
Overall total assets of Romulus as at 30 September 2008 amounted to 1.3 billion euro (1.2 billion euro in June 2008) made up by 0.9 billion euro of loans to Duomo and 0.4 billion euro of Loan Receivable securities. The company issued commercial paper for 1.3 billion euro (1.2 billion euro in June 2008) which, for 1.1 billion euro, was repurchased by the Parent Company (1.0 billion euro as at June 2008). Total assets of Duomo amounted to approximately 1 billion euro (almost unchanged with respect to June 2008).

Intesa Sanpaolo does not hold any stake in SPQR II S.r.l. but the company is consolidated since the Group has retained the majority of costs and benefits (SIC 12).
The assets of the vehicle are almost entirely made up of a portfolio of debentures issued by Italian public entities, of a nominal value of approximately 2 billion euro, sold to the vehicle by Banca OPI (now Banca Infrastrutture Innovazione e Sviluppo). The vehicle, in turn, issued senior and junior bonds; both types of securities were repurchased by Banca OPI (now BIIS), which destined the senior class as collateral to its funding with the European Central Bank, via transactions closed through the Parent Company Intesa Sanpaolo.

Overall total assets of SPQRII S.r.l. was approximately 2 billion euro, unchanged with respect to June 2008, with securities issued of 1.9 billion euro, entirely subscribed by Group companies.

Lastly, Intesa Sanpaolo acquired protection on its credit exposures from the vehicles of the synthetic securitisation “Da Vinci”, (aimed at covering and actively managing its risk exposure in the aircraft and aeronautic sector) and "Vespucci" (synthetic securitisation on an asset backed-securities portfolio and collateralised debt obligations aimed at managing trading activity in structured credit products).

Financial Engineering SPEs

These SPEs undertake investments and funding which allow better risk/return combinations than those generated by standard transactions, due to their particular structure aimed at optimising accounting, tax and/or regulatory issues. These structures have been established to respond to the needs of primary customers and to provide solutions that offer financing at competitive interest rates and investments with higher returns.
Intesa Sanpaolo controls and consolidates Intesa Investimenti S.p.A., a company established to invest in quotas of Italian and international UCITS, in quotas and shares of other Italian and international entities and in Government securities of G7 countries, with the simultaneous subscription of a commitment to resell at a future date and at a predetermined price; all assisted by swaps aimed at assuring an adequate profitability of the investment. Intesa Sanpaolo replicates every transaction, again with a repurchase agreement with Intesa Investimenti, whose shares are in turn the object of an analogous contract with investing customers. Currently the shareholders' equity of the company is entirely deposited with Intesa Sanpaolo.
The assets of the vehicle are almost entirely made up of term deposits with the Parent Company Intesa Sanpaolo and as at 30 September 2008 amounted to 1.1 billion euro (practically unchanged with respect to June 2008).

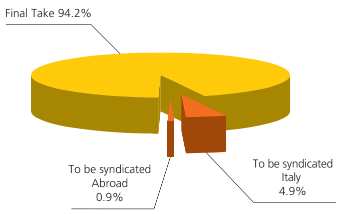
Other unconsolidated Special Purpose Entities

As concerns other unconsolidated SPEs (Project Financing, Asset Backed, Leveraged & Acquisition Finance and Credit Derivatives), see the Half-yearly report as at 30 June 2008.

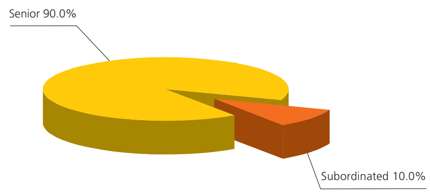
LEVERAGED FINANCE TRANSACTIONS

Since there is no univocal and universally agreed-upon definition of leveraged finance transactions, Intesa Sanpaolo decided to include in this category the exposures (loans granted and disbursed in relation to structured financing, normally medium/long term) to legal entities in which the majority of share capital is held by private equity funds.
Positions are mostly aimed at supporting Leveraged Buy Out projects (therefore with high leverage), connected with the acquisition of companies or business lines also through special purpose entities (SPEs), which, after the acquisition of the equity stake in the target company, are normally merged by incorporation into the latter. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.
None of these SPEs is consolidated, since the guarantees to support the transaction are solely instrumental for the granting of the financing and are never directed to the acquisition of direct or indirect control over the vehicle.
As at 30 September 2008, 100 transactions, for a total amount granted of 4,927 million euro, meet the above definition.
Such exposures are mostly classified in the loan portfolio. These also include the portions of syndicated loans underwritten or under syndication destined from the outset to be sold. In line with information requests, breakdown of exposures by geographical area, economic sector and by level of subordination is set out below.

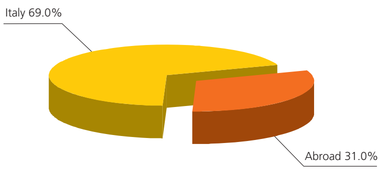
Breakdown by type of risk



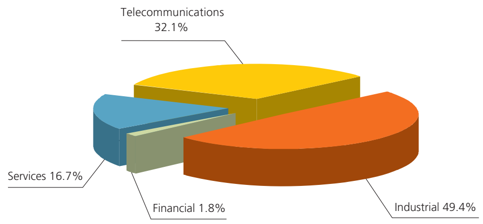
Breakdown by subordination level



Breakdown by geographical area



Breakdown by economic sector



INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

As at 30 September 2008, the Intesa Sanpaolo Group presented, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), a positive fair value, considering netting agreements, of 1,119 million euro (1,208 million euro as at 30 June 2008). The notional value of such derivatives totalled 30,895 million euro (26,116 million euro as at 30 June 2008).

Conversely, negative fair value determined with the same criteria, for the same types of contracts, with the same counterparties, totalled 585 million euro as at 30 September 2008 (899 million euro as at 30 June 2008). The notional value of such derivatives totalled 30,803 million euro (36,209 million euro as at 30 June 2008).

BANKING BOOK

Market risk originated by the banking book arises primarily in the Parent Company and in the main subsidiaries that carry out retail and corporate banking. The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated mostly held by the Parent Company and by Equiter, IMI Investimenti and Intesa Sanpaolo Holding International.
The following methods are used to measure financial risks of the Group's banking book:
- Value at Risk (VaR);
- Sensitivity analysis.

Value at Risk is calculated as the maximum "unexpected" potential loss in the portfolio's market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR).
Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the main risk factors (interest rate, foreign exchange, equity). For interest rate risk, an adverse movement is defined as a parallel and uniform shift of ±100 basis points of the interest rate curve. The measurements include the risk originated by customer sight loans and deposits.
Furthermore, sensitivity of the interest margin is measured by quantifying the impact on net interest income of a parallel and instantaneous shock in the interest rate curve of ±100 basis points, over a period of 12 months.

Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods. A first one refers to the fair value hedge of assets and liabilities specifically identified (micro-hedging), mainly bonds issued or acquired by the bank and loans to customers. Moreover, macro-hedging is carried out on the stable portion of on demand deposits and in order to cover the risk of fair value changes intrinsic in the instalments under accrual generated by floating rate operations. The Bank is exposed to this risk in the period from the date in which the rate is set and the date of payment of the relevant interests.
Another hedging method used is the cash flow hedge which has the purpose of stabilising interest flow on variable rate funding to the extent that the latter finances fixed-rate investments (macro cash flow hedge). In other cases, cash flow hedges are applied to specific assets or liabilities.
The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties or with other Group companies. The latter, in turn, replicate the transactions on the market so that the hedging deals meet the criteria to qualify as IAS-compliant for consolidated financial statements.
The Risk Management Department is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting.

