Intesa

Annual Report 1999

Intesa

This is an abridged translation of the Italian original "Bilanci 1999"
and has been prepared solely for the convenience of the reader.

1999 Consolidated Annual Report and the Parent Company's Annual Report
were approved by the Shareholders on 18th April 2000.

The unabridged edition in Italian takes precedence
and will be made available to interested readers upon written request to
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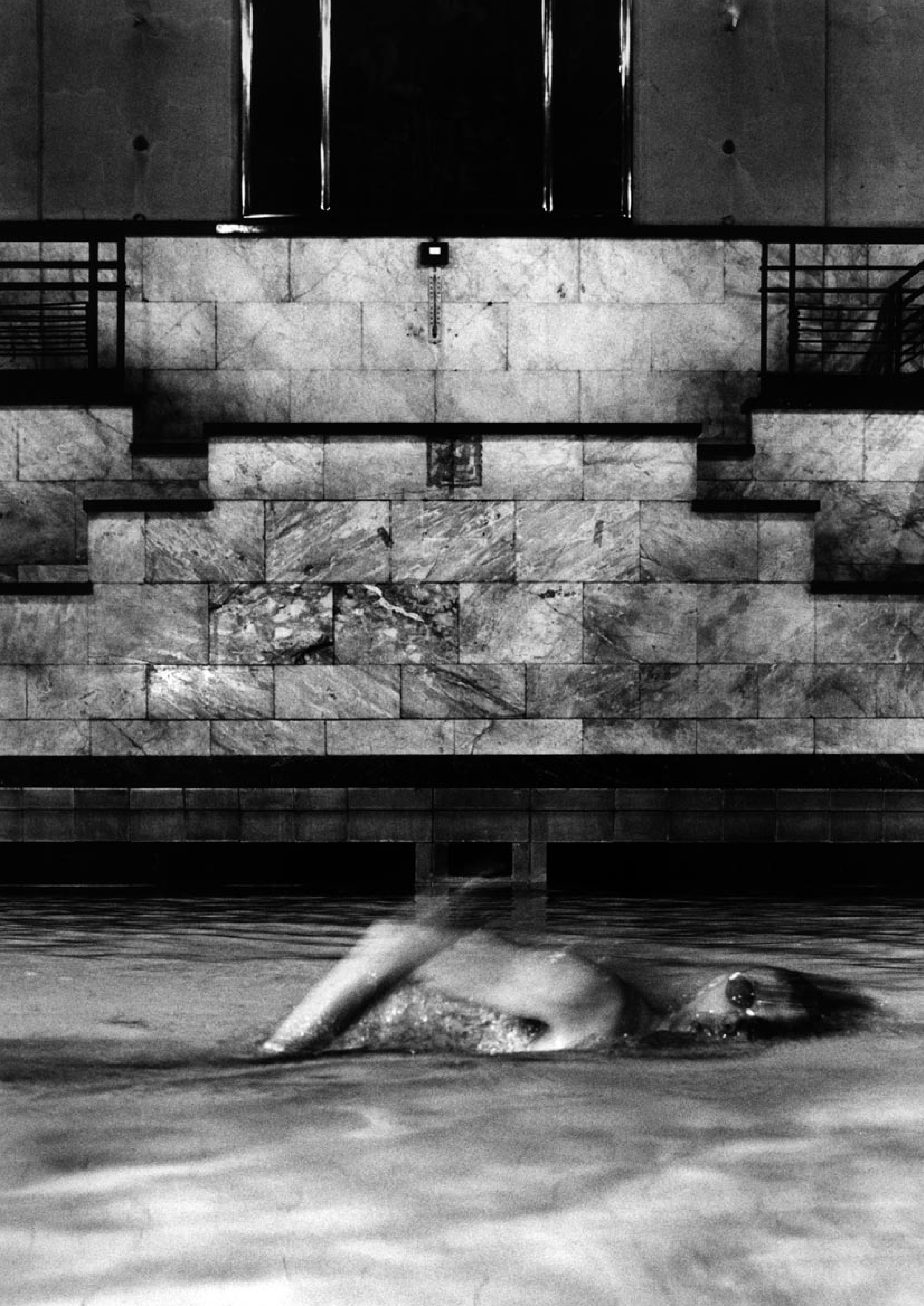
Ordinary Shareholders' Meeting
held on 18th April 2000

Report and Consolidated Financial Statements for 1999

Banca Intesa S.p.A.
Share capital lire 5,418,021,992,000 - Reserves lire 11,487,608,573,201
Milano Company Register No. 2755/1998
Member of the Interbank Deposit Guarantee Fund - Included on the National Register of Banks No. 5361
Parent Company of Gruppo Intesa, included on the National Register of Banking Groups



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Board of Directors, Board of Statutory Auditors and General Management

Board of Directors

Chairman	*GIOVANNI BAZOLI
Deputy Chairmen	*SANDRO MOLINARI JEAN LAURENT *ALFONSO DESIATA
Managing Director and Chief Executive Officer	*CARLO SALVATORI
Director, General Manager and Chief Operating Officer	*CHRISTIAN MERLE
Directors	GIAMPIO BRACCHI GIANCARLO FORESTIERI *GILLES GRAMAT GIANFRANCO GUTTY HEINZ J. HOCKMANN FRANCO MODIGLIANI LUIGI AMATO MOLINARI *GIAN GIACOMO NARDOZZI *ALBERTO PECCI JEAN-LUC PERRON SANDRO SALVATI *LUCIANO SILINGARDI JEAN SIMON GINO TROMBI *AXEL FREIHERR VON RÜDORFFER

* *Members of the Executive Committee*

Board of Statutory Auditors

Chairman	GIANLUCA PONZELLINI
Auditors	FRANCESCO PAOLO BEATO PAOLO ANDREA COLOMBO FRANCO DALLA SEGA BRUNO RINALDI
Alternate Auditors	ENRICO CERVELLERA PAOLO GIOLLA

Independent Auditors ARTHUR ANDERSEN S.p.A.

Powers attributed to the Administrative Bodies are included as one of the Attachments.

Ownership structure

Up-dated as at 11th April 2000

Voting control (43.48%) of Banca Intesa S.p.A. is vested in a syndicate consisting of the following:

- Caisse Nationale de Crédit Agricole
- Fondazione Cariparma
- Fondazione Cariplo
- Gruppo Commerzbank
- Gruppo Generali
- Gruppo “Lombardo”

The remaining 56.52% of votes are in the hands of approximately 150,000 individual shareholders.

Banca Intesa S.p.A. is quoted on the Italian Stock Exchange.

Convocation notice of the General Meeting

Shareholders are summoned for the Ordinary Shareholders' Meeting to be held in Centro Congressi Cariplo, via Romagnosi 6, Milano, on 17th April 2000 at 10 a.m., on first call and, if necessary, on second call on 18th April 2000, same place, same time, to debate upon the following

Agenda of the Meeting

1. Presentation of the financial statements as at 31st December 1999, of the Board of Directors report on operations and of the Board of Statutory Auditors report. Related resolutions.
2. Appointment of the Auditing firm for the 2000-2002 three-year period, as provided for in Art. 159 of Legislative Decree 58 of 24th February 1998.
3. Appointment of Director.

Shareholders have the right to intervene at the Meeting provided that they are in possession of required participation certificates ex Art. 85, par. 4, of Legislative Decree 58 of 24th February 1998 and ex Art. 34 of CONSOB resolution 11768 of 23rd December 1998, issued by an intermediate belonging to the centralised administration of securities Monte Titoli SpA. In order to obtain the aforesaid certificates, holders of shares which have not yet been dematerialised should deliver the latter to an authorised intermediate in order to enable their entrance in the centralised dematerialised administration of securities regime, in accordance with Art. 51 of the above-mentioned CONSOB resolution, at least five days before the date fixed for the Meeting.

Within 30th March 2000 the documentation provided for by Art. 2429, par. 3, of the Italian Civil Code, as well as the report prepared by the Auditing firm and the consolidated financial statements with the relative report, will be deposited at the Company's registered offices.

Banca Intesa's 1999 financial statements and consolidated financial statements with the relative reports, together with the Board of Directors' report on the other proposals regarding items on the Agenda of the Meeting, will be available for the general public at the Company's registered offices and at Borsa Italiana SpA (the Italian Stock Exchange).

Milano, 16th March 2000

The Board of Directors

The convocation notice was published in Gazzetta Ufficiale No. 65 of 18th March 2000.

Chairman’s letter

Distinguished Shareholders,

it is with great satisfaction that I am addressing You at the end of another crucial year for our Company and at the beginning of a period of intense efforts for the Group’s Directors and Management. My satisfaction stems from knowing that we have realised an operation which will certainly greatly benefit Banca Intesa Shareholders, the Italian financial system and, I hope, the whole of the Italian economy. I am also fully aware that the road that will lead us to the realisation of our project - the creation of a large Group - will be long and difficult and that we are all called to meet our Shareholders’ expectations.

With the entrance of Banca Commerciale Italiana in our Group we have been joined by one of the most prestigious and sound Italian banks, the only one capable of enabling us to become protagonists on the international arena.
Banca Intesa is now ranked in first position in Italy and among the top players in Europe in terms of all the most important balance sheet aggregates. Achieving an excellent positioning with regard to economic performance is the first and foremost objective of Directors. The federal model on which we have based our Group - whose peculiarity is the capacity to aggregate different entities, making Intesa the reference point for banks which desire to innovate and, at the same time, maintain their identity and privileged relationship with the local market - has made this operation possible.
Today Gruppo Intesa is made up of over one hundred companies operating in all fields of finance in Italy and abroad. It is the largest group in Italy, it is an important player in Europe and it is present worldwide.

On this occasion, we cannot avoid looking back at the past, at our Group when it was first created, at the great projects we had envisaged and our efforts to make them a reality. We intend to draw some important teachings from our experience which will help us creating a larger entity and beginning our new cycle in a new dimension.
In fact, our growth has occurred at a time of great changes and the next few years will surely be even more eventful. The way of conducting banking business will radically change, new instruments and channels will develop alongside more traditional ones, new competitors will enter our markets. Banca Intesa and Gruppo Intesa companies are ready to face these challenges: the strategic alliances we have stipulated and the commercial initiatives we are implementing are proof of this. Our immediate objective is to complete the extensive coverage of the Italian territory and to strengthen our usage of the new distribution channels. Our medium-term objective is to realise a system of alliances between players from different Countries and with different expertise, capable of providing the entire range of financial services in order to create supranational production and support service structures.

In the financial year which has just come to an end the Group achieved extremely positive economic results. Consolidated net income reached 1,648 billion lire (851 million euro), to be compared with, like for like, 1,205 billion lire recorded last year, corresponding to an almost 37% growth rate. Aggregated net income, which includes net income recorded by Banca Commerciale Italiana (that for legislative reasons must be excluded from the consolidated figure) equalled 2,107 billion lire (1,088 million euro). These results are net of 515 billion lire (266 million euro) of provisions for future integration expenses which are deemed to be necessary both to complete the Intesa Project and to face the future costs to be sustained in a three-year period for the integration of Gruppo Intesa and the BCI Group.
From this point of view, 1999 was necessarily a transition year; nonetheless, profitability recorded by Group companies - also as a result of the contribution of extraordinary income and a lower tax burden - is more than satisfactory and allows us to propose a considerable increase in dividends.

Certainly the best wish for the year 2000 is that we achieve all the ambitious objectives we have set ourselves; yet again this will require everyone’s utmost effort.

Milano, 16th March 2000

Giovanni Bazoli
Chairman
Banca Intesa

Gruppo Intesa
Report on Operations and Consolidated Financial Statements

Report on Operations

Gruppo Intesa's performance

On 10th December 1999, after the assignment of Banca Intesa shares to Shareholders which accepted the Public Tender Offer, Banca Commerciale Italiana joined our Group. Thanks to this transaction, which represents the most important event occurred in 1999, Intesa reached two strategic objectives: it achieved a further significant increase in its size and obtained an international visibility.

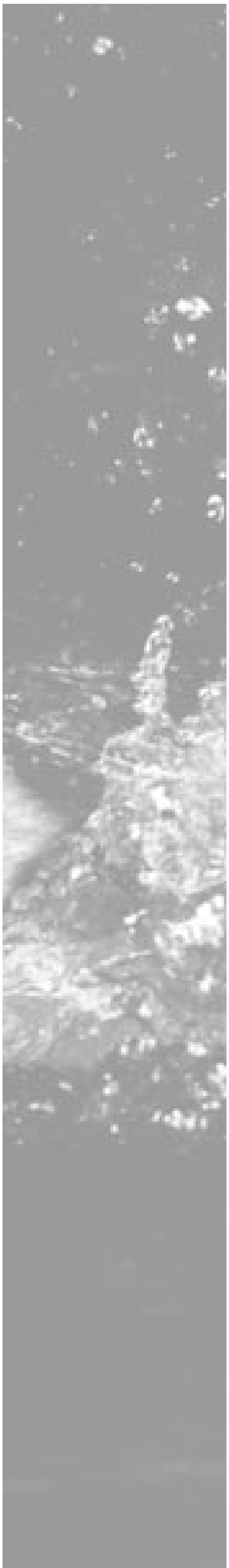
The BCI transaction is part of the worldwide concentration process between banking and insurance institutions which started developing in the last few years in order to bring their size into line with capital markets.
In our Country, the integration of economics and finance in the new global market place has greatly accelerated in the past few years; however, in spite of a few important transactions completed recently, a great difference between the most important Italian and other industrialised Countries' banks remains.
The need to create banking institutions geared for competition in Europe with a sufficient bargaining power compared to their major international counterparts, is clear both for legislative bodies, which introduced substantial tax incentives for bank integrations with Law 461/98, and for banking institutions which are increasingly searching for new alliances.