In the first nine months of 2008, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, registered an average value of 397 million euro and 319 million euro at the end of September; these figures compare with a figure of 369 million euro at the end of 2007.
Interest margin sensitivity – in the event of a 100 basis points rise in interest rates – amounted to +174 million euro (-164 million euro in case of reduction) at the end of September, lower than at the end of 2007 (+204 million euro and -205 million euro, respectively in case of increase/decrease of interest rates).
Interest rate risk, measured in terms of VaR, in the first three quarters of 2008 was on average 141 million euro (104 million euro at the end of 2007), with a minimum value of 95 million euro and a maximum value of 218 million euro. At the end of September 2008 VaR was 107 million euro.
Price risk generated by minority stakes in listed companies, mostly held in the AFS (Available for Sale) category, measured in terms of VaR, registered an average of 126 million euro (113 million euro at the end of 2007) in the first nine months of 2008, with minimum and maximum values of 104 million euro and 156 million euro. VaR at the end of September 2008 amounted to 133 million euro.

OPERATIONAL RISKS AND LEGAL RISKS

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risks include legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual or out-of-contract responsibilities or other disputes; strategic and reputational risks are not included.

The Group has a centralised function within the Risk Management Department for the management of the Group's operational risks. This function is responsible for the definition, implementation, and monitoring of

the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.
In compliance with current requirements, the Group's organisational units have been involved into the process and each of them was assigned the responsibility for the identification, assessment, management and mitigation of its operational risks; specific officers and departments have been identified within these organisational units to be responsible for Operational Risk Management (collection and structured census of information relative to operational events, scenario analyses and evaluation of the business environment and internal control factors).
To support the operational risk management process continuously, in the first nine months various training sessions were held for persons actively involved into the operational risk management and mitigation process.

Intesa Sanpaolo's Internal Model is designed to combine all the main quantitative (internal and external historical incurred loss data) and qualitative information sources (self-assessment: scenario analysis and operating valuation context). The quantitative component is based on the assessment and statistical modelling of historical data on internal and external events (including participation in consortium initiatives such as "Database Italiano Perdite Operative" – Italian Operating Loss Database – managed by the Italian Banking Association and Operational Riskdata eXchange Association).
The qualitative component focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured collection of subjective estimates with the aim of assessing relevant scenarios identified starting from the proprietary risk classification system based on the types of events provided for by the New Capital Accord.
Capital at Risk is therefore identified as the minimum amount at Group level, net of insurance cover, required to bear the maximum potential loss (worst loss); Capital at Risk is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-Risk of operational losses), applied on quantitative and qualitative figures with a 1-year holding period, and on a 99.96% confidence level (99.90% for the regulatory figure).
The Intesa Sanpaolo Group has activated a traditional operational risk transfer policy (insurance) with the objective of mitigating the impact of any unexpected losses, and thus contributing to the reduction of Capital at Risk.
At the end of September capital absorption for operational risks was determined with the Traditional Standardised Approach (with an approximately 2.5 billion euro incidence at Group level).

Legal risks

Concerning legal risks, there were no significant changes with respect to the Annual report 2007, to which reference should be made.

INSURANCE RISKS

Life branch

The typical risks of a life insurance portfolio can be divided into three main categories: premium risk, life underwriting risk and reserve risk.
Premium risks are protected initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on the sustainability and profitability (both at product level and at portfolio level, including all of the liabilities).
Actuarial and demographic risks are managed by a regular statistical analysis of the evolution of the portfolio liabilities, divided by type of risks and through simulations of expected profitability on the assets which cover technical reserves.
Reserve risk is guarded against through the exact calculation of mathematical reserves, with a series of detailed checks as well as overall verifications, by comparing results with the estimates produced on a monthly basis.
The mathematical reserves are calculated on almost the entire portfolio, on a contract-by-contract basis, and the methodology used to determine the reserves takes account of all the future commitments of the company.

Casualty branch

The risks of the casualty branch are essentially premium risk and reserve risk.
Premium risks are protected initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on the sustainability and profitability (both at product level and at the portfolio level, including all of the liabilities).
Reserve risk is guarded against through the exact calculation of mathematical reserves.

ALM and financial risks

In line with the growing focus in the insurance sector on the issues of value, risk and capital in recent years, a series of initiatives with the objective of both strengthening risk governance and managing and controlling risk-based capital has been launched.
With reference to investment portfolios, set up both as coverage of obligations with the insured and in relation to free capital, the Investment Policy is the control and monitoring instrument for market and credit risks.
The Policy defines the goals and the operating limits that are needed to distinguish the investments in terms of eligible assets and asset allocation, breakdown by rating classes and credit risk, concentration risk by issuer and sector, market risks, in turn measured in terms of sensitivity to variations in risk factors and Value at Risk on a 1-year holding period.
In order to measure and manage all risks (underwriting and financial), a simulation tool, named FAP (Financial Analysis Program), is also used with the objective of measuring the intrinsic value, fair value of the liabilities and economic capital. The FAP is based on a dynamic Asset Liability Management (ALM) model and, through this engine, FAP fully recognises the sensitivity of liabilities to changes in market risk factors and permits an effective management of hedging assets.

Investment portfolios

The investments of the companies of the Intesa Sanpaolo Group operating in the insurance segment are made with their free capital and to cover the contractual obligations with customers. These essentially refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and casualty policies.
As at 30 September 2008 the investment portfolios of Group companies, recorded at book value, amounted to 44,834 million euro; of these, the share regarding traditional revaluable life policies and free capital (Class C portfolio or portfolio at risk) amounted to 17,379 million euro while the other component (Class D portfolio or portfolio with total risk retained by the insured) mostly comprised investments related to pension funds, Index- and Unit-linked policies and totalled 27,455 million euro.
Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the assets included in the "at-risk portfolio".
In terms of breakdown by asset class, approximately 94% of assets was made up of bonds while assets subject to equity price risk represented approximately 6% of the total.
Fair value of derivatives amounted to -52.1 million euro, of which -52.3 million euro relative to hedging derivatives and +0.2 million euro relative to effective management derivatives included in those originally destined to hedge Index-Linked insurance policies and subsequently transferred to the “class C portfolio”

as they were no longer representative of the technical commitments with the insured parties. There are no positions in derivatives held for speculation since they are not authorised.

The portfolio's component represented by bonds had an average duration of 3.25 years.

Breakdown of bonds in terms of fair value sensitivity to interest rate movements showed that a +100 bp parallel shift in the yield curve leads to an approximately 732 million euro decrease. On the basis of this hypothetical scenario, the value of derivatives held for hedging purposes undergoes an approximately 178 million euro rise which partly offsets the corresponding loss on the bonds.

The investment portfolio presented a high asset quality. AAA/AA rated bonds represented approximately 77% of total investments and A rated bonds approximately 13%. Low investment grade securities (BBB) were approximately 3% of the total and the portion of speculative grade or unrated was minimum (approximately 1%).

Breakdown of exposure by issuer/counterparty highlighted the following components: securities issued by Governments and Central banks represented approximately 75% of the total investments, financial companies (mostly banks) contributed approximately 13% of exposure while industrial securities made up approximately 6%.

At the end of the third quarter of 2008, the investments of the free capital of EurizonVita amounted to 970 million euro at market value, and presented a risk, in terms of VaR (99% confidence level, 10-day holding period), equal to 13 million euro.

Accounting policies

Criteria for the preparation of the Interim statement

General preparation principles

The "Interim statement as at 30 September 2008" has been prepared, in consolidated form, in compliance with art. 154-ter of Legislative Decree 58 of 24 February 1998 and with the application of the accounting principles issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission as provided for by Community Regulation 1606 of 19 July 2002.
The accounting principles adopted in the preparation of the Interim statement, for classification, recognition, measurement and derecognition of asset and liability captions, and the means of recognition of revenues and costs, have changed exclusively in relation to the amendments to IAS 39 introduced with EC Regulation 1004 of 15 October 2008, illustrated in the following chapter. For a detailed description of the accounting principles adopted by the Intesa Sanpaolo Group see the Annual report 2007.
Please note that the consolidated Interim statement has not been audited.

The Interim statement is made up of the condensed balance sheet and income statement forms and is complemented by the report on operations. It is prepared in euro as functional currency. The amounts indicated in financial statements and in the report on operations are expressed in millions of euro, unless otherwise specified.

Financial statements are presented in a condensed/reclassified format which is better suited to the representation of captions on the basis of operational consistency. As to the income statement, the content of captions reflects the instructions supplied by the Bank of Italy with Circular 262/2005 with the following aggregations/reclassifications compared to the compulsory forms set forth by the aforesaid Circular:

- net interest income includes: interest rate differentials matured and collected on currency interest rate swaps which set out the exchange of two floating rates stipulated to hedge floating rate funding in foreign currency; fair value adjustments in hedge accounting; the reversal in time value on loans, attributable to the amortised cost criterion in the absence of changes in expected future flows; the time value of employee termination indemnities and allowances for risks and charges;
- profits (losses) on trading comprises: dividends on shares classified as assets available for sale and as assets held for trading; the implicit cost for the financing of the purchase of shares held for trading; profits and losses on disposal or repurchase of financial assets available for sale and of financial liabilities; profits (losses) on financial assets and liabilities designated at fair value;
- the contribution of insurance companies is highlighted in a specific caption, Income from insurance business, instead of being included line by line;
- administrative expenses are net of recoveries from customers;
- net adjustments to loans include profits and losses on disposal or repurchase of loans and net impairment losses on other financial activities, related to guarantees, commitments and credit derivatives;
- net impairment losses on other assets comprise - in addition to net impairment losses on financial assets available for sale, investments held to maturity and other financial activities - any net impairment of property, equipment and intangible assets;
- profits (losses) on investments held to maturity and on other investments include profits (losses) on disposal of investments in associates and companies subject to joint control and profits (losses) on disposal of investments; conversely, net income recorded by investments carried at equity is posted in a specific caption in operating income together with dividends;
- merger and restructuring related charges are recorded, net of the tax effect, in a separate caption;
- the economic effect of purchase cost allocation, net of the tax effect, is recorded in a specific caption.

For the balance sheet, with respect to the forms set forth by Circular 262/2005, certain captions have been grouped together as follows:

- the inclusion of hedging derivatives and fair value change of financial assets/liabilities in hedged portfolios in Other assets/liabilities;

- the aggregation in just one caption of property and equipment and intangible assets;
- the aggregation of due to customers and securities issued in just one caption;
- the aggregation in just one caption of allowances for specific purpose (Employee termination indemnities and Allowances for risks and charges);
- the presentation of Reserves as an aggregate and net of the treasury shares.

The condensed balance sheet as at 30 September 2008 presents under non-current assets and liabilities held for sale and discontinued operations the equity investment in Carifano as well as the assets/liabilities – in any case of marginal value – of a business line of the subsidiary Eurizon Vita for which an offer from an Italian insurance group has been accepted.
The condensed income statement as at 30 September 2008 reports under Income (Loss) after tax from discontinued operations the economic components relative to the branches sold in the semester, in compliance with the decisions of the Italian Competition Authority and to those referred to the business line of Eurizon Vita mentioned above. The caption also includes the income statement components referred to the future sale of the equity investment in Carifano.

The non-recurring operations which occurred in 2008 mean that the figures as at 30 September 2008 cannot be compared to those of 2007.
For the purpose of a consistent comparison, balance sheet and income statement figures referred respectively to 31 December 2007 and 30 September 2007, as well as figures referred to quarterly development, are restated to account for the acquisition of the Cassa di Risparmio di Firenze group and Eurizon Investimenti, acquired at the end of December 2007, as well as the acquisition of the bancassurance business line from Intesa Vita, connected to the decision of the Italian Competition Authority. Moreover, at the end of the first half of the current year the Ukrainian bank Pravex and Intesa Sanpaolo Servizi Transazionali (former MPS Finance Banca Mobiliare) entered the scope of consolidation; pro forma figures for previous periods also reflect these event. Finally, the first two quarters of 2007 are restated backdating to 1 January 2007 the effects of the acquisition in June of American Bank of Albania.
Lastly, the figures referred to the previous periods are restated to consider, in addition to the aforesaid income statement and balance sheet components of discontinued operations, also the definitive allocation of purchase cost.

Changes in accounting regulations

With the document "Reclassification of financial assets", last October the IASB made some amendments to IAS 39 with reference to the classification of financial instruments. The amendments were endorsed by the European Commission on 15 October 2008 with Regulation 1004/2008 and immediately came into effect.
The intervention allows the reclassification (forbidden until the amendment came into effect) of a non-derivative financial asset no longer held for trading out of the category financial instruments held for trading (financial assets measured at fair value through profit and loss) into other categories set out by IAS 39 (investments held to maturity, assets available for sale, loans and receivables). Moreover, financial assets available for sale may be reclassified into loans and receivables. Such reclassifications are now possible when a financial asset, due to rare circumstances which are unlikely to recur in the near term, is no longer held for trading or available for sale and therefore the entity has the intention of holding it for the foreseeable future or until maturity. The current financial crisis was considered by the IASB a rare circumstance. The reclassifications, due to the exceptional situation, may be performed with reference to values at 1 July 2008.
The Intesa Sanpaolo Group decided to identify certain bonds not listed on active markets and certain loans originally classified in assets held for trading or available for sale which do not currently show any impairment risks for which current and foreseeable future market conditions no longer permit an active management and that will therefore be held in the bank's portfolio. Such assets have thus been reclassified in loans and therefore from the moment of reclassification are measured using amortised cost.
More specifically, reclassifications to the securities portfolio mostly referred to certain structured credit products held by Intesa Sanpaolo and Banca IMI, as well as certain securities in the portfolio of Banca Infrastrutture Innovazione e Sviluppo issued by local authorities or from securitisations (4,170 million euro), the latter also to align the accounting classification of the two banks (BIIS and OPI) operating in public finance and merged as of 1 January 2008. Reclassifications to the loan portfolio referred to certain syndicated loans to be placed with other financial institutions.
In accordance with the transitory provisions set forth by the aforesaid accounting document, reclassifications were performed with reference to fair value of such assets on 1 July 2008 if the assets

were already in the books at that date or with reference to purchase price if purchase occurred after 1 July 2008, or at nominal value for loans disbursed after that date.
Reclassifications referred to the following financial assets:

(in millions of euro)

Type of instrument	Previous classification	New classification	Nominal value	Book value after reclassification	Fair value as at 30.09.2008	Impact on the income statement (before tax)	Impact on shareholders' equity (before tax)
Debt securities	Financial assets held for trading	Loans	4,260	4,072	3,929	143	-
Debt securities	Financial assets held for trading	Financial assets available for sale	130	125	125	-2	2
Debt securities	Financial assets available for sale	Loans	5,249	4,991	4,821	-	170
Loans	Financial assets available for sale	Loans	1,162	1,165	1,125	-	40
Total reclassification			**10,801**	**10,353**	**10,000**	**141**	**212**

In addition to the impacts on the income statement of the reclassifications highlighted in the table there is also the effect deriving from the calculation of amortised cost which totalled 9 million euro in terms of higher interest income.