The reasons behind this process are clear: the evolution currently under way in the financial system and its impact on bank operations and on the composition of their statement of income determine the need for larger institutions. Margins on traditional banking activities tend to contract, whereas services offered to customers are becoming increasingly important.
In order to improve positioning in banking and financial services, it is fundamental to be able to provide customers with new, high quality products at competitive prices. The latter are also particularly important.
From this point of view, size becomes extremely relevant: higher volumes lead to economies of scale and scope and ample financial resources are the precondition for investments in qualified resources and in technological supports, necessary for offering high quality services at competitive prices.

A significant increase in size is not attainable by means of organic growth; it therefore becomes necessary to proceed with external growth, via acquisitions, mergers or other forms of integration, which lead to the creation of new, more important companies and larger banking groups.

The alliance between Banca Intesa and BCI reflects a strong industrial rationale since it can generate considerable value for all the Shareholders of the new Group; value creation will stem from the two Groups' complementary competencies, the possibility to benefit from significant synergies which will emerge on sharing certain activities and, lastly, the possibility of seizing new growth opportunities which would have otherwise been unattainable by the single entities.

The importance of the aggregation with BCI must not lead other operations completed in 1999 to be forgotten. In the year which has just come to an end, the support service structures needed for the federal model to become operational were established and the necessary interventions for Group rationalisation were also completed. The latter entailed the transfer to Banca Intesa of all strategic equity investments as well as the integration of product companies.
With regard to external growth, the aggregation with Cassa di Risparmio di Parma e Piacenza and of other savings banks, which complete the Group's presence in Central Italy, were also successfully closed.



Extremely satisfactory results with regard to the Group's profitability and capital soundness accompanied the important results registered in the implementation of strategies and growth projects.
In spite of the not so favourable situation with regard to the Italian economy and the uncertain trend registered by financial markets, negatively affected by the increase in interest rates, Gruppo Intesa's 1999 financial statements registered a consolidated net income of 1,648 billion lire (851 million euro) compared to 1,205 billion lire (622 million euro) in 1998, calculated on a consistent basis (+ 36.8%).
This result - which, for the technical reasons explained in detail in the following pages, does not consider the results of Banca Commerciale Italiana and the companies which make up its group - was achieved in a very special year, which saw: the introduction of the new accounting principle regarding "deferred taxes"; the modification of the accounting principle regarding the valuation of listed securities held for trading, with the introduction of "mark to market", following the review of the securities portfolio management strategy; a significant reduction in fiscal burden due to the application of incentives introduced by the aforementioned Law 461 of 1998 for banks which carried out aggregations in 1998 and 1999; specific interventions aimed at eliminating fixed assets - mostly intangible - recorded in the balance sheet and now without a residual value, in the light of current changes in the Group's strategies; a rigorous re-examination of the value of doubtful loans; significant provisions to the reserve for future integration expenses (515 billion lire, or 266 million euro) and to the reserve for general banking risks (221 billion lire, or 114 million euro).
These factors were accompanied by a significant extraordinary income attributable to the sale of minority equity stakes and tangible fixed assets.

Statement of income data reflects certain extraordinary elements which must not lead to forget operating results. Operating results - particularly the almost stable interest margin and the positive increase in income from customer services - better express the real performance achieved in any financial year and, in the long run, lead a company to success.

The table which follows shows the Group's most important balance sheet and statement of income data. In the table, data related to Banca Intesa, before the aggregation with BCI, is separated from that referring to BCI and the companies which make up its group.

With regard to the structure of the consolidated financial statements as at 31st December 1999, certain methodological explanations must be provided even in this introduction.
On 10th December 1999, Banca Intesa acquired a controlling stake in Banca Commerciale Italiana. Therefore, the "new" Gruppo Intesa consolidated financial statements include in the balance sheet data referred to BCI and its group.
On the contrary, the statement of income only contains data recorded by the companies part of Gruppo Intesa before the acquisition of Banca Commerciale Italiana.
Such a methodological choice complies with current regulations as well as with the accounting principles according to which the acquiring company's consolidated statement of income must only include the acquired company's (consolidated) statement of income for the portion matured in the period after the transaction.
Since it would have been extremely burdensome to prepare the consolidated financial statements for the BCI Group as at 10th December 1999, it was deemed better, as provided for by the above-mentioned accounting principles, to completely exclude BCI's consolidated statement of income results from Gruppo Intesa's consolidated financial statements as at 31st December 1999.
However, a pro forma consolidated statement of income including the consolidated statement of income of BCI for the whole 1999 was prepared for the sole purpose of providing further information to Shareholders and the market.

After this "digression" on consolidation methods applied, the main statement of income and balance sheet items are briefly analysed, considering solely Intesa's figures before the aggregation of the BCI Group. Figures are compared with those as at 31st December 1998, which were recalculated for consistency purposes and therefore consider the transactions completed during the year with the - obvious - exception of BCI.

Statement of income

Interest margin registered a slight drop (– 1.7%), which is attributable to the reduction in average interest rates for the year. The latter caused a further decrease both in the spread applied to customers and in returns on securities portfolio. Furthermore a decrease in the margins on operations with customers (slightly lower than that registered by the banking system as a whole), combined with the growth in the average volumes of loans to customers and a much more significant rise in the securities portfolio, led to a containment of the drop recorded by this margin.
Income from services must be considered very satisfactory: in terms of average value for the period, commission income increased by almost 17% whereas the relative margin recorded a slightly more contained growth rate (+ 16.2%).
Once again, the results achieved by financial services in 1999 must be noted, particularly asset management (+ 30.2%) and collection and payment services (+ 18.9%).
Thanks to the positive trend recorded by income from services as well as to the almost stable result registered by the interest margin, the negative trend of trading activities was, at least, partially offset and the drop in net interest and other banking income was contained (– 5%).

The evolution of operating costs reflected the integration process currently under way: if, on the one hand, personnel expenses confirmed the substantial stability recorded in 1998, on the other hand, other administrative costs and, mostly, adjustments to tangible and intangible fixed assets, rose quite significantly.
This phenomenon is attributable: on the one hand, to the re-organisation process currently under way - which introduces even more notable effects as a consequence of the continuous expansion of the Group's area of consolidation; an expansion which progressively led to widen and adjust the original plan for the construction of Gruppo Intesa, in order to consider the entrance in our Group of more companies; on the other hand, to the significant investments in information technology necessary in order to integrate Group companies. Furthermore, progressive integration led to the exclusion in the balance sheet of all deferred charges and investments in software which could no longer be exploited.
Overall, the increase in costs registered in this area was in line with the integration plan's current progress.

Adjustments and write-backs of loans and financial fixed assets and provisions for risks and charges slightly increased their incidence on the statement of income.

Net adjustments and write-backs of loans - calculated with the usual prudence - remained virtually unchanged; whereas provisions for future risks and charges increased, mainly due to the need to appropriately cover risks for legal disputes and revocatory actions in bankruptcy procedures.

Lastly, extraordinary income and charges as well as the fiscal burden were particularly significant in the 1999 results.
Among extraordinary income, capital gains on the sale of minority stakes held in banks totalled 576 billion lire (297 million euro) - and 813 billion lire (420 million euro) after the effect of prepaid taxes was calculated, as provided for by the new accounting treatment of "deferred taxes" in force as of 1999. The significant value of extraordinary income led to record provisions to reserves for general banking and financial risks for a total of 221 billion lire (114 million euro).
Among the amounts to be deducted, provisions carried out by the most important companies belonging to the Group, which totalled 515 billion lire (266 million euro), must be noted: the amount reflects both expenses connected to the completion of the Intesa Project and extraordinary charges forecasted for the integration between Intesa and BCI, which also requires a significant financial commitment.
Fiscal burden decreased significantly, both as a consequence of the above-mentioned application of the new accounting principle regarding "deferred taxes" - net prepaid taxes for 1999 deducted from income taxes due for the year amounted to 588 billion lire (304 million euro) - and of the incentives for banking groups introduced by Law 461 of

1998 (the so-called Ciampi Law) in force as of 1999, which positively affected all the transactions carried out by our Group in the last two-year period.
Fiscal savings totalled 178 billion lire (92 million euro), as a result of the allocation to a special reserve of net income amounting to 735 billion lire (380 million euro), carried out by the banks belonging to the Group involved in the integration operations.
1999 ROE - calculated excluding the increase in capital carried out to service the Public Tender Offer on BCI shares executed in mid-December - totalled 16%.

Balance sheet

Also main balance sheet data registered a satisfactory trend. Loans to customers increased by 7.4% (but the growth rate totalled 9.4% excluding repurchase agreements), substantially in line with the rise in the average volume for the period (9.1%).
Also securities at year-end registered a significant increase (+ 20.4%), whereas the growth in average volumes was in excess of 30%.
Negative net interbank position totalled 32,655 billion lire (16,865 million euro), with respect to 10,761 billion lire (5,558 million euro) as at 31st December 1998.

A moderate increase in direct customer deposits (+ 1.8% compared to 31st December 1998, also considering subordinated liabilites) was offset by a more than satisfactory rise in traditional deposits (+ 6%), slightly higher than the banking system’s average growth rate, estimated to total approximately 5%.
Following the expiry of certain repurchase agreements stipulated with an important institutional client, this particular type of funding was more than halved.
Indirect cutomer deposits registered again a very significant increase (+ 15.4%), mainly attributable to managed funds (+ 20.7%); these percentages are more contained compared to those recorded in the previous financial statements also as a result of the absolute amounts achieved.
Indirect deposits was in excess of 330,000 billion lire (over 170 billion euro), whereas managed funds almost totalled 194,000 billion lire (over 100 billion euro).
Customer deposits under administration for companies belonging to the Group as at 31st December 1999 exceeded 550,000 billion lire (over 284 billion euro).
As already indicated, the consolidated balance sheet and statement of income data as at 31st December 1999 are separately presented for Banca Intesa and Banca Commerciale Italiana.

Gruppo Intesa - Financial highlights

The following table shows the main consolidated balance sheet and statement of income data as at 31st December 1999, presented separately for Banca Intesa and BCI for the reasons explained above.

(in billions of lire)

Financial highlights expressed in lire	**1999**			**1998**			**Changes**		
	BI	**BCI**	**Total** (1)	**BI**	**BCI**	**Total** (1)	**BI**	**BCI**	**Total**
Balance sheet									
Loans to customers	187,529	125,626	312,798	174,547	100,422	274,969	7.4%	25.1%	13.8%
Securities	74,807	42,390	117,197	62,135	41,145	103,280	20.4%	3.0%	13.5%
including Investment portfolio	*19,550*	*7,406*	*26,956*	*12,201*	*5,715*	*17,916*	*60.2%*	*29.6%*	*50.5%*
Total assets	358,054	242,523	588,529	325,544	218,691	544,377	10.0%	10.9%	8.1%
Direct customer deposits	219,789	118,079	337,849	215,974	102,637	318,611	1.8%	15.0%	6.0%
including Subordinated liabilities	*10,091*	*6,512*	*16,603*	*7,506*	*4,974*	*12,480*	*34.4%*	*30.9%*	*33.0%*
Indirect customer deposits	330,953	250,720	581,673	286,801	219,720	506,521	15.4%	14.1%	14.8%
including Managed funds	*193,940*	*100,094*	*294,034*	*160,623*	*79,998*	*240,621*	*20.7%*	*25.1%*	*22.2%*
Customer deposits under administration	550,742	368,799	919,522	502,775	322,357	825,132	9.5%	14.4%	11.4%
Net interbank position (debt)	32,655	43,167	75,464	10,761	31,413	42,174	203.5%	37.4%	78.9%
Shareholders' equity (2)	11,655	6,312	17,967	9,062	6,312	15,374	28.6%	–	16.9%
Statement of income									
Interest margin	6,737			6,851			(1.7%)		
Net commissions	4,674			4,022			16.2%		
Net interest and other banking income	11,823			12,447			(5.0%)		
Operating costs	8,658			8,391			3.2%		
including Personnel expenses	*4,792*			*4,774*			*0.4%*		
Operating margin	3,165			4,056			(22.0%)		
Income (Loss) from operating activities	1,492			2,573			(42.0%)		
Net income for the year	1,648			1,205			36.8%		
Other information									
Earnings per share *(lire)* (3)	494			395			99		
Staff *(number)*	39,787	33,704	73,491	40,532	28,618	69,150	(745)	5,086	4,341
Branches *(number)*	2,499	1,866	4,365	2,429	1,512	3,941	70	354	424
including Abroad	*14*	*710*	*724*	*15*	*371*	*386*	*(1)*	*339*	*338*
Economic and financial ratios									
Balance sheet ratios									
Loans to customers/total assets	52.4%	51.8%	53.1%	53.6%	45.9%	50.5%			
Securities/total assets	20.9%	17.5%	19.9%	19.1%	18.8%	19.0%			
Direct customer deposits/total assets	61.4%	48.7%	57.4%	66.3%	46.9%	58.5%			
Managed funds/indirect customer deposits	58.6%	39.9%	50.5%	56.0%	36.4%	47.5%			
Statement of income ratios									
Net commissions/net interest and other banking income	39.5%			32.3%					
Operating costs/net interest and other banking income	73.2%			67.4%					
Net income for the year/ total assets (ROA) (4)	0.5%			0.4%					
Net income for the year/ shareholders' equity (ROE) (4)	16.0%			13.6%					
Risk ratios									
Net non-performing loans/total loans	5.2%	2.2%	4.0%	5.6%	2.9%	4.6%			
Total adjustments/gross non-performing loans	45.7%	58.5%	49.2%	43.3%	48.9%	44.7%			
Capital ratios (5)									
Tier 1 capital/risk-weighted assets	6.0%			5.6%					
Total capital/risk-weighted assets	9.2%			8.6%					
Risk-weighted assets	392,521			351,704					

(1) *The difference between the amount calculated by adding "BI" and "BCI" and "Total" is represented by the consolidation accounts.*