Scope of consolidation and consolidation methods

Scope of consolidation

The consolidated interim statement includes Intesa Sanpaolo and the companies which it directly and indirectly controls, jointly controlled companies or companies subject to significant influence, comprising – as specifically set out by the new IAS/IFRS principles – also the companies operating in dissimilar sectors from the Parent Company as well as private equity investments. Similarly, special purpose entities (SPE/SPV) are included when the requisite of effective control recurs, even if there is no direct or indirect stake in the company.
With respect to the situation as at 31 December 2007, the most significant entries into the line-by-line scope of consolidation were:

- the Carifirenze Group;
- Eurizon Investimenti, which in the 2007 financial statements was consolidated only referring to balance sheet figures, merged by incorporation into Intesa Sanpaolo with backdated effects as of 1 January 2008;
- Pravex Bank, a bank operating in Ukraine, acquired at the end of the first half;
- Intesa Sanpaolo Servizi Transazionali (former MPS Finance Banca Mobiliare), a company acquired in the second quarter which is in charge of the depositary bank services of Montepaschi.

The companies are consolidated starting from the date of acquisition.
Sanpaolo IMI Insurance Brokers, sold, and Finameris-Société d'Investissement et de Financements Immobiliers, which ceased operations, are excluded from the scope of consolidation.
For the sake of completeness, despite the fact that they did not produce any effects on the consolidated financial statements, the following companies are excluded from the scope of consolidation following intergroup reorganisations:

- Banca Intesa France, merged into Intesa Sanpaolo;
- Banca Opi, de-merged into Banca Infrastrutture Innovazione e Sviluppo;
- Banca Italo Albanese, merged into American Bank of Albania;
- Panonska Banka, merged into Banca Intesa Beograd;
- Sanpaolo Leasint, merged into Leasint S.p.A. (former Intesa Leasing);
- Inter-Europa Bank, merged into Central European International Bank;
- EurizonSolution, merged into Intesa Sanpaolo.

The equity investment in the Bank of Italy, in which the Intesa Sanpaolo Group holds a 42.63% stake, which - considering its peculiarity - is maintained at cost and is therefore not carried at equity, as well as the companies for which the shares have been received as pledges with voting rights exceeding 20%, in consideration of the substance underlying the pledge, which has the purpose of guaranteeing loans and not of exercising control and direction over financial and economic policies in order to benefit from the economic return on the shares, are not consolidated.

Consolidation methods

The methods used for the consolidation of the figures of subsidiaries *(line-by-line consolidation)* and for the consolidation of associates and of companies subject to joint control *(equity method)* have remained unchanged from those adopted for the Intesa Sanpaolo Group's Annual report 2007 to which, therefore, reference must be made.
The financial statements of the Parent Company and of other companies used to prepare the Interim statement refer to 30 September 2008. In certain cases, for subsidiaries which are not material, the latest official figures are used.
Where necessary – and without prejudice to absolutely marginal cases – the financial statements of consolidated companies which are drawn up using different accounting criteria are restated to be compliant with the standards used by the Group.
The financial statements of the companies which do not operate in the eurozone are translated into euro applying to the assets and liabilities in the balance sheet the spot exchange rate at period-end and to the income statement the average exchange rate.

Other information: non-UE subsidiary companies

Consob, in accordance with Law 262/2005 "Disposizioni per la tutela del risparmio e la disciplina dei mercati finanziari" – Provisions to safeguard saving and to discipline financial markets, set certain conditions for listing companies with control over companies established and regulated under the law of non-EU Countries (art. 36 Market Regulation). In particular, with reference to controlled companies with registered offices in non-EU countries which are significant under such regulations, the controlling company listed in Italy must:

a) make subsidiary financial statements, prepared for the purpose of the consolidated financial statements and including at least the balance sheet and income statement, available to the public;
b) obtain the articles of association and composition and powers of the control bodies from the subsidiaries;
c) ensure that the subsidiaries: i) provide the parent company auditor with information necessary to perform annual and interim audits of the parent company; ii) use an administrative and accounting system appropriate for regular reporting to the management and auditor of the parent company of income statement, balance sheet and financial data necessary for the preparation of the consolidated financial statements. The control body of the listed parent company shall notify Consob and the market management company without delay of any event or circumstance resulting in the inappropriateness of the system to comply with the aforementioned conditions.

Intesa Sanpaolo has implemented a governance and control system capable of monitoring on an ongoing basis the company's and the Group's typical risks. In particular, the internal systems relative to accounting and financial information are monitored by the Manager responsible for preparing the Company's financial reports (in compliance with provisions of art. 154-bis of the Consolidated Law on Finance), on the basis of the company regulations called "Guidelines for administrative financial governance" defined to verify on an ongoing basis the adequacy and the effective application of the administrative and accounting procedures at Group level and to have a system of information flows and relationships with the other Parent Company functions and with subsidiaries.
In this context, and with specific reference to subsidiaries with registered offices in non-EU countries and to provisions set forth in the aforesaid art. 36, Intesa Sanpaolo has activated a plan of controls which monitor on an ongoing basis the existence of the conditions set out above and, especially, has acquired the information required from non-EU companies for the purposes of this regulation and has verified that the administrative and accounting systems of such companies are appropriate for regular reporting to the competent structure within the Parent Company and to the latter's Independent auditors of the income statement, balance sheet and financial data necessary for the preparation of the consolidated financial statements. The Parent Company also ensures that the subsidiary's financial statements, prepared for the purpose of the consolidated financial statements are available to the public and that such companies provide the independent auditors with all information necessary to conduct their control activity.
A provision of the procedure provides that Intesa Sanpaolo's Supervisory Board – in addition to its inspection powers – be promptly informed as concerns the results of controls performed to enact the adopted plan.

Declaration of the Manager responsible for preparing the Company's financial reports

The Manager responsible for preparing the Company's financial reports, Ernesto Riva, declares, pursuant to art. 154 bis, par. 2 of the Consolidated Law on Finance, that the accounting figures contained in the present Interim statement as at 30 September 2008 correspond to the records, books and accounts.

11 November 2008

Ernesto Riva
Manager responsible for preparing
the Company's financial reports

Glossary

(as used in the "Report" and with the exclusion of the terms that have become commonplace in the Italian language or which are used in a context that already clarifies their meaning)

ABS – Asset Backed Securities
Financial instruments whose yield and redemption are guaranteed by assets (collateral) of the issuer (usually a Special Purpose Vehicle – SPV), exclusively earmarked for the satisfaction of the rights incorporated in the financial instruments themselves.
Examples of such assets are mortgaged loans, credit card loans, short-term receivables, car loans.

ABS of receivables
ABS securities whose collateral is made up of receivables.

Acquisition finance
Leveraged buy-out financing.

Additional return
Form of remuneration of junior securities deriving from securitisation transactions. In addition to a fixed dividend, such securities accrue periodic earnings (quarterly, semi-annually, etc.), the amount of which is a result of the margin produced by the transaction (in turn reflecting the performance of the securitised assets).

Advisor
Financial broker assisting government authorities or companies involved in privatisation or other corporate finance transactions, whose tasks range from arranging appraisals to drawing up documents and providing general professional advice about specific transactions.

ALM – Asset & Liability Management
Integrated management of assets and liabilities designed to allocate the resources with a view to optimising the risk/yield ratio.

ALT-A Agency
Securities with collateral represented by s.c. Alt-A mortgages guaranteed by specialised guarantee agencies.

ALT- A - Alternative A Loan
Residential mortgages generally of "primary" quality; however, the LTV ratio, the documentation provided, the labour/employment situation of the borrower, the type of property or other factors, do not permit the classification in standard contracts usable in subscription programmes.
Incomplete documentation is the main reason which leads to the classification of a loan as "Alt-A".

Alternative investment
Alternative investments cover a broad spectrum, including those in private equity and hedge funds (see definitions below).

Amortised cost
Differs from "cost" in that it provides for the progressive amortisation of the differential between the book value and nominal value of an asset or liability on the basis of the effective rate of return.

AP – Attachment Point
Level over which the protection seller will cover the losses of the protection buyer. It is typically used in synthetic CDOs.

Arranger
In the sector of structured finance, the arranger is the figure who – albeit in different forms and with different titles (mandated lead arranger, joint lead arranger, sole arranger, etc.) – acts as a co-ordinator of the organisational aspects of the transaction.

Arrangement (commission)
Commission having the nature of compensation for professional advice and assistance at the stage when a loan is originated and arranged.

Asset allocation
Choice of markets, geographical areas, sectors and products to invest in.

Asset management
Various forms of activities in connection with the management and administration of customer assets.

Audit
In listed companies, it is overall checking on the business and bookkeeping of a company, performed by both in-house staff (internal audit) and independent audit firms (external audit).

Back office
The unit of a bank or holding company that takes care of handling all transactions performed by the operational units (front office).

Backtesting
Retrospective analysis performed to verify the reliability of the measurement of risk sources associated with different asset portfolios.

Banking book
Usually concerns securities or financial instruments in general, identifying the portion of a portfolio dedicated to "proprietary" trading.

Basis swap
Contract providing for the exchange between opposite parties of floating-rate payments linked to a different index.

Best practice
It generally identifies behaviour commensurate with state-of-the-art skills and techniques in a given technical/professional area.

Bid-ask spread
The difference between the bidding price and asking price of a given financial instrument or set of financial instruments.

Bookrunner
See Lead manager.

Budget
Forecast of cost and income trends of a firm in some future period.

Capital Asset Pricing Model
Model making it possible to determine the "opportunity cost" or the amount of income for the business period necessary to remunerate the cost of capital.

Capital structure

The vehicle issues various classes of bonds (tranche), guaranteed by the acquired portfolio, which have different risk and return characteristics to satisfy the needs of different categories of investors. All tranches considered together make up the Capital Structure. Subordination clauses between the various tranches are regulated by a series of norms which specify the loss distribution generated by the collateral:

Equity Tranche (B): is the riskiest portion of the portfolio, it is also known as "first loss" and is subordinated to all the other tranche; it is the first to bear the losses which may occur in the recovery of the underlying assets.

Mezzanine Tranche (B): is the tranche with a subordination which is intermediate between the equity tranche and the senior tranche. The mezzanine tranche is normally divided into 2-4 tranche of different risk, with increasing subordination. They typically have a rating ranging from BBB to AAA.

Senior/Supersenior Tranche (B): is the tranche with the highest credit enhancement or the highest degree of privilege in terms of priority of remuneration and reimbursement. It is normally also called super senior tranche and, if rated, it has a rating over AAA since it is senior with respect to the AAA mezzanine tranche.

Captive

Term generically referring to "networks" or companies that operate in the exclusive interest of their parent company or group.

Cash flow hedge

Coverage against exposure to variability in cash flows traceable to a particular risk.

Cash management

A banking service that, in addition to making available to businesses a whole set of information on the status of relations entertained with the bank, provides an operative tool allowing businesses to execute transfers of funds, thus leading to more efficient treasury management.

Categories of financial instruments provided for by IAS 39

Activity of negotiation which includes the following: assets purchased for short-term sale or part of portfolios of instruments managed jointly for the purpose of realising profits in the short-term, and assets that the entity decides in any case to reckon at fair value with variation in value entered under the Profit and Loss Account; assets held full term, non-derivative assets with a fixed term and payments that are fixed or determinable, concerning which there is a real intention and capacity to hold them full term; credits and loans, non derivative assets with fixed or determinable payments not quoted on the active market; assets available for sale, specifically designated as such, or others not falling under the previous typologies.

CDO – Collateralised Debt Obligation

Financial instruments issued within the framework of securitisation transactions, guaranteed by underlying assets in the form of credits, securities or other financial assets (including securitised tranche). In the case of synthetic CDOs the risk is transferred using credit derivatives instead of sale of assets (cash CDOs)

CDSs on ABX indices

ABX indices are a type of indices on ABSs. Each ABX refers to a basket of 20 reference obligations belonging to a specific sector of ABS. Each ABX (for a total of five) reproduced a rating class (AAA, AA, A, BBB, and BBB-).

In particular, the ABX.HE index, issued on 19 January 06 (Annex Date) is made up of reference obligations of the home equity segment of ABS (Residential Mortgage - Backed Security – RMBS). The CDS on an ABX.HE therefore hedges the credit risk of underlying RMBSs or the risk relative to the 20 reference obligations which make up the index.

For ABX, the market does not provide credit curves but directly price valuations. The settlement for contracts on ABX indices, as described in ISDA 2005 documentation, is PAUG (Pay As You Go): the protection seller pay the protection buyer the losses incurred as these emerge, without leading to the termination of the contract.

Please note that the coverage is achieved via the purchase of ABX indices, even if it is structured so to correspond to the best to the characteristics of the portfolio hedged, it remains in any case subject to so-called basis risks. In other words, since it is not a specific hedge, it may generate volatility in the income statement in the phases of imperfect correlation between the prices of the index and market value of hedged positions.

CLO - Collateralised Loan Obligation

CDOs with collateral represented by loans granted to companies.

CMBS - Commercial Mortgage-Backed Securities

Securitisation transactions of loans guarantees by mortgages on commercial real estate assets.

CMBX indices

Like the ABX index, the only difference is that reference entities are CMBS.

CMO - Collateralised Mortgage Obligation

Securities issued against mortgages in which the total amount of the issue is divided into tranche with different maturities and return. The tranche are repaid according to an order specified in the issue.

Collective assessment of performing credits

With reference to a homogeneous group of financial assets with a steady performance, the collective assessment defines the degree of credit risk potentially associated with the same, even though it is not yet possible to identify it with a specific position.

Commercial paper

Short-term notes issued in order to collect funds from third party underwriters as an alternative to other forms of indebtedness.

Consumer ABS

ABS whose collateral is made up by consumer credits.

Core Business

Primary area of business constituting the focal point of a company's strategies and policies.

Core tier 1 ratio

Indicates the ratio Tier 1 capital, not including preference shares, to total risk-weighted assets. Preference shares are innovative capital instruments normally issued by foreign subsidiaries and included in the Tier 1 capital if they have characteristics guaranteeing the capital stability of the banks. The Tier 1 ratio is the same ratio that, in the numerator, includes the preference shares.

Corporate

Segment of customers corresponding to medium- and large-sized firms (mid-corporate, large corporate).

Cost income ratio

Economic indicator represented by the ratio of operating costs to operating income.

Covered bond
Special bank bond that, in addition to the guarantee of the issuing bank, can also benefit from the guarantee of a portfolio of mortgage loans or other high-quality loans sold for the purpose to a special vehicle company.

Credit default swap/option
Contract under which one party transfers to another the credit risk of a loan or security, against payment of a premium, at such a time when some event has caused a downgrading of the debtor's credit rating (in the case of an option, the right must be exercised by the purchaser).

Credit derivatives
Derivative contracts that cause the transfer of credit risks. These products allow investors to perform arbitrage and/or hedging on the credit market mainly by means of instruments other than cash, to acquire credit exposures diversified in their maturity and intensity, to modify the risk profile of a portfolio and to separate credit risks from other market risks.

Credit enhancement
Techniques and instruments used by issuers to improve the rating of their issues (constitution of sureties, granter of cash credit lines, etc.).

Credit/emerging markets (Funds)
Funds that invest in securities with credit risk exposure, since they are issued by financial or corporate issuers, also located in emerging countries.

Credit-linked notes
Similar to bonds issued by the protection buyer or a vehicle company whose holders (protection sellers) – in exchange for a yield equal to the yield of a bond with the same maturity plus the premium received for credit risk hedging – take the risk of losing (in whole or in part) the maturing capital and the related flow of interest, upon occurrence of a specific event.

Credit risk
The risk that an unexpected change in a counterparty's creditworthiness, in the value of the collateral provided, or in the margins used in case of default generate an unexpected variation in the value of the bank's exposure.