(2) *Excluding net income for the year and 1999 provisions to the reserve for general banking risks; BCI's shareholders' equity was accounted for as an amount equal to the increase in capital carried out by Banca Intesa to service the Public Tender Offer.*

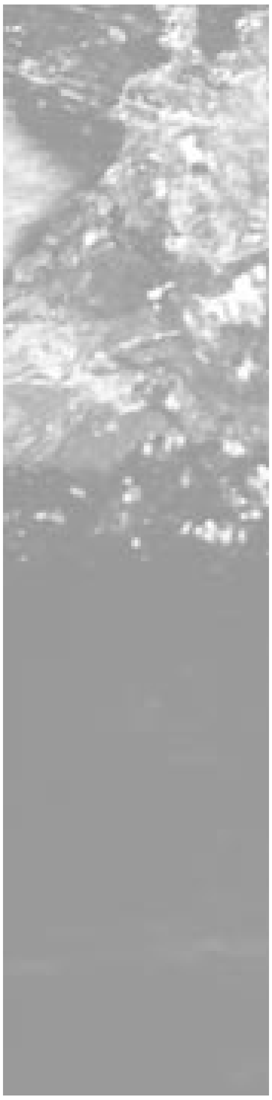
(3) *1999 earnings per share was calculated by excluding shares issued at the end of the year to service the Public Tender Offer on BCI. 1998 earnings per share was calculated by including the increase in capital for the acquisition of Cassa di Risparmio di Parma e Piacenza carried out in 1999.*

(4) *The change in the reserve for general banking risks was added to net income for the year. The value of shareholders' equity corresponds to the amount recorded as at 31st December 1999, without considering the increase in capital to service the Public Tender Offer on BCI; with regard to 1998, the increase in capital for the acquisition of Cassa di Risparmio di Parma e Piacenza carried out in 1999 is included.*

(5) *1998 capital ratios are calculated by adding each Group's values.*

(in millions of euro)

Financial highlights expressed in euro	1999			1998		
	BI	BCI	Total	BI	BCI	Total
Balance sheet						
Loans to customers	96,851	64,880	161,547	90,146	51,864	142,010
Securities	38,635	21,893	60,527	32,090	21,250	53,340
including Investment portfolio	*10,097*	*3,825*	*13,922*	*6,301*	*2,952*	*9,253*
Total assets	184,901	125,253	303,950	168,129	112,944	281,146
Direct customer deposits	113,512	60,983	174,484	111,541	53,008	164,549
including Subordinated liabilities	*5,212*	*3,363*	*8,575*	*3,877*	*2,569*	*6,446*
Indirect customer deposits	170,923	129,486	300,409	148,120	113,476	261,596
including Managed funds	*100,162*	*51,694*	*151,856*	*82,955*	*41,316*	*124,271*
Customer deposits under administration	284,435	190,469	474,893	259,662	166,483	426,145
Net interbank position (debt)	16,865	22,294	38,974	5,558	16,223	21,781
Shareholders' equity	6,019	3,260	9,279	4,680	3,260	7,940
Statement of income						
Interest margin	3,479			3,538		
Net commissions	2,414			2,077		
Net interest and other banking income	6,106			6,428		
Operating costs	4,471			4,334		
including Personnel expenses	*2,475*			*2,466*		
Operating income	1,635			2,095		
Income (Loss) from operating activities	771			1,329		
Net income for the year	851			622		



See “INTESA GROUP” (different file)

The acquisition of Banca Commerciale Italiana

Banca Commerciale Italiana

BCI, both directly and through other group companies, carries out a wide range of banking and financial activities that include collecting of deposits, granting of loans, offering collection and payment services, supporting of international trade, securities intermediation, merchant banking, capital market services, securities custody and settlement, securities lending, operations in foreign currencies and derivatives, leasing, factoring, portfolio management, mutual funds, life insurance, supplementary pension schemes and electronic services.
BCI has always stood out for its international vocation, technological innovation and the quality of its management methods. Thanks to these competitive advantages, BCI has always played a leading role in the Italian banking industry in providing high value added services.
As at 31st December 1999, the BCI Group had a network of 923 branches (909 in Italy and 14 abroad), as well as 111 automatic branches installed inside public entities and private companies and 19 representative offices around the world. Considering associated companies, at the same date the BCI Group was present in 41 different Countries, with 1,866 branches (1,156 in Italy and 710 abroad), as well as 575 automatic branches and 25 representative offices.

The Bank’s financial statements

The following are the 1999 main unconsolidated financial highlights for Banca Commerciale Italiana, compared to the same items registered the previous year and reclassified on homogeneous terms.

(in billions of lire)

Banca Commerciale Italiana	**1999**	**1998**	**Change**
Balance sheet			
Loans to customers	89,650.9	72,294.4	24.0%
Securities	27,258.3	28,513.2	(4.4%)
including Investment portfolio	*2,894.7*	*2,035.9*	*42.2%*
Equity investments	6,220.9	5,863.6	6.1%
Total assets	187,665.2	170,600.9	10.0%
Direct customer deposits	81,036.7	72,051.5	12.5%
including Subordinated liabilities	*5,897.5*	*4,366.8*	*35.1%*
Indirect customer deposits	194,006.7	172,111.7	12.7%
including Managed funds	*66,040.7*	*54,911.5*	*20.3%*
Customer deposits under administration	275,043.4	244,163.2	12.6%
Net interbank position (debt)	33,313.1	26,510.5	25.7%
Shareholders’ equity [1]	8,219.7	7,951.8	3.4%
Statement of income			
Interest margin	2,733.1	3,001.5	(8.9%)
Net commissions	1,712.9	1,577.0	8.6%
Net interest and other banking income	5,162.8	5,230.0	(1.3%)
Operating costs	3,397.4	3,388.9	0.2%
Operating income	1,765.4	1,841.1	(4.1%)
Income (Loss) from operating activities	414.2	1,032.1	(59.9%)
Net income for the year	648.8	808.3	(19.7%)
Other information			
Earnings per share *(lire)*	362	450	(88)
Staff *(number)*	17,459	17,937	(478)
including Part-time	*1,262*	*1,321*	*(59)*
Staff *(average number)* [2]	17,052	17,549	(497)
Branches *(number)*	923	920	3
including Abroad	*14*	*15*	*(1)*

continued

(in billions of lire)

Banca Commerciale Italiana	**1999**	**1998**	**Change**
Economic and financial ratios			
Balance sheet ratios			
Loans to customers/total assets	47.77%	42.38%	
Securities/total assets	14.52%	16.71%	
Direct customer deposits/total assets	43.18%	42.23%	
Managed funds/indirect customer deposits	34.04%	31.90%	
Statement of income ratios (3)			
Net commissions/net interest and other banking income	33.18%	30.15%	
Operating costs/net interest and other banking income	65.81%	64.80%	
Net income for the year/total assets (ROA)	0.36%	0.47%	
Net income for the year/shareholders' equity (ROE) (4)	7.89%	10.16%	
Risk ratios			
Non-performing loans/total loans	1.61%	2.11%	
Adjustments to non-performing loans/gross non-performing loans	51.82%	44.88%	
Capital ratios			
Tier 1 capital/risk-weighted assets	7.05%	7.45%	
Total capital/risk-weighted assets	9.93%	10.31%	
Risk-weighted assets	127,806.0	116,905.6	

(1) *Excluding net income for the year.*
(2) *Part-time employees are conventionally calculated as half their number.*
(3) *Statement of income ratios were calculated on the basis of the reclassified statement of income.*
(4) *This ratio totalled 7.62% (10% in 1998) if the denominator corresponds to the arithmetical monthly average of shareholders' equity, excluding net income to be distributed.*

Balance sheet

The breakdown of the most significant balance sheet aggregates shows the high increase in loans to customers, which registered a 24% growth rate and totalled 89,651 billion lire, with a particularly marked development in overdrafts and advances. Considering averages for the year, the increase related to resident customers excluding repurchase agreements - which exceeded 17%, totalling a more than doubled growth rate compared to the Italian banking system's - led market share to rise from 4% to 4.34%. Net non-performing loans registered a 5.1% drop - to 1,448 billion lire - also as a result of the prudent policy applied in the field of adjustments. Also the net non-performing loans to total loans to customers ratio registered a drastic reduction, from 2.1% to 1.6%. Among the remaining categories of subnormal loans, problem loans increased - net value up from 311 billion lire to 462 billion lire - whereas restructured loans and loans under restructuring dropped to 467 billion lire (– 18%). Also cash loans to Countries at risk registered a drastic reduction (– 28%) to 640 billion lire, of which 207 billion lire of loans to customers and 49 billion lire of securities. Non-cash exposures decreased to 72 billion lire with a significant percentage drop (– 38%). As far as the off-balance sheet assets and liabilities are concerned, the 38% increase in guarantees and commitments, which totalled over 100,000 billion lire, was also due to the development of credit derivatives activities, which included risk exposures with the highest rating counterparts in excess of 27,400 billion lire of notional value. In order to diversify the lending portfolio, credit derivatives of approximately 26,700 billion lire were used to hedge the Bank's risk position.

With regard to deposits, the customer deposits aggregate - which includes subordinated or perpetual liabilities - summed up to 81,036.7 billion lire, with a 12.5% total increase, which is in particular attributable to the substantial growth rate registered by current accounts (approximately + 12%), bonds (+ 13%) and certificates of deposit (+ 9% attributable to the contribution given by the foreign network). In terms of average volumes, customer deposits from residents (excluding bonds and repurchase agreements) registered a 4.2% increase which led market share to rise from 4.96% to 5%. Customer deposits under administration reached 275,043 billion lire, with an almost 13% growth rate. Lastly, considering funding on the interbank market, total funding from third parties was in excess of 350,000 billion lire (+ 12%). Within indirect customer deposits and, more specifically, within managed funds, net assets managed by individual or collective asset management schemes (the latter include the various ranges of mutual funds managed by Genercomit, Comit Gestioni and ProntoFund Sicav) exceeded 66,000 billion lire, with an over 14,000 billion lire increase, corresponding to a 20% growth rate.

Statement of income

From a profitability viewpoint, results on operations are in line with those recorded the previous year, which had considerably benefited from certain extremely favourable market conditions which only partially recurred this year. The decline in profitability stemming from the further reduction in the interest rate spread was effectively offset by profits from trading activities and revenues from services to customers, thus allowing net interest and other banking income to remain stable at almost the same level recorded in 1998. The contraction in the operating margin was also scarsely significant especially considering that the comparison is carried out with the 1998 figure which was almost a third higher than that recorded the previous year.

In greater detail, the higher speed with which interest rates on assets decreased, compared to the drop in interest rates on liabilities, led to a 125 basis point contraction in the interest rate spread which decreased further to 4.3%. The vigorous growth recorded by average asset volumes - which increased by 17% also following the implementation of strategies aimed at increasing market share, compared to the 4% growth rate registered by deposits - only partially contrasted the lower profitability achieved on traditional banking. The reduction in interest margin, which contracted to 2,733 billion lire (– 9%), was positively affected by increases in dividends received which rose by 16% to 421 billion lire.

As highlighted by the level of net interest and other banking income, practically unchanged at almost 5,200 billion lire, a substantial part of the lower profitability from the interest area was offset by the growth in net commission income and other net operating income which, together with profits from trading activities, reached 2,430 billion lire (+ 9%).
Net commission income was in excess of 1,700 billion lire (+ 8.6%) with particularly material increases in placement of securities and other financial instruments for collective asset management (increased by 13% to 647 billion lire, including 490 billion lire concerning funds managed by the Bank's specialised asset management companies), in securities custody and administration services (+ 14% to 46 billion lire) as well as in other services - mostly for credit card management, cash management and the telephone bank - which increased to a total of 475 billion lire (+ 15%). Profits on trading activitities of securities, foreign exchange and derivatives decreased compared to the previous year (216 billion lire; – 24%) whereas other net operating income recorded a particularly satisfactory growth rate (501 billion lire; + 36%). As part of this item, particularly noteworthy was the rise recorded by capital gains on merchant banking activities, which almost trebled to reach 164 billion lire.

Practically unchanged operating costs - stable at approximately 3,400 billion lire corresponding to a cost/income ratio which is also constant at approximately 66% - created another element which consolidated profitability levels, as proved by operating margin which equalled 1,765 billion lire, representing only a slight reduction (– 4%) with respect to the previous year - which, as already mentioned above, was particularly outstanding from a profitability viewpoint.

The satisfactory results achieved on operations were accompanied by certain non recurring requirements which emerged at the end of the year and had to be considered by setting up adequate provisions for net write-downs on loans (1,110 billion lire; + 80%) and provisions to the allowance for future risks and charges (56 billion lire compared to 20 billion lire). Write-downs on loans mostly referred to: doubtful loans (698 billion lire) also as a result of greater requirements due to the transitory interruption in the flow of new doubtful loans; problem loans (171 billion lire) stemming from the difficulties registered by a major foreign group; improved coverage of general credit risk (147 billion lire) which reflects the transfer to this item (consistently with corporate policies described in the Reports on operations which accompanied previous Annual Reports) of expected benefits from the recovery of income taxes paid in previous years on write-downs exceeding deductability limits provided for by fiscal regulations (these benefited this year's statement of income following the introduction of new accounting criteria concerning deferred taxes). The allowance for future risks and charges was also adequately increased in the light of revocatory actions promoted against the Bank. These provisions absorbed a significant portion of the operating margin and led to a decrease in income on ordinary operations to 414 billion lire (– 59.9%). Net contribution of operations (323 billion lire) normally considerated of a non-recurring nature - mostly deriving from the sale of equity investments which were no longer deemed to be strategic or had been purchased for momentary investment purposes - together with the lower tax burden due to the effect of the accounting principles applied to deferred taxes and the incentives granted by Legislative Decree 153 of 1999 for aggregation operations involving the Bank, led to a containment in the decrease in profitability as proved by net income which totalled 648.8 billion lire - corresponding to an approximately 20% negative growth rate. This was achieved in spite of provisions for future expenses related to the turnaround of FONSPA.