Credit spread option
Contract under which the protection buyer reserves the right, against payment of a premium, to collect from the protection seller a sum depending on the positive difference between the market spread and that fixed in the contract, applied to the notional value of the bond.

CreditVaR
Value that indicates an unexpected loss in connection with a credits portfolio at a time of confidence in a given period. The CreditVaR is assessed through distribution of the values of the losses and represents the difference between the average distribution value and the value corresponding to a certain percentile (usually 99.9%), which reflects the Bank's degree of willingness to take risks.

Cross selling
Activity designed to increase customer loyalty through the sale of integrated products and services.

CR01
Referred to a credit portfolio, it indicates the value variation it would undergo as a consequence of an increase of 1 basis point of the credit spreads.

Cumulated loss
Cumulated loss realised, at a certain date, on collateral of a specific structured product.

Default
Designates the condition of declared inability to honour one's debts and/or make the relevant interest payments.

Delinquency
State of irregular payments at a certain date, normally provided at 30, 60 and 90 days.

Delta-Gamma-Vega (DGV VaR)
Parametric model for calculation of the VaR, able to assess risk factors having both a linear and non-linear trend.

Desk
It generally refers to an operating unit where a particular activity is mainly carried out.

Directional (Funds)
Funds that invest in financial instruments that profit from directional market movements, sometimes tied to analyses of a macroeconomic type.

Dynamics of funding
Sum of deposits in a current account (free current accounts and bank drafts), returnable deposits upon prior notice (free savings deposits), time deposits (time savings deposits, certificates of deposit), repo agreements and bonds (including subordinated loans). Each technical form, with the exception of bonds, is shown for customers residing in Italy, except for the central Administration, in euro and foreign currencies. Bonds refer to the overall value of the documents of debt, independently of the place of residence and sector of the holder.

Domestic Currency Swap
Contract settled in euro, whose economic effect is equal to that of a time purchase or sale of a foreign currency in exchange for domestic currency. On expiry, the differential between the forward and the spot exchange rate is settled in euro.

Duration
Constitutes an indicator of interest rate risk of a security or securities portfolio. In its most frequent form, it is calculated as a weighted average of the due dates of interest and principal payments associated with a security.

EAD – Exposure At Default
Relating to positions on or off the books, it is defined as the estimated future value of an exposure at the time of default of a debtor. Only banks meeting the requirements for the adoption of the Advanced IRB are legitimised to estimate EAD. The others are required to make reference to statutory estimates.

EDF – Expected Default Frequency
Frequency of default, normally based on a sample inside or outside the bank, which represents the average risk level associable with a counterparty.

Equity hedge/long-short (Funds)
Funds that predominantly invest in stocks with the possibility of creating hedging strategies by means of short sales of the same stocks or strategies in derivatives contracts involving securities or market indices.

Equity origination
Increase of a company's risk capital achieved by floating a new issue of stock.

Exotics (derivatives)
Non-standard instruments unquoted on the regular markets, whose price is based on mathematical models.

Event driven (Funds)
Funds that invest in opportunities arising out of significant events regarding the company sphere, such as mergers, acquisitions, defaults and reorganisations.

EVT – Extreme Value Theory
Statistical methodologies that deal with extreme hypothetical deviations compared to the average probable distribution of specific events.

Facility (commission)
Commission calculated with reference to the amount disbursed.

Factoring
Sale of trade receivables to specialised firms for purposes of management and collection, normally associated with the granting of a loan to the seller.

Fair value
It is the consideration for which an asset could be exchanged or a liability extinguished, in a free transaction between acquainted with and independent parties.

Fair value hedge
Hedging against exposure to a variation in the fair value of a budgeted item, attributable to a particular risk.

Fairness/Legal opinion
An opinion given on request by experts of recognised professionalism and competence, as regards the congruity of the economic terms and/or lawfulness and/or technical aspects of a given transaction.

FICO Score
In the US the credit score is a number (usually between 300 and 850), and is based on the statistical analysis of credit archives referred to individuals. The FICO score is an indicator of the borrower's credit quality. A mortgage lender will use the "score" to assess the potential risk of the borrower and to correctly price risk.

Financial instruments quoted in an active market
A financial instrument is considered as quoted on an active market if the quotations, reflecting normal market transactions, are promptly and regularly available through organised markets (exchanges), brokers, intermediaries, companies operating in the sector, quotation services or authorised bodies, and such prices represent effective and regular market transactions taking place over a normal period of reference.

Forward Rate Agreement
See "Forwards."

Forwards
Forward contracts on interest rates, exchange rates or stock indices, generally negotiated in over-the-counter markets and whose conditions are established at the time when the contract is entered into, but which will be fulfilled at a predetermined future date, by means of the receipt or payment of differentials calculated with reference to parameters that vary according to the purpose of the contract.

Front office
The complex of operating units designed to deal directly with customers.

Funding
The procurement of capital, in various forms, to finance the company business or particular financial transactions.

Futures
Standardised future contracts under which the parties agree to exchange securities or physical commodities at a fixed forward price and at a future date. Such contracts are normally traded on organised markets, where their execution is guaranteed. In practice, futures on securities often do not involve the physical exchange of the underlying value.

Global custody
An integrated package of services including, in addition to the custody of securities, the performance of administrative activities relating to the settlement of securities, collections and payments, the depositary bank and cash management, as well as various forms of reporting on the performance of the portfolio.

Goodwill
The value attached to intangible assets as part of the purchase price of a shareholding in a going concern.

Governance
Identifies the instruments and rules/standards taken as a whole regulating the life of the company, particularly as regards the transparency of documents and company records, and the completeness of information made available to the market.

Greek
Identifies a situation of greater or lesser sensitivity with which a derivative contract, typically an option, reacts to variations in the value of the underlying asset or other parameters of reference (typically intrinsic volatility, interest rates, stock prices, dividends and correlations).

Hedge accounting
Rules pertaining to the accounting of hedges.

Hedge fund
Mutual fund that employs hedging instruments in order to achieve a better result in terms of risk/return ratio.

HELS – Home Equity Loans
Mortgaged loans granted up to the current market value of the real estate property (therefore with a Loan to value higher than the ordinary thresholds), with first and second degree mortgages. Standard & Poor's considers Subprime and Home Equity Loan synonyms when the home equity loan borrowers have a low credit scoring (FICO<659).

HY CBO - High Yield Collateralized Bond Obligation
CDOs with collateral represented by High Yield securities.

IAS/IFRS
The IAS (International Accounting Standards) are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are called IFRS (International Financial Reporting Standards).

Impairment
When referred to a financial asset, a situation of impairment is identified when the book value of the asset exceeds the estimated recoverable amount of the same.

Index-linked
Policies whose performance at maturity depends on the performance of a parameter of reference, which may be a stock index, a basket of securities or some other indicator.

Indirect customer deposits
Securities and the like owned by third parties on deposit, not issued by the bank at nominal value, excluding certificates of deposit and bank bonds.

Internal dealing
Transactions between different operating units of the same firm. The relevant documentary material is part of the bookkeeping and contributes to determining the position (trading or hedging) of the individual units involved.

Intraday
Used to refer to an investment/disinvestment transaction performed in the course of a single day involving the negotiation of a security. It is also used with reference to prices quoted during any one day.

Investments in real estate
Real estate owned for the purpose of obtaining income and/or benefiting from an increase in their value.

Investment grade
Term used with reference to quality bonds that have received a medium/high rating (e.g., no less than BBB on Standard & Poor's index).

IRB (Internal Rating Based) Advanced
Approach to internal ratings within the framework of the new Basel accords, which is distinguished by its basic and advanced methods. The advanced method may be used only by institutions satisfying more stringent requirements compared to the basic approach. In this case, all the estimated input (PD, LGD, EAD and Maturity) used for credit risk assessment is calculated in-house. Instead, in the basic method the Bank assesses only the PD.

IRS – Interest Rate Swap
A binding agreement in which two parties agree to exchange flows on some predetermined notional amount with a fixed/floating or floating/floating rate.

Joint venture
Agreement involving two or more firms for the performance of a given economic activity, generally through the incorporation of a joint-stock company.

Junior
In a securitisation transaction it is the lowest-ranking portion of the securities issued, being the first to bear losses that may occur in the course of the recovery of the underlying assets.

LDA - Loss Distribution Approach
Model used for assessing exposure to operational risk that makes it possible to estimate the amount of expected and unexpected loss for any combination of event/loss and business line.

Lead manager - Bookrunner
Leading figure of the issuing syndicate of a bond; he deals with the debtor, is responsible for choosing the co-lead managers and the other members of the underwriting syndicate in agreement with the same debtor; he determines the terms and conditions of issue, manages the execution thereof (almost always undertaking to place the most relevant portion on the market) and keeps the books (bookrunner); in addition to the reimbursement of expenses and usual fees, he receives a special commission for this service.

Lending risk-based
A methodology applied to a credit portfolio that makes it possible to identify the most suitable pricing conditions, taking into account the risk factor of every single credit.

Leveraged & acquisition finance
See "Acquisition finance".

Liquidity risk
The possibility that an institution is unable to meet its payment obligations due to its incapacity to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of easily unwinding positions in financial assets without negatively and significantly affecting their price due to the inadequate market depth or temporary market disruptions (market liquidity risk).

***Loss Given Default* (LGD)**
It indicates the estimated loss rate in the event of the default of a debtor.

Lower Tier 2
It designates subordinated liabilities that have the features to be included in supplementary capital and reserves or Tier 2.

LTV – Loan to Value Ratio
The ratio between the loan and the value of the asset for which the loan was requested or the price paid by the borrower to buy the asset.
The LTV ratio measures the borrower's own funds used to buy the asset on the value of the asset used as guarantee. The higher the LTV ratio, the lower the borrower's own funds used to buy the asset, the lower the creditor's protection.

M–Maturity
Residual life of an exposure, calculated according to the prudence principle. For banks authorised to use internal ratings, it is explicitly considered if the advanced method is adopted, while it is fixed at 2.5 years if the basic approach is used.

Margin of contribution of collection on demand
Difference between 1-month euribor and the rate applied to current accounts of households and businesses.

Mark-to-Market
Process of evaluating a portfolio of securities or other financial instruments on the basis of the prices expressed by the market.

Market dislocation
Turbulence in financial markets characterised by a strong reduction in volumes traded on financial markets and difficulties in finding significant prices on specialised info-providers.

Market making
Financial activity carried out by specialised intermediaries, whose task consists of guaranteeing market liquidity and depth, both through their continuous presence and by means of their role of competitive guide in determining prices.

Market neutral
Operating strategies involving securities designed to immunise the relevant portfolios from risk in connection with market variations.

Market risk
Risk deriving from the fluctuation in the value of quoted financial instruments (shares, bonds, derivatives, securities denominated in foreign currency) and of financial instruments whose value is linked to market variables (loans to customers as

concerns the interest rate component, deposits in euro and in foreign currency, etc.).

Mark-up
Difference between the rate applied to the whole of households and businesses on loans with a duration of less than one year and the 1-month euribor.

Merchant banking
Involves a range of activities including the underwriting of securities – both equities or bonds – issued by corporate clients for subsequent offering on the market, the acquisition of shareholdings for longer periods but with the same aim of transferring them later, and the providing of business consulting services in the matter of mergers and acquisitions or reorganisation.

Mezzanine
In a securitisation transaction it is the tranche ranking between the junior tranche and senior tranche.

Monoline
Insurance companies which, in exchange of a commission, guarantee the reimbursement of certain bond issues. Formed in the '70s to guarantee municipal bond issues from default, their services were subsequently particularly appreciated for issues of complex financial products: the structure and the assets underlying such issues are often extremely complicated; with the intervention of monoline insurers, the portions of debt guaranteed by the latter are easier to value and more appealing for risk adverse investors, since insolvency risk is borne by the insurer.

Multistrategy/funds of funds (Funds)
Funds that do not invest in a single strategy but in a portfolio reflecting different strategies or in a portfolio of investment funds managed by third parties.

NAV - Net Asset Value
It is the value of the quota which represents a portion of the fund's managed assets.

Non-performing
Term generally referring to loans characterised by unsteady performance.

Operational risk
The risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual or out-of-contract responsibilities or other disputes; it does not include strategic risk (losses due to wrong management strategies) and reputation risk (losses of market shares due to the fact that the bank's name is associated to negative events).

Option
Upon payment of a premium, the buyer acquires a right, but not an obligation, to purchase (call option) or to sell (put option) a financial instrument at a set price (strike price) within (American option) or on (European option) a given future date.

Other related parties – close relatives
"Close relatives" of an individual is understood to mean family members predictably able to influence or be influenced by the individual interested in their relations with an entity. They include a cohabitant/common-law spouse (as well as a spouse not legally separated) and the individual's children, the cohabitant/common-law spouse's children, and the individual's or cohabitant/common-law spouse's dependents.

Outsourcing
Resort to operative support activities performed by outside companies.

Over-The-Counter (OTC)
It designates transactions carried out directly between the parties and not in an organised market.

Packages
Strategy made up of a funded asset whose credit risk is hedged by a specific credit default swap. If present, any interest rate and foreign exchange rate risks may be hedged with financial derivatives.

Past due loans
"Past due loans" correspond to past-due and/or borderline receivables on a continuing basis for over 180 days, in accordance with the definition provided under the rules in force regarding the reporting of such situations.

Performing
Term generally referring to loans characterised by steady performance.

Plain vanilla (derivatives)
Products whose price depends on that of the underlying instrument, which is quoted on the regular markets.

Pool (transactions)
See Syndicated lending.

Preference shares
See Core tier 1

Pricing
Broadly speaking, it generally refers to the methods used to determine yields and/or costs of products and services offered by a bank.

Prime loan
Mortgage loans in which both the criteria used to grant the loan (loan-to-value, debt-to income, etc.) and the quality (story) of the counterparty (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to consider the disbursement of "high quality" (as concerns the borrower) and with low risk profile.

Private banking
Business designed to provide preferred customers with asset management, professional advice and other personalised services.

Private equity
Involves activity aiming at the acquisition of shareholdings and their subsequent sale to specific counterparties, without public offerings.

***Probability of Default* (PD)**
Represents the probability that, within the space of 1 year, a debtor will default.

Project finance
Technique for the financing of industrial projects based upon a forecast of the cash flow generated by the projects themselves. The analysis is based upon a series of evaluations differing from those generally made when assessing ordinary credit risks. In addition to the analysis of cash flow, such evaluations include a

technical examination of the project, the suitability of the sponsors engaged in carrying out the project and the markets where the product will be placed.

PV01
Measures the variation in the value of a financial activity following a change of one basis point in the yield curve.

Rating
An evaluation of the quality of a company or of its bond issues, based on the company's financial strength and outlook. Such evaluation is performed by specialised agencies.

Real estate (finance)
Structured finance transactions in the real estate sector.

Real Estate Investment Trust (REITs)
REITs are entities which invest in different types of real estate or financial assets related to real estate, including shopping centres, hotels, offices and loans (mortgages) guaranteed by real estate properties.

Relative value/arbitrage (Funds)
Funds that invest in strategies of a market neutral type and profit from the unaligned price of particular securities or financial contracts, neutralising the underlying market risk.

Retail
Segment of customers mainly including households, professionals, retailers and artisans.

Risk Management
Activity pertaining to the acquisition, measurement, valuation and overall management of various types of risk and their hedging.