The consolidated financial statements

BCI Group's 1999 consolidated financial statements compared to the previous year's are presented in the table below.

(in billions of lire)

Banca Commerciale Italiana Group	**1999**	**1998**	**Change**
Balance sheet			
Loans to customers	125,625.9	100,422.9	25.1%
Securities	42,389.9	41,145.4	3.0%
including Investment portfolio	*7,406.3*	*5,714.7*	*29.6%*
Equity investments	2,660.7	2,398.9	10.9%
Total assets	242,523.2	218,691.3	10.9%
Direct customer deposits	118,079.1	102,636.6	15.0%
including Subordinated liabilities	*6,511.9*	*4,973.7*	–
Indirect customer deposits	250,720.1	219,719.7	14.1%
including Managed funds	*100,093.8*	*79,998.5*	*25.1%*
Customer deposits under administration	368,799.2	322,356.3	14.4%
Net interbank position (debt)	43,167.4	31,413.3	37.4%
Shareholders' equity (1)	8,918.0	8,624.7	3.4%
Statement of income			
Interest margin	4,250.5	4,591.5	(7.4%)
Net commissions	2,547.2	2,264.4	12.5%
Net interest and other banking income	8,035.2	7,749.5	3.7%
Operating costs	5,732.0	5,234.5	9.5%
Operating margin	2,303.2	2,514.9	(8.4%)
Income (Loss) from operating activities	470.1	1,308.6	(64.1%)
Net income for the year	656.3	895.4	(26.7%)
Other information			
Earnings per share *(lire)*	366	499	(133)
Staff *(number)*	33,704	28,618	5,086
including Part-time	*1,488*	*1,547*	*(59)*
Staff *(average number)* (2)	30,403	28,479	1,924
Branches *(number)*	1,866	1,512	354
including Abroad	*710*	*371*	*339*
Economic and financial ratios			
Balance sheet ratios			
Loans to customers/total assets	51.80%	45.92%	
Securities/total assets	17.48%	18.81%	
Direct customer deposits/total assets	48.69%	46.93%	
Managed funds/indirect customer deposits	39.92%	36.41%	
Statement of income ratios (3)			
Net commissions/net interest and other banking income	31.70%	29.22%	
Operating costs/net interest and other banking income	71.34%	67.55%	
Net income for the year/total assets (ROA)	0.27%	0.41%	
Net income for the year/shareholders' equity (ROE) (4)	7.39%	10.38%	
Risk ratios			
Net non-performing loans/total loans	2.23%	2.87%	
Adjustments to non-performing loans/gross non-performing loans	58.51%	48.90%	
Capital ratios			
Tier 1 capital/risk-weighted assets	5.68%	6.56%	
Total capital/risk-weighted assets	8.05%	8.87%	
Risk-weighted assets	166,895.4	148,786.4	

(1) Excluding net income for the year and the change in the reserve for general banking risks.

(2) Part-time employees are conventionally calculated as half their number.

(3) Statement of income ratios were calculated considering the reclassified statement of income.

(4) The ratio would equal 7.48% (10.37% in 1998) by using as denominator the average of shareholders' equity balances at the beginning and at the end of the year, excluding net income.

Balance sheet

Direct customer deposits, which increased to 118,079 billion lire, recorded a considerable expansion with growth rates of approximately 15%. Growth was favoured by deposits collected by the newly-consolidated Brazilian and Peruvian banks which are responsible for almost half the rise recorded. Indirect deposits also increased substantially, by over 14% to 250,720 billion lire, thus repeating the rise which had been experienced on more traditional bank savings products. The sum of the two items led total customer assets under administration to almost reach 369,000 billion lire, with an approximately 47,000 billion lire increase (+ 14.4%) with respect to December 1998. Lastly, also considering interbank funding, which almost reached 92,000 billion lire (+ 7.6%), total funding from third parties at year-end was in excess of 460,000 billion lire.
Within indirect deposits, noteworthy development was recorded in asset management and in specialised financial services as required by the priority targets set for both Italy and abroad. These areas managed funds in excess of 100,000 billion lire - net of approximately 14,000 billion lire relative to intergroup investments - with an approximately 25% growth rate compared to the previous figure of 80,000 billion lire. Rises were recorded by both individual portfolio management schemes, up to 36,399 billion lire (+ 19%), and individual portfolio schemes invested in mutual funds, up to 57,906 billion lire (+ 25%). Insurance-like products also registered satisfactory progress and increased to 5,789 billion lire (+ 79%).

Total loans (including interbank loans) also grew significantly as testified by the fact that the aggregate reached 174,057 billion lire (+ 13%). Newly-consolidated companies are responsible for a significant portion of the rise even though this item also registered considerable organic growth (+ 8% in homogenous terms). Loans to customers recorded a notable increase and equalled 125,626 billion lire, corresponding to a 25% growth rate (+ 19% in homogenous terms). Various liquidity flows led to the decrease to 48,431 billion lire of due from banks (– 10% and, in homogenous terms, – 12%).
Net non-performing loans to customers decreased to 2,806 billion lire, with a 2.6% drop compared to December 1998. The net non-performing loans/loans to customers ratio decreased from 2.9% to 2.2%. Net problem loans remained virtually unchanged at 839 billion lire (– 1.2%) whereas the net amount of loans already restructured or under restructuring decreased to 661 billion lire (– 16.5%).
Net cash exposure (including securities) to borrowers resident in Countries at risk dropped to 1,431 billion lire, corresponding to a negative growth rate of approximately 20%. Non cash exposure also decreased to 105 billion lire (– 29%). The most important cash exposures referred to: 410 billion lire to Brazil, 225 billion lire to Argentina, 215 billion lire to Russia, 133 billion lire to Venezuela, 72 billion lire to Indonesia. Among non cash exposures, the most important positions referred for 17 billion lire to Argentina and 14 billion lire to Brazil. These values exclude gross loans amounting to 666 billion lire to borrowers resident in the above-mentioned Countries which are valued to be creditworthy also according to market valuations, or because they are guaranteed by guarantees given outside the borrower’s resident Country. The consequent absorption of consolidated capital as required by prudential supervision coefficients totalled 203 billion lire.
In order to integrate credit risk provisions on specific risks, a further 756 billion lire were set up in different years in order to cover the risks associated to normal loans and were calculated as lump-sum adjustments. Total accumulated adjustments concerning the various types of cash and non cash exposures totalled 6,005 billion lire, integrated by 26 billion lire in the allowance for possible loan losses.

Among other assets, the securities portfolio amounted to 42,390 billion lire, virtually unchanged with respect to as at 31st December 1998, mainly as a result of the practically constant trading portfolio (34,984 billion lire; – 1%). Securities held for investment increased to 7,406 billion lire, (+ 30%) with a three percentage point rise in its incidence on the total portfolio (17% from 14%). Unconsolidated equity investments reached 2,661 billion lire, with a 262 billion lire rise, mostly due to equity investments in Banco America do Sul (BAS) and Banco Wiese Sudameris (Wiese).

Shareholders’ equity (excluding net income for the year and the change in the reserve

for general banking risks) amounted to 8,918 billion lire, with a 293 billion lire rise. BCI Group's total capital, as defined according to supervisory requirements, increased to 13,431 billion lire (from 13,200 billion lire) net of a 432 billion lire deduction for equity investments in non-consolidated banks and financial companies. Gross of that deduction, total capital comprised 9,487 billion lire of Tier 1 capital and 4,376 billion lire Tier 2 capital. The solvency ratio equalled 8.05%, in line with the supervisory requirements.

Statement of income

Net income

Compared to the previous year which can, for many reasons, be considered particularly favourable, 1999 results registered a slightly worsened operating results, whereas net income recorded a more significant drop (656 billion lire; – 26.7%) since it was also negatively affected by non-recurring requirements connected to credit risk coverage. Italian and foreign subsidiaries confirmed their significant contribution to consolidated net results. The foreign network was responsible for approximately 35% of total profitability, whereas Italian companies for 17%, excluding in this latter case the negative results registered by Comit Factoring and FONSPA.

Interest margin

The margin recorded a 7.4% decrease to 4,251 billion lire. This is the consequence of the progressive reduction in the interest rate differential which considerably affected the profitability of Italian banks' traditional operations. On foreign markets, the margin registered by the Sudameris group - which is responsible for 26% of the margin, the highest contributing subsidiary - remained virtually unchanged as a result of the fluctuations in the foreign exchange rate of local currencies which almost completely annulled the contributions of the newly-consolidated BAS and Wiese groups. Aside the problems posed by the single national economies, management has had to face increasing competition following the entrance on the Brazilian market of strong foreign competitors, attracted by the prospective of a future economic recovery.

Net interest and other banking income

The reduction in interest margin was more than offset by the level of net interest and other banking income which increased to 8,035 billion lire (+ 3.7%) as a result of the positive performance recorded by profits on financial transactions and services to customers. Again significant was the contribution (approximately 24%) of the Sudameris group, especially for the excellent results achieved on foreign exchange activities also by the newly-consolidated banks.

Higher profitability was attained in all the fields of financial services and other services to customers. The sum of net commission income and other net operating income and profits on financial transactions reached a total of 3,785 billion lire, with an almost 20% growth rate which was not uniformly distributed among the various items. Net commission income reached 2,547 billion lire, with an increase in excess of 12%, equivalent in absolute terms to 280 billion lire, half of which was attributable to the contribution of the newly-consolidated companies. Net commissions on various asset management activities confirmed their importance and reached over 40% of the total.

Other net operating income also showed a considerable rise (+ 70%) and reached 759 billion lire. Of this, over 20% derived from capital gains on disposals of equity investments purchased by the Merchant banking division. Profits on financial transactions equalled 479 billion lire, corresponding to a 6% growth rate which is the sum of opposite results achieved by the different areas. Profits from trading on foreign exchange recorded an outstanding performance (from 185 billion lire to 364 billion lire); growth is almost entirely attributable to operations in the Brazilian market.

Operating income

The almost balanced situation described above was negatively influenced by the substantial increase in operating costs, attributable to re-organisation projects connected to the acquisition of the banking groups in Latin America. Absorption of these costs led operating margin to decrease to 2,303 billion lire, with a negative growth rate of just over 8%. Both personnel expenses (+ 4%) and administrative costs (+ 14%) increased as a result of the above-mentioned programmes for the re-organisation and expansion of the retail network. Indirect taxes and duties introduced by local authorities, particularly in Brazil, were another driver behind the rise.

Income (Loss) from operating activities

As described at the beginning, profitability registered on operations was absorbed for the most part by the higher requirements on adjustments to loans (of which 165 billion lire on general credit risk, offset by expected benefits from the recovery of prepaid taxes), on financial fixed assets as well as provisions to allowances for risks and charges. After these net deductions which totalled 1,833 billion lire, income from operating activities totalled 470 billion lire, with a considerable decrease (– 64%) compared to the previous year. Greater adjustments on loans, net of related recoveries, increased to 1,612 billion lire (from 992 billion lire; + 63%), and are mainly attributable to similar trends recorded in the last part of the year by the Italian banks. The Brazilian economic situation introduced tension elements in the valuation of credit risk for the Sudameris group, to which approximately a third of total adjustments may be attributed.

Extraordinary activities and net income

Extraordinary operations registered a significant series of events - largely attributable to BCI - which led to a total net extraordinary income of 372 billion lire. The following must be noted among positive components: capital gains on the sale of equity investments (462 billion lire), the transfer of available tax allowances (122 billion lire) and the previous years' portion of prepaid taxes, whose effects are limited to Italian banks following the new accounting treatment of deferred taxes (165 billion lire). Extraordinary charges referred to restructuring or re-organisation costs sustained for group companies in Italy and in South America for approximately 362 billion lire.

Extraordinary items have led income before taxation to almost total 842 billion lire (– 50%), therefore improving profitability and making the comparison with 1998 results less unfavourable. In turn, lower incidence of income taxes - due to the combined effect of the reduction in the tax burden and accounting treatment of deferred taxes - positively influenced net income which totalled 656 billion lire, corresponding to a 26.7% negative growth rate compared to the previous year.

Group companies performance

In Italy

Banking

Banco di Chiavari e della Riviera Ligure's operations led to a decrease both in the interest margin (110 billion lire; – 8%) and in income from services (82 billion lire; – 4%). Their combined negative impact was partly mitigated by the 4% decrease recorded by operating expenses. Pre-tax profitability remained more stable and totalled 53 billion lire, slightly higher than the previous year as a result of limited provisions for credit risk and the contribution of extraordinary income. Net income recorded a more considerable growth rate and increased to 30 billion lire (+ 10%) after a lower tax burden.

With regard to balance sheet items, the satisfactory trend recorded by loans to customers (1,950 billion lire; + 6%), was accompanied by a marked contraction in direct customer deposits, which registered a 7.8% decrease to 2,902 billion lire. Instead, managed funds registered a satisfactory rise (+ 9%).

The decline in interest rates had a particularly negative impact on Banca di Legnano, for which the interest margin decreased to 112 billion lire (– 18%). This reduction was not adequately covered by an increase in income from services (especially as a result of lower profits on trading) and, in spite of containment of operating costs and lower provisions for possible loan losses, this negatively influenced income before taxation which decreased to 42 billion lire (– 22%). Profitability was partially recovered, at least in absolute terms, as a result of extraordinary income and lower tax charges; net income totalled 24 billion lire (– 22% compared to the previous year's result). With regard to balance sheet items the Bank increased loans to customers by over 12% to almost 2,609 billion lire. Instead, direct customer deposits recorded a negative growth rate (– 6.5%) also as a result of customers' increased propensity for asset management. Indirect customer deposits registered an extremely satisfactory growth rate (more than 12%).

Also for Cassa di Risparmio di Biella e Vercelli market interest rate movements negatively affected both the interest margin, which decreased to 101 billion lire (– 18%) and income from services, which also dropped to 70 billion lire (– 10%). Profitability levels were on average lower than the previous year's, in spite of an over 3% contraction in operating expenses and practically unchanged provisions for possible loan losses. Substantial capital gains on the sale of equity stakes enabled the Bank to report positive comparisons with the previous years, with a net income of 16 billion lire, 22% higher than that recorded as at 31st December 1998. Customer deposits and loans to customers showed similar trends to those registered by other regional banks. The latter strongly increased, reaching 2,627 billion lire (+ 16.5%). With regard to customer deposits under administration, direct customer deposits - which recorded an approximately 3% negative growth rate - decreased in favour of indirect customer deposits, up by approximately 2.8%.

1999 was a turning point for Credito Fondiario ed Industriale - FONSPA.
The Company had been established as a specialised unit offering mortgaged loans. Deregulation - which occurred in 1993 and allowed banks which had a shareholding in FONSPA to operate directly in every segment of the credit market according to the universal bank model - made the Company's strategic rationale dubious and undermined the basis for its survival.
FONSPA's inadequate revenues from operations did not enable the Company to contrast the extensive insolvency problems which have affected mortgaged lending in the past few years and the insufficient spreads caused by the decline in interest rates.
The Company therefore continued to record considerable losses.

This situation induced reference Shareholders (among which BCI) - which had in the meantime offered the Company adequate financial support also via loans with privileged conditions - to abandon the projects for a gradual reconversion of FONSPA and sell the equity participation thus preferring to consider offers made by third parties interested in acquiring the Company structure net of assets and liabilities. Reference Shareholders have in any case manifested their intention to continue supporting FONSPA, guaranteeing the recapitalisation necessary following losses incurred not only as a consequence of ordinary operations but also following the projected reduction of risky assets via the securitisation of non-performing loans. Total valuations connected to the completion of this programme led the Company to close the 1999 financial statements with a loss in excess of 950 billion lire which - for the part proportionally attributable - has been registered in the consolidated accounts considering both the portion referred to ordinary operations and to extraordinary write-offs.

In the near-banking activities Comit Factoring confirmed the good operational performances recorded in the past by further increasing its turnover (5,700 billion lire, compared to 2,818 billion lire the previous year). Profitability on operations was satisfactory, with a net interest and other banking income (26 billion lire) considerably higher than that recorded in 1998 (10 billion lire). However the Company's profitability

was still negatively affected by the need to set up provisions for possible loan losses, also as a result of a stock of doubtful loans acquired by the Bank which have led to a net loss of 31 billion lire which is in any case lower than 37 billion lire recorded in 1998.

Investment services

With regard to asset management, Comit Asset Management SGR (formerly GenerComit Gestione) generated a net income of 45 billion lire, corresponding to a 12% growth rate with respect to 1998. Placement of mutual funds registered an outstanding growth rate also as a result of the launch of four new products which integrated the existing 14. Managed funds exceeded 57,000 billion lire (+ 24%) with a market share equal to 7.9%. Comit Gestioni SGR, the company specialised in mutual funds to service individual portfolio management schemes targeted to bank clientele, also registered a significant expansion. Also in this case the launch of 2 new funds effectively contributed to the almost 6,900 billion lire increase (+ 18%) of managed funds. Net income grew exponentially, up from 2 billion lire to 12 billion lire. The company Genercomit Distribuzione Sim is responsible for placement of GenerComit funds and other financial products offered by group companies via a commercial network made up of 793 personal financial consultants. The year closed with a net income of 6 billion lire, with a considerable improvement compared to the slight loss registered in 1998.

The companies S.I.RE.F. and S.I.RE.F. Gestioni Sim, which are responsible for centralised administration and fiduciary custody of assets, significantly increased their economic performance, which respectively increased to 672 million lire (from 462 million lire) and 128 million lire (from 25 million lire). Total assets in fiduciary administration equalled 5,558 billion lire (S.I.RE.F.) whereas S.I.RE.F. Gestioni managed assets amounting to 944 billion lire.

The company Assiba, which is an equally-owned joint venture with Assicurazioni Generali, operates in the bancassurance sector and is responsible for the structuring and placement of financial investment solutions with combined insurance coverage. In 1999 the Company collected premiums amounting to 2,730 billion lire (ex 2,030 billion lire) and generated a net income which increased to approximately 9 billion lire.

Presence in the supplementary pension schemes is attributed to the company Sim Co.Ge.F., equally-owned by BCI and Assicurazioni Generali for a total shareholding of 80% whereas the residual 20% is owned by companies in the Flemings group.
The Company’s net income, moderately negative, reflects the fact that operations in this sector are still in the start up phase.

Abroad

In 1999, Comit Holding International SA, Luxembourg, which holds most of the equity investments in foreign banks and financial companies, recorded a net income of 143 billion lire (+ 8%) mostly due to dividends on the equity investment portfolio.

Latin America

Sudameris group

Among the main equity investments of the holding company, Banque Sudameris SA, Paris - parent company of an extensive network of subsidiaries and direct branches operating in all the main Latin American Countries - closed the year with a consolidated net income pertaining to the group of 4 billion lire (from 68 billion lire). In spite of the French Parent Company’s satisfactory profitability - a net income of approximately 85 billion lire, with increases in all operational revenues - worsened consolidated results directly reflect the situation of the South-American subsidiaries, both for the costs

connected to the group’s current expansion and to the negative economic and monetary situation which characterised the economies of the Latin American Countries. The strategic universal bank model with an extensive territorial presence proved to be effective in contrasting the cyclic difficulties experienced on the local markets.

With regard to consolidated profitability, the Sudameris group registered operating revenues - net interest and other banking income totalled approximately 3,800 billion lire - equally balanced between traditional banking activities (interest margin of 2,128 billion lire) and those connected to financial services as well as other services offered to customers, especially in the alternative investment compartment (income from services totalled 1,635 billion lire). These revenues were used to cover operating expenses which reached 1,566 billion lire, also as a result of the projects currently under way in Peru and Brazil aimed at integrating acquired banks in group structures. The consequent absorption of income led operating margin to decrease to 378 billion lire, which was just insufficient to sustain coverage of possible loan losses and other risks and charges. Operating activities therefore generated a loss of 188 billion lire. The year closed at break even thanks to net extraordinary income and the positive balance on income taxes, due to the fact that prepaid taxes exceeded amounts to be paid to tax authorities.

The group’s total assets rose to approximately 33,000 billion lire, of which approximately 4,700 billion lire represented by the securities portfolio and 16,300 billion lire formed by loans to customers. Customer deposits reached 16,700 billion lire whereas interbank relationships showed a net debt position of approximately 4,000 billion lire.

In general terms, the macroeconomic situation of Latin American Countries - in particular of the most important one, Brazil - was characterised by a more or less marked contraction of their growth rate during most of 1999, followed by limited but comforting signs of recovery in the last part of the year. The reasons behind the inversion of the trend are the more suitable economic and monetary policies, adopted in particular by Brazil, which also produced beneficial effects on the other Countries in the area. This contributed to start the virtuous circle of the re-equilibrium in interest rates, inflation control and defeat of unemployment. In a year which was all in all unfavourable for these Countries, the solidity of the domestic banking systems halted the worsening of the general financial conditions and acted as a stabilisation element.

The slowdown registered by the Brazilian economy led Banco Sudameris Brasil and, due to the integration process currently under way, also Banco America do Sul, to adopt more selective loan granting policies. Lower profitability on operations with large and medium-sized enterprises led greater attention to be paid to retail customers, with the offer of new products suited to this particular segment. Lending operations in local currency showed a slight reduction whereas securities (mostly Government securities) increased significantly, treasury and foreign trade operations also recorded a substantial rise and were positively influenced by the depreciation of the real and by an active presence on the foreign exchange market. With regard to economic results, the interest margin recorded a positive growth rate; however, it was negatively affected by the conversion of the real using significant devalued exchange rates at the time of consolidation. Higher expenses - connected to the integration process with the Banco America do Sul group and the new branch openings programme - as well as higher provisions required considering the difficult economic scenario, led the group to record a net loss of approximately 112 billion lire.

In spite of the difficulties in the current economic situation, Banco Sudameris Argentina consolidated and improved its presence in the lending to small- and medium-sized enterprises segment. The growth in operating volumes, the rise in interest margin on operations in local currency and higher commission income on services led to an increase in the operating margin. However, the latter was negatively affected by the restructuring of commercial services as well as new provisions required for the worsened economic scenario. Net income therefore totalled approximately 10 billion lire. The Bank has signed preliminary agreements to increase presence in the Country via the acquisition of Banco Caja de Ahorro, Buenos Aires, an important bank with a retail network of 84 branches which will be effectively integrated with Sudameris structures in the area.

In the deep recession currently under way in Columbia, Banco Sudameris Colombia concentrated on activities with large and medium-sized enterprises - segments which were less severely affected by the recession - and obtained an increase in loans to customers compared to the reduction registered by the local banking system. Particular attention was dedicated to cost containment, in spite of an approximately 11% inflation rate. As part of the financial measures adopted by the authorities, the subsidiary had to face the special tax on the value of the risk portfolio, with an ulterior burden on its statement of income already negatively affected by provisions for possible loan losses which had almost doubled. Statement of income performance was inevitably negatively affected and closed with a net loss of approximately 19 billion lire.

In Peru, the Sudameris group took part in the restructuring and concentration process currently under way in the local banking system via the acquisition of an important Peruvian group controlled by Banco Wiese Limitado, renamed Banco Wiese Sudameris after the integration with the pre-existent network. The aggregation led to relevant economies of scale and advantageous synergies, with beneficial effects starting from the year 2000. In spite of the satisfactory trends recorded by results on operations, the prudent policy adopted with regard to provisions on loans and costs sustained for the integration limited net income for the year to 8 billion lire only.

North America

The growth recorded by the Canadian economy created a favourable backdrop for the activities of Banca Commerciale Italiana of Canada, whose operations are increasingly turning to wholesale banking products. Obstacles posed by fierce competition and costs necessarily associated to the conversion to new market segments heavily influenced operating results, leading to a virtually break even net income situation (2.3 billion lire as at 31st December 1998).

Western Europe

Société Européenne de Banque, Luxembourg, consolidated its position in services to corporate and private clients, where it is capable of offering a wide range of diversified, highly specialised services. This activity is increasing its contribution to this subsidiary’s revenues. The Bank closed the year with a net income of 16.5 billion lire (from 19.6 billion lire).

Banca Commerciale Italiana (Suisse), Zürich, concentrated on implementing the various projects of strategic importance aimed at strengthening operative structures with changes, among other things, in the dislocation of certain of its units. Despite of the absorption of financial resources required by the new programmes, good growth rates recorded by private banking, consulting and trading activities enabled the Company to achieve a net income of 17.7 billion lire (ex 16.1 billion lire).

Banca Commerciale Italiana (France), Paris, continued in its development of commercial activities targeted to French and international primary companies, in particular increasing operations in the structured loans and credit derivatives areas. Operations’ development enabled the Company to achieve a net income of approximately 26 billion lire (from 21.9 billion lire).

Banca Commerciale Italiana (Ireland) Plc., Dublin, authorised as bank as of September 1998, mainly oriented toward the supply of wholesale products, increased volumes particularly in the corporate banking and structured financing segments, thus achieving a net income of 26.7 billion lire (ex 33.3 billion lire). Comit Investments (Ireland) Ltd., Dublin, operating as of 1995 in the recovery of commercial receivables for international customers, generated a net income in excess of 10 billion lire (ex 11 billion lire).

Compagnie Monégasque de Banque, Montecarlo - present in Principality of Monaco with four operative units - continued to hold an eminent position in the private banking sector which allowed it to achieve a net income of approximately 58 billion lire (ex 24.2 billion lire).

Eastern Europe

Central-European International Bank, Budapest, active mostly in providing financial services to large companies, continued its strategy of strengthening operative and network structures, which are the necessary conditions for offering high quality services and thus consolidating its positioning, which is already significant, in the Hungarian financial sector. In spite of the reduction in operating margins, due to the decline in interest rates and increasing competition from foreign investors, this subsidiary confirmed its high profitability - among the best banks operating in the Country - by achieving a consolidated net income of approximately 62 billion lire.

Objectives and basis for the transaction

Objectives

The objectives and prospectives of the integration with BCI have already been amply illustrated in three distinct documents which have been made public last summer: the Informative report drawn up for the Extraordinary Shareholders' Meeting held on 17th August, called to resolve upon the increase in capital to service the Public Tender Offer for BCI shares, the Half-Year Report as at 30th June 1999 and, again, in the Offer document.
Therefore only a brief description of the objectives of the operation is provided below.
The union of Gruppo Intesa and the BCI Group, has allowed the achievement of three strategic objectives:

- consolidating strength and coverage of territorial presence in Italy. The new Group can rely on the first bank network in terms of number of branches (3,641), made up of banks with high market shares in their respective local markets;
- attaining a leadership position on the domestic market. Gruppo Intesa is top Italian banking group with regard to almost all the most important balance sheet and economic aggregates;
- building forefront positions in all the main product segments and in the most important complementary distribution channels: Gruppo Intesa is ranked in first position in asset management and bancassurance, among the most important players in life insurance, leasing and factoring. Furthermore, the Group can count on consolidated competencies in the management of telephone channels and an extensive network of personal financial consultants.

The aggregation therefore offers great opportunities for Banca Intesa, BCI and all Group companies. More specifically:

- the first important opportunity and the first objective is to consolidate the leadership position in the retail segment. This is the target market which is mainly addressed by Gruppo Intesa banks and it is the segment in which a high market share in each "micro market" is responsible for highest value creation;
- the second fundamental objective is reaching a preminent role in the large and medium-sized enterprises segment. Gruppo Intesa banks already have a strong positioning in the middle market; these have been joined by BCI, the bank which, more than any Italian bank, was capable of developing the highest competencies in services tailored to the corporate sector not only with regard to domestic products, but in particular in services connected to companies' cross-border trade activities, such as import and export financing.