RMBS - Residential Mortgage-Backed Securities
ABSs issued as part of securitisations of residential mortgage-backed loans.

Scoring
System of analysis of company customers, taking the concrete form of an indicator obtained by an examination of information contained in the financial statements, in addition to an evaluation of the forecasts of the performance of the sector, analysed using statistical methods.

Senior/super senior
In a securitisation transaction, this is the preferred tranche in terms of priority in the matter of remuneration and reimbursement.

Sensitivity
It refers to the degree of sensitivity with which certain assets/liabilities react to changes in rates or other pertinent indicators.

Servicer
In securitisation transactions, this figure – on the basis of a special servicing contract – continues to manage the securitised credits or assets after they have been sold to the vehicle company responsible for the issue of the securities.

SPE/SPV
Special Purpose Entities or Special Purpose Vehicles are companies specially created by one or more entities in order to perform a specific transaction. Generally, SPEs/SPVs have no operating and managerial structures and use those of the different players involved in the transaction.

Speculative grade
Term used to identify issuers with a low rating (e.g., below BBB on Standard & Poor's index).

Spread
This term usually indicates the difference between two interest rates, the difference between the bidding and asking price in trading securities or the price an issuer of stocks and bonds pays above a benchmark rate.

SpreadVar
Value that indicates the maximum possible loss on a trading portfolio due to the market performance of the credit spreads of the credit default swaps or bond spreads, with a certain degree of probability and assuming that the positions require a certain amount of time for their disinvestment.

Stakeholders
Subjects who, acting in different capacities, interact with the firm's activity, sharing the profits, influencing its performance/services, and evaluating its economic, social and environmental impact.

Stock option
Term used to indicate the right granted to company managers that allows them to purchase the company's shares at a predetermined price (strike price).

Stress test
A simulating procedure designed to assess the impact of extreme market scenarios on the Bank's overall exposure to risk.

Structured export finance
Transactions involving structured finance in the export of goods and services sector.

Subprime
A universally agreed-upon definition of subprime mortgages does not exist. In short, this classification refers to mortgaged lending which is riskier since it is granted to borrowers with low creditworthiness, or who have bad past credit situations (non-payment, debt settlements or doubtful loans) or because the debt-to-income or loan-to-value ratio is high.

Swaps
Transactions normally consisting of an exchange of financial flows between operators under various contractual arrangements. In the case of an interest rate swap, the parties exchange flows which may be indexed or non indexed to interest rates, calculated on a notional amount (e.g., one party may pay a flow on a fixed-rate basis, while the counterparty may pay on a floating-rate basis). In the case of a currency swap, the parties exchange specific amounts of two different currencies, repaying the same over time according to predefined arrangements that may regard both the notional capital and the indexed flows pertaining to the interest rates.

Syndicated lending
Loans set up and guaranteed by a pool of banks and other financial institutions.

Tier 1
It includes the paid-in capital, the share premium reserve, reserves from retained earnings (including IAS/IFRS first time adoption other from those included under the valuation reserves), net of treasury shares and intangible assets. Consolidated Tier 1 further includes minority interests.

Tier 2
It includes valuation reserves, hybrid capital instruments, subordinated liabilities, net of adjustments to loans subject to country risk covered with capital and of other negative elements.

Time value
Variation in the financial value of an instrument in relation to a different timeframe when certain monetary flows will become available or due.

Total capital ratio
Index of assets referred to the whole of the elements constituting regulatory capital (Tier 1 and Tier 2).

Total return swap
A contract under which one party, usually the owner of the security or credit of reference, agrees to make periodic payments to an investor (protection seller) based on the capital and interest generated by the business. On the other side, the investor agrees to make payments based on a floating rate, as well as any decrease in value of the business from the date of the contract.

Trading book
Usually referring to securities or, in any case, to financial instruments, it designates the portion of a portfolio earmarked for trading activity.

Trustee (Real estate)
Real estate vehicles.

Trust preferred Securities (TruPS)
Financial instruments similar to preferred shares, which are entitled to particular tax benefits.

Underwriting (commission)
Commission received in advance by the bank on the basis of the assumption of the underwriting risk associated with the granting of a loan.

Upper Tier 2
It designates the hybrid capitalisation instruments (for instance, perpetual loans) that represent the top-ranked portion of Tier 2.

VaR - Value at Risk
The maximum value likely to be lost on a portfolio as a result of market performance, estimating probability and assuming that a certain amount of time is required to liquidate positions.

Vega01
Referred to a portfolio, it indicates the variation in value that it would undergo as a consequence of a one percent increase in the volatility of the underlying financial instruments.

Vintage
Date of generation of the collateral underlying the securitisation. It is an important factor in the assessment of the risk of the mortgages underlying securitisations. Especially in the US, the phenomenon of mortgages granted to entities with inadequate income and with poor prior assessment of documentation became significant as of 2005.

Warrant
Negotiable instrument that gives the holder the right to purchase from or sell to the issuer fixed-income securities or shares according to specific procedures.

Wealth management
See Asset management.

What-if
Form of analysis used in an attempt to describe what might be the dimensions of the reaction to variations in the basic parameters.

Wholesale banking
A business activity mainly involving transactions of considerable importance concluded with primary counterparties.

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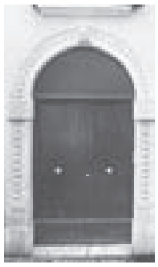
Intesa Sanpaolo is the most widespread bank in Italy. Its leadership stems not only from its size but also thanks to its ability to interpret and respond to the needs of the areas in which it is present.
This commitment can be seen in the choice of maintaining and enhancing all the banks in the group, since it is they that allow Intesa Sanpaolo to present itself to the market as a fully-fledged citizen of every place in which it operates.
It is for this reason that the illustrations in the Annual report and the Interim statements, which describe Intesa Sanpaolo's results, are inspired by the rich cultural heritage of our cities. They show the doors of historic buildings of great importance in each regional capital and in the cities mentioned in the names of the Group banks. It is a tribute to Italian tradition and history. But it is also emblematic of the willingness to communicate and establish relationships that typifies the people of Intesa Sanpaolo and of the banks in the group.


1. **Padova** Bronze door, University of Padova


2. **Roma** Detail of facade of Villa Giulia


3. **Firenze** Door of the Casino Mediceo


4. **Venezia** Door near Calegheri Bridge


5. **Campobasso** Building in Via Sant'Antonio Abate


6. **Torino** Door of Palazzo Saluzzo di Paesana


7. **Genova** Door with atlas figures, Palazzo Durazzo


8. **Forlì** Detail, Palazzo Paulucci


9. **Rovigo** Door of the Post Office building


10. **Napoli** Detail of Palazzo Carafa d'Andria


11. **Bologna** Detail of the facade of Palazzo Montpensier

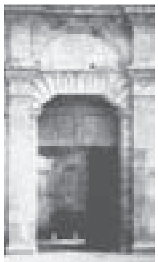

12. **Milano** Detail of the facade of Palazzo Marino


13. **Perugia** Door of Palazzo del Capitano del Popolo

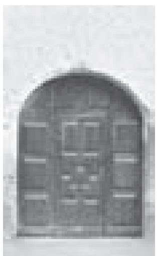

14. **Palermo** Door of the Archbishop's Palazzo


15. **Bolzano** Building in Viale della Roggia


16. **Bari** Souther gate of Castello Svevo


17. **Cagliari** View of Porta Cristina


18. **L'Aquila** Castle gate


19. **Aosta** Door of a building in Via Saint-Bernard de Menthon


20. **Trieste** Fortified entrance of Duino Castle


21. **Catanzaro** Detail of Palazzo Castagna


22. **Trento** Door of Palazzo del Monte or Rehr


23. **Potenza** Detail of the School of Industry


24. **Ancona** Gothic-Venetian door of the ex-Church of St. Agustine

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