Basis for the transaction

Last June, Banca Intesa's Board of Directors approved a project to rapidly complete the integration between Gruppo Intesa and the BCI Group. For this purpose Banca Intesa's Extraordinary Shareholders' Meeting held on 17th August 1999 resolved upon an increase in capital reserved for Shareholders which accepted the Tender Offer for 70% of BCI ordinary and savings shares, in the ratio of 1.65 newly issued Banca Intesa

ordinary shares for each BCI share. The offer period lasted between 27th September and 15th October 1999 and 83,410 BCI Shareholders accepted the offer and 1,577,334,804 ordinary shares (corresponding to 88.40% of BCI's ordinary share capital) and 9,167,236 savings shares (corresponding to 88.20% of BCI's savings share capital) were tendered.
As is generally known, the Offer entailed that Banca Intesa, for the number of accepting ordinary and savings shares exceeding the numer of BCI shares for which the Offer was made, would have given each accepting Shareholder one warrant representing the right to exercise the option to sell ordinary or savings shares tendered but not exchanged. These warrants guarantee BCI Shareholders the possibility to receive from Banca Intesa a price of 7.80 euro for each ordinary and savings share in November 2002.

Following the great success of the Tender Offer, with a number of tendered shares higher than that to which the Offer applied, after having verified the compliance with all conditions required by the Offer and having obtained all the necessary authorisations, on 10th December 1999 Banca Intesa issued 2,072,947,067 ordinary shares, with regular rights, and assigned 330,170,484 "Warrant put Intesa-BCI", whose exercise by holders will lead Banca Intesa to acquire in November 2002 a further maximum number of 328,278,820 BCI ordinary shares and 1,891,664 BCI savings shares, with an overall maximum disbursement of 4,987 billion lire (2,575 million euro).
It must also be rememered that the authorisations given by the Bank of Italy and Autorità Garante della Concorrenza e del Mercato (the Italian Antitrust Authority) require that Group banks close or sell to other banking institutions a total of 45 branches by the end of this year and that they do not extend the retail network in certain provinces where Group presence is already very extensive.

As resolved upon by the Shareholders' Meeting held on 17th August 1999, the issue price of newly issued Banca Intesa shares was determined by referring to book value of BCI's consolidated shareholders' equity as at 31st December 1998, including net income for the year allocated to reserves.
Since shareholders' equity amounted to 9,017 billion lire, 70% of which - equal to 6,312 billion lire - attributable to shares for which the Offer was made, the issue price for each Banca Intesa ordinary share was set at 3,045 lire, of which 2,045 lire as premium. The related increase in share capital amounted to 2,073 billion lire and premiums totalled 4,239 billion lire.
BCI shares were accounted for in Banca Intesa's financial statements at an overall value of 6,312 billion lire, corresponding to a unit price of 5,024 lire.

As is generally known, Gruppo Intesa, after the acquisition of a controlling stake in BCI, now represents an extremely large, complex and articulated entity.
It is formed by banks of considerable size and heritage tradition such as Cariplo, BCI Ambroveneto, Cariparma, Banca Carime, Mediocredito Lombardo, the Sudameris group, and numerous other smaller banks in Italy and abroad.
Product companies within the Group are also numerous and important and are all leading players on their respective sectors: the Caboto group, Intesa Asset Management and Comit Gestioni, Mediofactoring and Comit Factoring, Intesa Leasing, Carivita and Assiba, Intesa Italia and Genercomit Distribuzione, and many others.

The integration of these different entities, the choice of the models and the definition of strategies, the identification of common factors and consistent operational instruments, are all significant and complex challenges.
A Steering Committee composed of top operating officers from the two Groups was set up last autumn with the objective of preparing the strategic project to guide the "workstations" which will be responsible for identifying operative solutions.

At the date of approval of this Annual Report the project is already in an advanced stage of preparation: both strategic and economic objectives have been identified as well as the operative steps. The related expenses have also been quantified.
The Master Plan for the integration should be ready very rapidly and the various teams should be able to start working next April with the objective of concluding their tasks at the beginning of the summer.
The implementation phase will follow and should require two or maximum three years.

The implementation of the industrial plan and the strategic plan

The industrial plan which has governed the creation of Gruppo Intesa has been illustrated in detail in numerous documents published after its approval by the Company’s Board of Directors in May 1998. BCI’s entrance in our Group requires a revision of the original plan in the light of the peculiar features which characterise this bank and the companies which are part of its Group.
As already described, the definition of the new plan and its connection with “Progetto Intesa”, the industrial plan currently being defined is already being worked on by the management of the two Groups.
The guidelines of this new plan will be defined in detail very shortly. A brief update on the implementation of the original plan, namely Intesa’s Master Plan, approved by the Board of Directors in May 1998, is provided in the pages which follow.

The organisational model

As is generally known, today Gruppo Intesa is structured according to the federal model. This model entails the division of competencies and functions among different companies: head office functions are centralised within the Parent Company; Group banks focus their attention on the respective local markets and thus emphasise their commercial vocation; product companies carry out securities trading, merchant banking, asset management, bancassurance, leasing and factoring. A support service company (Intesa Sistemi e Servizi) and one for the management and recovery of doubtful loans (Intesa Gestione Crediti) have been established.

Support service companies

The centralisation in just one product company of all operational and support service functions for all Group companies is one of the necessary preconditions for realising economies of scale and is thus at the very heart of the federal model.
Banks were subject to specific Value Added Tax regulations which meant that outsourcing these activities was an extremely expensive alternative.
Therefore, only after the issue of Law 133 of 1999 - which eliminated the distortive fiscal effect and made all services rendered within banking groups VAT-exempt - was it possible to accelerate the establishment of the Group’s operative structure.

Intesa Sistemi e Servizi

Particularly important was the fact that, at the beginning of 1999, Intesa Sistemi e Servizi started operations. At the end of June, Ambroveneto and Cariplo transferred, by means of a de-merger, the IT systems (hardware e software) and the contracts for the supply of specific services stipulated by the two banks. Later, personnel was seconded to Intesa Sistemi e Servizi which now relies on 2,200 employees and, according to the original plan, should employ approximately 2,500 people.

Intesa Gestione Crediti

Just as important for our Group model is the fact that Intesa Gestione Crediti started operations. The Company was formerly called Cassa di Risparmio Salernitana, to which Caripuglia and Carical had transferred all their doubtful loans at the end of 1998. At the end of June Ambroveneto and Cariplo also transferred their non-performing loans to the Company (in the case of Cariplo with the exception of non-performing medium- and long-term loans).

In the second part of the year the Company acquired the doubtful loans of certain savings banks situated in Central Italy.
The relationships between Intesa Gestione Crediti and Group companies have been regulated considering the legal and fiscal implications connected to loan sale contracts and in order to maximise cost and scope synergies which, in this particular sector, appear to be particularly significant.
As is generally known, the industrial plan sets out that Group companies must sell their non-performing loans pro soluto (without recourse) to this Company, or assign the latter the management of such loans by the end of the year. From then on the loans will be assigned in management to Intesa Gestione Crediti as soon as they are recorded as non-performing loans and sold pro soluto (without recourse), only after the various companies will have adjusted the book value of such loans so that transfer price will normally be the loan’s book value. Medium- and long-term loans, which are typically backed by pledge and mortgage guarantees, will be managed by the doubtful loan recovery company, even though they will remain accounted for in the books of the various companies which granted them.

Direction and operational support activities

Starting with the second half of last year the following activities previously carried out by specific structures in Ambroveneto and Cariplo were centralised in Banca Intesa:
legal and fiscal advice; administrative compliance procedures; management control; risk monitoring; financial and economic research; human resources and organisational structure management.
After Cassa di Risparmio di Parma e Piacenza joined the Group, the same functions carried out by this bank were also centralised in the Parent Company.
These functions, currently still carried out by various other Group companies, will be progressively transferred to the Parent Company in the next two-year period.
In particular, for Banca Popolare FriulAdria this will occur starting with the second half of the year and for Banca Carime by the end of the year.
At the beginning of 1999, Banca Intesa and the aforementioned banks stipulated “service” agreements which define the means, terms and prices to be paid for such services.
The Boards of Directors of the Companies involved proceeded to delegate to Banca Intesa top officials the powers necessary for the latter to act in the name and in the interest of the respective banks.

Group finance

At the beginning of February 2000 the Bank finance division within Banca Intesa started operations. This division is responsible for integrated management of operations on the financial and monetary markets with the objective of optimising the risk-return profile of managed portfolio and improving response to the needs expressed by the Group’s commercial networks. The division is also responsible for satisfying the liquidity requirements of both Banca Intesa and other Group banks and companies.
During this year, interventions in the Finance area will be aimed at making Banca Intesa fully operational on all financial markets and centralising within the Parent Company all positions and risks, thus hedging them for the single commercial banks and developing an information-system-based market which will enable different Group entities to satisfy their needs and those expressed by customers.

The transfer to the Parent Company of operations on the international markets is closely related to the centralisation in Banca Intesa of Group finance activities. Therefore, as of this month (March 2000), Ambroveneto and Cariplo branches abroad will be closed and in the same locations Banca Intesa branches will be opened. These operations would be completed by the end of the year.

Equity investments

Company operations

During 1999 the integration plan among product companies was completed and the following operations were finalised:

- on 1st January, Intesa Asset Management - Società di Gestione del Risparmio was created from the merger of Caboto Gestioni Sim, Fondigest and La Centrale Fondi;
- again on 1st January, Fiscambi-Locazioni Finanziarie spun off part of its assets and liabilities and contributed them to Intesa Leasing;
- in May, Cariplo absorbed Cassa di Risparmio di Calabria e Lucania;
- in November, Mediocredito del Sud was absorbed by Mediocredito Lombardo;
- during the second half of the year, product companies controlled by Cariparma were gradually integrated by Group companies operating in the same sector.
  More specifically: Po Investimenti was absorbed by Intesa Asset Management, Po Leasing by Intesa Leasing and Po Factoring by Mediofactoring.
  Cariparma absorbed Mediocredito Padano, another company under its control;
- at the end of December, Cariplo de-merged the following equity investments and transferred them under Banca Intesa's direct control: Banca Carime, Mediocredito Lombardo, Intesa Asset Management, Intesa Leasing, Mediofactoring, Setefi, Banca Intesa International, Cariplo Banque and Cariplo Ireland and other companies of strategic relevance for the Group, namely Bank Austria, Wien, and Bank Austria Creditanstalt, Prague, Banco Comercial Portugues and Banco de Investimento Imobiliario, Lisboa;
- as part of this last operation, Cariplo transferred its equity stake in Caboto Sim to Caboto Holding Sim, whereas Caboto Holding Sim de-merged its 100% stake in Caboto International in favour of Banca Intesa.

Disposals

With regard to disposals, a total of 25 transactions were completed, with capital gains in excess of 628 billion lire and capital losses for approximately 4 billion lire.
Most important transactions referred to:

- in March, following the integral exercise of the warrants assigned to Shareholders at the time of the establishment of Banca Popolare FriulAdria, Banca Intesa's equity stake in Banca Popolare FriulAdria decreased by 33%. The capital gain on the operation totalled 245 billion lire;
- the sale in June of the equity investment held by Cassa di Risparmio di Parma e Piacenza in Cassa di Risparmio di Reggio Emilia, with a capital gain of 214 billion lire;
- in August, the sale of the equity stake in Banca Monte Parma, held by Cariplo, with a capital gain of approximately 63 billion lire;
- in November, the sale of a part of the equity stake held in ICCRI, which involved various Group companies. The residual stakes will be disposed of before the end of June 2000; the operation will lead to a total capital gain of approximately 42 billion lire;
- in June, Cariplo sold its equity stake in Autostrada Brescia-Padova (the Motorway connecting Brescia and Padova), generating a capital gain in excess of 16 billion lire;
- during October, the following disposals occurred: Cariplo sold its equity investment in Agricola Gery (with a capital gain of almost 6 billion lire) and Banca di Trento e Bolzano sold its stake in Istituto Centrale di Banche e Banchieri (with a capital gain of 1.5 billion lire). Banco Ambrosiano Veneto's equity stake in the latter company had been sold at the beginning of the year with a capital gain of 14 billion lire;
- in January, Cariplo sold its equity investment in Cassa di Risparmio di Gorizia, with a capital gain in excess of 5 billion lire.

Acquisitions

With regard to acquisitions, in February, Cassa di Risparmio di Parma e Piacenza's entry in Gruppo Intesa was finalised. The operation, which was carried out by means of the merger in Banca Intesa of three holding companies (Cariparma Holding, Holding

Piacenza and Società Bresciana di Partecipazioni Bancarie), has already been amply described in the Report on operations contained in the 1998 Annual Report. The equity investment in Cariparma is accounted for in Banca Intesa's accounts at a book value of 1,343 billion lire.
Cariplo's creation of a new banking structure Holding Intesa Centro is part of Gruppo Intesa's strengthening strategy which also addresses the rationalisation of its equity investments. Holding Intesa Centro is responsible for co-ordinating and developing the activities of five savings banks located in the Umbria and Lazio regions (with approximately 150 branches and total assets of approximately 8,000 billion lire) and should act as an attraction pole for other banks operating in the neighbouring areas.
The Holding, with registered offices in Spoleto, boasts a shareholders' equity of approximately 765 billion lire; it was established by Cariplo with the contribution of its controlling equity stakes in the Cassa di Risparmio di Città di Castello, Cassa di Risparmio di Foligno, Cassa di Risparmio di Rieti, Cassa di Risparmio di Spoleto and Cassa di Risparmio di Viterbo. Certain Foundations which hold equity stakes in these banks also took part in the establishment of the new Holding company.
As part of the above-mentioned project, in July, Cariplo increased its equity stake in Cassa di Risparmio di Foligno to 65.5% by purchasing a further 47.1% of the company's shareholders' equity from Fondazione Cassa di Risparmio di Foligno.
Later, Cariplo also acquired a further stake in Cassa di Risparmio di Spoleto which allowed it to reach a controlling interest (54.5%) in the latter; the equity investment in Cassa di Risparmio di Rieti was increased to 80%.
The new Holding company is controlled by Cariplo with a 97.6% equity stake.
The relative industrial plan sets out that Banca Intesa will be responsible for strategic planning, risk management and finance whereas the Holding company will be responsible for operational planning, management control, auditing and human resource management.

An operation which will considerably influence the Group's future strategies, especially its international activities, is the acquisition of a 2.75% equity stake in Crédit Lyonnais, as part of the French Government's privatisation of the bank.
With this investment Banca Intesa is a member, together with Crédit Agricole, AGF - Assurances Générales de France, Axa, Commerzbank, BBV - Banco Bilbao Vizcaja and CCF - Crédit Commercial de France, of the voting syndicate controlling 33% of Crédit Lyonnais' ordinary share capital. The investment is deemed to be strategic and follows from industrial motivations, since various areas of potential collaboration with that bank have already been identified: near-banking services (in particular, leasing), asset management, capital market activities and risk management.
Such collaboration agreements are aimed at optimising the use of capital by investing it in activities which absorbe low amounts of capital and are complementary in terms of geographic areas, products and customers. This co-operation also leads to the creation of further revenues thanks to low marginal costs and sharing development costs of initiatives pursued jointly.
The cost of the equity investment totalled approximately 465 billion lire.

Also as part of the above-mentioned strategic alliances, the strengthening of the Group's international presence continued with the acquisition, in November 1999, of a 9.96% stake in the share capital of Bank Austria Creditanstalt Hungary, Budapest, and with a further investment in Bank Austria Creditanstalt AS, Prague, which led Banca Intesa's equity stake to rise from 10.18% to 19.99%.

Human resources

Human resources are one of the factors at the heart of the success of the federal group model.
Starting from this viewpoint Banca Intesa decided to centralise in the Human resource management division all functions connected to the resource planning, the definition and co-ordination of management policies and guidelines, such as industrial relations, incentive mechanisms and personnel management systems, training programmes and internal communication, which are the engines of professional re-conversion.

With regard to planning and development, in the medium-term, interventions currently under way will lead to map and monitor human resource quality (individual behaviour, competencies and experiences). An innovative human resource management programme based on competencies will be realised; career paths suited to the characteristics of single employees, to be identified also via a new analysis and performance valuation method, will be introduced.
In the first semester, resources necessary for the various divisions within Banca Intesa were first identified and then appointed. Particular attention was paid to the competencies and characteristics of each person involved. The integration of FriulAdria and Cariparma, the fact that Intesa Sistemi e Servizi and Intesa Gestione Crediti are now fully operational and the absorbtion of Mediocredito del Sud in Mediocredito Lombardo, led to the definition of resources to be seconded or tranferred.
The new incentive system, which will be diversified for different professional profiles, will be a particularly important element of management policies. For the time being this is applied in most important Group companies and in 2000 it will be extended to the entire Group.
A significant incentive-driven exit plan was implemented both for Banca Intesa and other Group companies, and the containment of turnover led to a reduction in the Group's headcount amounting to approximately 750 people. The economic results of this project can already be appreciated starting with the second half of the year.

With regard to training, two consortium companies called Intesa Formazione and Intesa Formazione Sud were established with the objective of promoting, organising and managing all training and recoversion initiatives targeted to Group personnel.
In the first year of operations, these companies realised projects involving the whole Group aimed at spreading competencies and supporting the integration process from a corporate culture, organisational and commercial viewpoint. Interventions regarding professional reconversion were carried out also with financing from the European Social Fund.
Approximately 74,000 classroom traning days and approximately 25,000 distance training days were provided in approximately 800 different types of courses.

During the year, Gruppo Intesa companies adopted a self-regulating code of practice; this follows from current regulations which require that intermediaries which are authorised to carry out investment services must develop their code of practice.
The code has the objective of defining and disclosing the rules that the members of the administrative and control bodies, employees, financial consultants must comply with when carrying out activities related to the investment services offered to customers.
The document sets out a series of prescriptions which the people listed in the document must comply with in executing personal transactions.
Gruppo Intesa companies adopted the code suggested and prepared by the Associazione Bancaria Italiana (the Italian Bankers Association).

Capitalisation

The Group's increase in size and the development of its operations were supported by an adequate rise in its capitalisation both relative to the Bank and to the consolidated requirement.
More specifically, during 1999, aside the increases in capital to service the integration of Cariparma (315 billion lire in nominal value terms and 428 billion lire in premium) and of Banca Commerciale Italiana (2,073 billion lire in nominal value terms and 4,239 billion lire in premium), 1,460 billion lire in new capital was raised on the market.

The main operation was the rights issue resolved upon by the Extraordinary Shareholders' Meeting held on 16th March 1999 and executed in the period from 10th to 31st May 1999. The issue was almost entirely subscribed by parties holding pre-emptive rights (99.3% of rights distributed was exercised and the remaining 0.7% was absorbed by the Stock Market) and enabled the Parent Company to raise a total of 1,235 billion lire.
Furthermore, holders of warrants issued at the time of the increase in capital resolved

upon on 30th September 1997 exercised their right to subscribe the Company's shares for a total, premiums included, of 225 billion lire.
The conversion of subordinated convertible bonds in ordinary and savings shares for a total, including premiums, of 205 billion lire must be considered a simple transfer from Tier 2 to Tier 1 capital.

The Group's capitalisation was also increased by the issue of subordinated loans as follows:

- through a special purpose vehicle established in Delaware (USA) which issued preference shares for a total of 150 million euro, eligible to be included in Tier 1 capital (incidentally, it must be noted that a similar operation for a total of 200 million euro was also completed the previous year);
- Cariplo issued subordinated securities amounting to 480 billion lire which may be included in Lower Tier 2 capital;
- other Group companies have issued subordinated loans which may be included in Upper Tier 2 capital for a total amount of 382 million euro;
- lastly, the Parent Company issued a subordinated Tier 3 loan amounting to 25 million euro which may be used to cover market risks incurred on the trading portfolio.

As at 31st December 1999, the Group could boast a free capital of 4,698 billion lire compared to 2,153 billion lire indicated in the pro forma financial statements as at 31st December 1998.

The strategic three-year plan

The rapid changes which influenced the financial and banking scenario and Gruppo Intesa's continuous growth require constant monitoring of respective markets and of the competitive positioning of Group banks and product companies as the precondition for Intesa's consistent guidance of the Group's action plans. Every year Banca Intesa draws up a strategic plan which synthesises the objectives, the operational guidelines and projects with a medium-term time horizon, which orients the co-ordinated actions of all Group members.

With the strategic three-year plan 1999-2001, defined last May, for the first time from the Group's establishment the planning process occurred according to the functional method defined for this area of activity. It involved both Parent Company management and management of all the different business units, with the support of the related technical structures.

The strategic plan of each business unit, just like the Group's consolidated strategic plan, addressed the various points set out below:

- analysis of the economic environment and competitive scenario in the sector (identification of threats and oppportunities); it is made up of analyses and forecasts regarding the general macroeconomic situation on the domestic and international markets and contains specific references to the sectors and business areas which are particularly interesting for the Group's operations;
- analysis of strategic positioning (identification of strengths and weaknesses), for the Group as a whole and for each business area; positioning is defined via comparisons with direct competitors in the reference market and examines the commercial, organisational and statement of income balance sheet implications;
- definition of a "qualitative" plan with strategic objectives and action plans;
- definition of a "quantitative" plan.

The planning process applied when defining both the medium-term (strategic three-year plan) and the short-term (annual budget) entails the following phases:

- top-down phase: analyses regarding the market, outlook and positioning carried out by the Parent Company, together with strategic objectives both qualitative and quantitative (key performance indicators) for the Group, are communicated to subsidiaries;

- bottom-up phase: definition of individual strategic plans by each of the Group’s business units, aided by Banca Intesa’s technical structures (Planning and banking research division, Management control division);
- aggregation of the individual strategic plans and assessment of compatibility with the Group’s strategic objectives;
- possible redefinition of the individual plans;
- approval of the Group’s strategic plan by Banca Intesa’s Board of Directors;
- communication of objectives and expected results both internally and externally (financial community and general public);
- gap analysis and update of the plan, to be carried out once a year.

The strategic three-year plan for 1999-2001, prepared according to the steps described above, was submitted for the approval by the Parent Company’s Board of Directors and its contents were communicated to the internal structures and the external audiences (Supervisory bodies, markets). The plan also provided the framework for the definition of the Group’s budget for the year 2000, which was discussed, negotiated and defined within the beginning of the year.

During 1999 an important reform of the Group’s strategic management system was completed and was aimed at ensuring consistency between managerial processes and shareholder value creation. The project, called VBM - Value Based Management, which is still being developed, started being implemented with the year 2000 budget.
More specifically, activities occurred according to the following steps:

- division of Group activities in accountable business units, which do not necessarily reflect current legal entities (banks, product companies), corresponding to markets which can be identified in terms of customer segments, products offered and distribution channels. Particularly significant was the separation of activities carried out by the two most important bank networks - belonging to Cariplo and Ambroveneto - in the retail and corporate segment;
- definition of a profitability indicator consistent with the managerial levers actually governed by the business unit. Adjusted EBIT was chosen to measure profitability. The adjustment considers actual capital invested if it differs from capital allocated to the business unit as defined by the absorbtion of the Group’s capital according to supervisory requirements;
- definition of an indicator of relative performance defined as ROCA - Return On Allocated Capital, which is the ratio between EBIT and allocated capital;
- implementation of a managerial accounting and reporting system applied to each business unit, legal unit and consolidated, for the entire Group to support the analytical model;
- allocation of capital and consequent assignment of economic targets for the year 2000 in terms of ROCA and capital absorbtion for each business unit.

Within next June, the project requires the definition of the strategic three-year plan for the period 2000-2002 using the VBM approach and extending retail-corporate segmentation to other Group banks.
Also noteworthy is the start up of a data gathering and analysing process centralised within the Parent Company. It will use all data individually produced by banks and companies within the Group to comply with supervisory requirements and is aimed at creating a systematic reporting system for the Parent Company’s top management and an information service to subsidiaries. The use of data furnished to supervisory authorities for strategic planning and control has the advantage of enabling the fast development of a low cost system also in the case, such as Gruppo Intesa’s, of a wide number of corporate entities, some of which have only recently been aggregated, with diversified IT, accounting and management control systems. It also enables a constant comparison with the average trends recorded by the sector and includes a significant level of details regarding the territory, the sector, and contract types.
Lastly, a widespread internal use of information provided for supervisory purposes enables the control of the latter with regard to quality and reliability.

The main objectives set out in the strategic three-year plan for 1999-2001 are listed below; however, it must be noted that it provides a precise description of objectives and

the instruments to be used by Banca Intesa as it was. It does not - and could not - consider the integration with Banca Commerciale Italiana.
This will be provided for in the strategic three-year plan for 2000-2002 which is expected to be approved next June.

Improve efficiency and reduce costs

Economies of scale are expected to stem from the centralisation of support and IT functions in Intesa Sistemi e Servizi, which should lead to an increase in efficiency on other cost centres through specific cost cutting projects. Another area of intervention is the reduction of distribution costs via the development of channels alternative to the branch network (the Internet, phone banking, remote banking, etc.). The plan also sets out initiatives aimed at containing personnel costs also by means of the conversion of administrative roles in commercial roles and the reduction in the number of staff, via incentives for exit plans, partial turnover block and the outsourcing of non-core activities.
Following these actions, at the end of the three-year period, the operating cost to net interest and other banking income ratio will decrease by over 10 percentage points to 57.5%, with a further reduction to approximately 54% before the end of 2002.

Improve loan portfolio quality

The interventions already carried out in this area lead us to expect lower flows of non-performing loans and significant value recoveries. Aside Business Process Re-engineering of the loan granting procedures and the diffusion of best practices to all Group banks and companies, further actions will be taken in the three-year period.
As already mentioned above, the Group’s doubtful loan management and recovery company, which started operations in 1998, will allow non-performing loans to be managed more effectively with lower costs and greater recoveries. A loan securitisation amounting to 1.5 billion euro will lead to a substantial decrease in the volume of non-performing loans.
Actions indicated above will allow the Group to reach a non-performing loans to loans to customers ratio, net of value recoveries, of 3.7% in 2001.

Increase income from services and defend interest margin

Development of customer deposits and loans to customers forecasted for the three-year period will lead to increase market shares and to offset the contraction in the interest rate spread, which is expected to continue, even though at lower rates than in the past.
Intesa will continue to develop high value added business areas such as asset management, bancassurance, corporate services (corporate finance, merchant banking, closed-end fund management, payment and cash management services, etc.).
Cross selling and spreading Group products to all federated banks are most important levers in this area. Greater revenues are also expected to derive from the consolidation of the Group’s leadership in stock and bond trading on the Italian market.
This will enable Intesa to further improve upon one of its strong points, namely the degree of diversification of its revenues: in 2001 the ratio of income from services to net interest and other banking income will increase to approximately 50%.

Strengthen coverage of the national market

Divisionalisation of the commercial and distribution structure according to customer segments and the introduction of dedicated managers will be extended to all Group banks. Group presence will be intensified in the areas where it is weaker and the personal financial consultants network will be expanded with 800 new consultants.

Complete the Group’s integration

The plan assumes the completion of the Group’s integration according to the timing defined in the Master Plan, with the centralisation in Banca Intesa of the Group’s

treasury activities and the securities portfolio, the merger between Mediocredito Lombardo and Mediocredito del Sud, the transfer of the foreign network to Banca Intesa and the contribution of Ambroveneto's branches located in the Friuli-Venezia Giulia region to FriulAdria. Within 2001, Holding Intesa Centro will be integrated in the Group and Intesa Sistemi e Servizi will complete the Group's IT system.

Develop international presence

Intesa's efforts are aimed at developing a network of strategic agreements, also via the exchange of shares, alliances and joint ventures according to the positive experiences already completed (Banco Comercial Portugues and Bank Austria) and privileging the areas which are more deeply integrated with the Italian economic system. These alliances may lead to the development of strategic and operational co-operation agreements in the business areas which require a European scale and in greater value added services which require specific distinctive competencies (such as asset management, securities trading and factoring). Further developing the relationship with Crédit Agricole and the acquisition of an equity stake in Crédit Lyonnais follow from this strategy.

Strengthen free capital and further improve capital ratios

Improving allocation of capital is one of the most important strategic guidelines for the Group. From this point of view, the plan sets out the reduction of fixed assets and the relative absorption of capital via specific interventions regarding non-strategic equity investments, non-performing long-term loans and real estate properties. At the same time, the Group's equity will be increased as a consequence of self-financing, conversion of convertible bonds and exercise of warrants in issue.
The Group will also issue bonds eligible for capital requirement purposes.

Stimulate value creation

The introduction of a Value Based Management (VBM) system is one of the Group's fundamental strategic projects. It will monitor and stimulate value creation at all levels. The objective is to optimise the allocation of capital at risk to the different operational business units. In this framework, bonus systems for management will be linked to value creation. As has already been pointed out above, the industrial plan for the new large Gruppo Intesa-BCI will be drawn up in the next few months. The "workstations" which will be responsible for defining the content of the industrial plan are currently being established and will become immediately operational; we therefore believe that we will be able to present the new plan to the financial community during the summer.

Ratings

In 1999, Moody's increased Banca Intesa's medium- and long-term rating from A2 to A1. Banca Intesa's ratings issued by the various specialised agencies are set out in the table below:

Agency	Short-term debt	Medium- and long-term debt
Standard & Poor's	A1	A
Moody's	P-1	A1
FITCH IBCA	F1	A+
Thomson Bank Watch	TBW-1	A+

The favourable ratings attributed to Banca Intesa debentures are confirmed by the valuations as counterpart in financial transactions, namely: Moody's financial strength rating (increased from C to C+), FITCH-IBCA individual rating (C) and the issuer rating given by Thomson Bank Watch (B).

The economy, lending and deposit collecting activities and asset management

In this chapter certain aspects regarding the economic and competitive context in which Banca Intesa operates will be described. Their evolution in the course of this past year has significantly influenced the Group’s strategic positioning, operating policies and economic results.
Firstly, the economic and financial situation in Italy is briefly described and then the following aspects are analysed in greater detail:

- the evolution of banking in Italy and Gruppo Intesa’s positioning;
- the development of two particularly significant segments of banking and financial services, that is securities intermediation and asset management, segments in which our Group holds particularly noteworthy positions;
- the strategic redefinition of the banking and financial arena which has been further accelerated both on the domestic and European market through the implementation and the stipulation of numerous “merger & acquisition” deals.

International economy and Italy

After the end of the deceleration in economic growth due to the Asian crisis and its extension to Russia and Brazil which occurred in the first few months of the year, later in 1999 the growth rate in world economy gradually picked up. The risks of stagnation - or even of recession in various areas of the world - which in the first months of the year had negatively affected the markets, did not materialise.
US economy continued the longest growth period ever recorded by statistics.
The expansion in income was sustained by the outstanding growth in household consumption, financed by both an increase in debt and the marked rise in the value of financial assets. Persistently, high growth rates led to an increase in balance of payments deficit which totalled 330 billion dollars in yearly average terms, from 220 billion dollars in 1998.
The labour market situation remained positive: the unemployment rate equalled 4.2%, average for the twelve months, with the prospective of a further improvement in 2000. Higher-than-forecasted increases in productivity contributed to contain inflation: the consumer price index recorded a 2.2% rise in average annual terms.
The situation of the Countries taking part in the Monetary Union also progressively improved, even if more slowly than in the North-American area.
Notwithstanding certain difficulties, confidence of businesses and households led - respectively in April and July - to positive trends. This improvement was clearly favoured by consolidation of foreign demand connected to the progressive acceleration of the South-East Asian Countries and the relative stability achieved by the Countries in Central Europe.
The profound differences in the growth rates of the major economies were not eliminated. Ireland, Spain, Finland and Holland recorded GNP growth rates in excess of 3%, whereas Italy and Germany closed the year with estimated average growth rates around 1.5%. France - the second economy of the area - was closer to the more virtuous group with a 2.8% growth rate.
Though with certain significant exceptions, the position in the economic cycle of each Country was reflected in a different trend in the inflation rate; all Countries also faced exogenous factors fuelling price rises, namely the increases registered in the price of oil and raw materials. In Italy, Ireland, Spain and Holland the harmonised consumer price indices went up by more than 2%, higher than the objectives set by the European Central Bank. France and Germany remained at approximately 0.5% yearly average.
The growth rate recorded on Italian gross national product in 1999 did not rise above the previous year’s which totalled 1.3%. In spite of an almost constant domestic demand the contribution coming from inventories was not sufficient to offset the effects of a trade balance which remained negative.

The consumer price index remained at 1.7% average for the year, down from 2% in 1998. The asymmetry in price variations compared to the major partners in Euroland continued to be worrying. In spite of weak domestic demand, in Italy the increase in oil

and raw material prices was accompanied by a rise in the non-energetic components of the index. Yet again, the need to complete structural reforms - from the reduction in the fiscal burden on labour costs to the liberalisation of markets for goods and services - emerged clearly. These should gradually lead to the elimination of the constraints which contribute to this typically Italian anomaly.
Starting with the second half, the recovery in world demand favoured a gradual increase in exports; the depreciation of the euro with regard to the dollar positively affected this phenomenon. Pushed by the recovery in domestic demand, imports also gradually increased. The trade balance closed 1999 with a surplus slightly in excess of 36,000 billion lire (1.8% of GNP), compared to the over 60,000 billion lire recorded in 1998 (3%).
The lower growth rate recorded by exports compared to domestic demand can be explained considering two elements. First, the characteristics of cross-border trade which is concentrated on traditional products which are sensitive to price competition. Second, the lack of dynamism shown by the specialisation model prevailing in the Italian economy which - contrary to certain important European partners - evolves very gradually along a greater innovation and higher technological content path.
In 1999 the labour market confirmed the improvements recorded in 1998. Sustained by the recovery in the services and construction sectors, the number of employed people increased by little more than 1%; the unemployment rate equalled 11.4% at the end of 1999, compared to 11.8% the previous year.

Monetary policy and bank operations

The higher-than-forecasted strength in the US economy determined a rise in long-term interest rates from the beginning of the year. This was transmitted to returns in euro in spite of the expansive policy adopted by the ECB. Compared to last January, the increase in interest rates equalled almost 2 percentage points in twelve months.

In the second half, the Federal Reserve decided upon three increases in its reference interest rate, for a total of 75 basis points, thus recovering the decrease it had enacted at the end of 1998.
In its first year of operations, the European Central Bank maintained the system liquid, with an expansive intervention of 50 basis points in April. However, at the beginning of November, considering possible inflationary tensions, also connected to the depreciation of the currency, the ECB decided to bring the marginal refinancing rate back to 3%. On 3rd February 2000, just after the analogous increase carried out by the Fed, the ECB increased the reference rate by a further 25 basis points.

If it could not contrast the rise in the long-term end of the yield curve, ECB’s expansive monetary policy in any case led to a progressive decrease in bank interest rates and spreads in the first three quarters. Only in the last part of the year, bank interest rates began to increase after the increase in the “policy” rate decided upon in November, which was anticipated by the generalised rise in market interest rates.

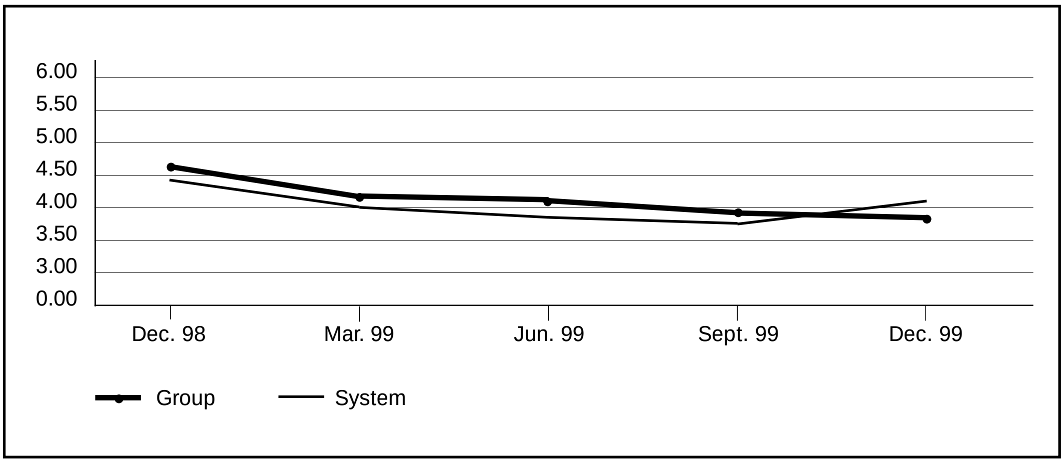
The spread

During the year the spread between short-term interest rates dropped from 4.41 to 4.03 points (Graph 1). However, it must be noted that with a minimum of 3.80 points touched in the third quarter, the strongly decreasing trend recorded in the last two years seems to have stopped. This leads to the forecast that interest rates should remain stable in the next few months, in conjunction with the restrictive tendency in monetary policy.

Interest rates applied by Gruppo Intesa on deposits and loans to customers - calculated as the weighted average of rates applied by the five main banks (Ambroveneto, Cariplo, Carime, Cariparma and FriulAdria), which represent over 84% of customer deposits and 81% of loans to customers - were characterised by a prolonged descent, which must be

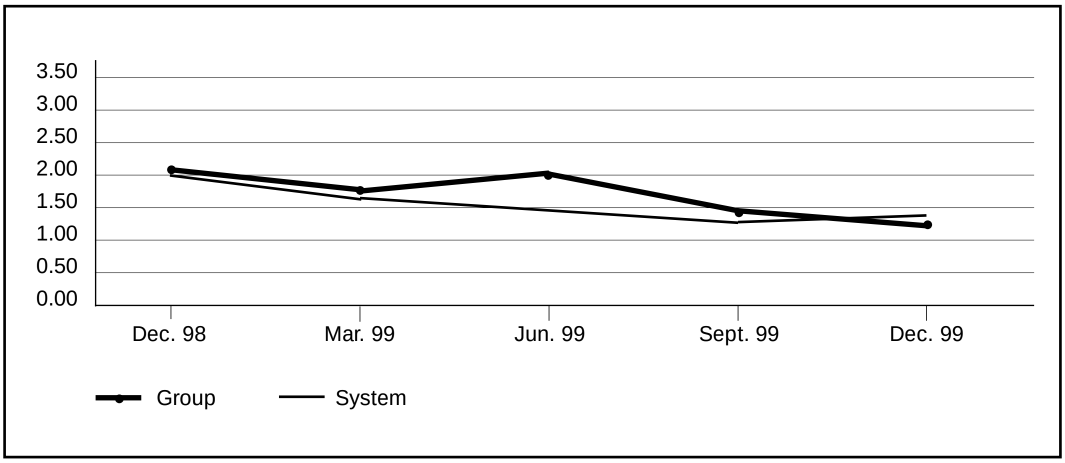
attributed to the geographic breakdown of the Group’s reference markets, with greater weight of regions in Northern Italy. Short-term spread, which equalled 3.99 points average for the year, registered a 6 basis points advantage compared to the entire system (3.93), attributable to lower funding costs.

Graph 1 - Short-term spread



The medium- and long-term spread between interest rates on investments and funding practised on average by the banking system recorded a contraction of approximately 50 basis points (Graph 2), and totalled 1.44 points at year-end. For Gruppo Intesa, this differential was on average more than satisfactory, since in the course of the year it was 16 basis points higher than the system’s.

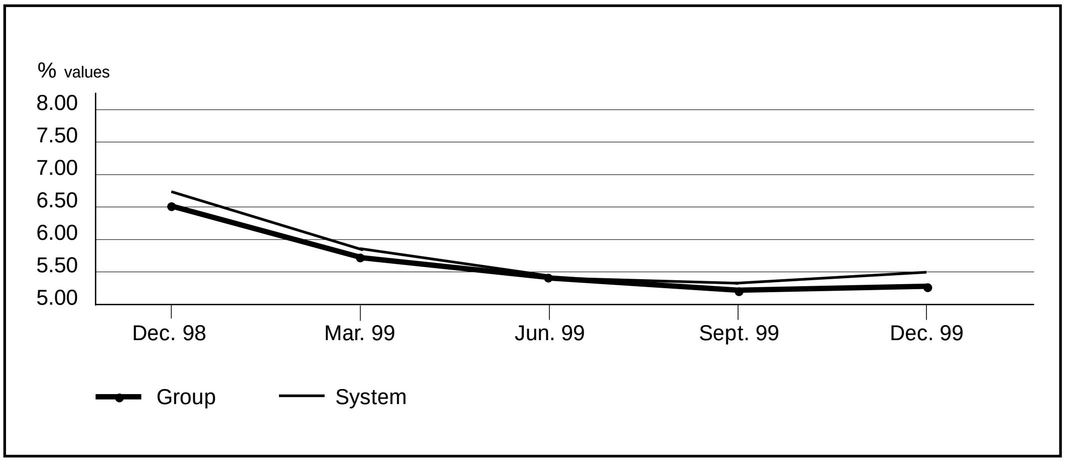
Graph 2 - Medium- and long-term spread



Interest rates on loans

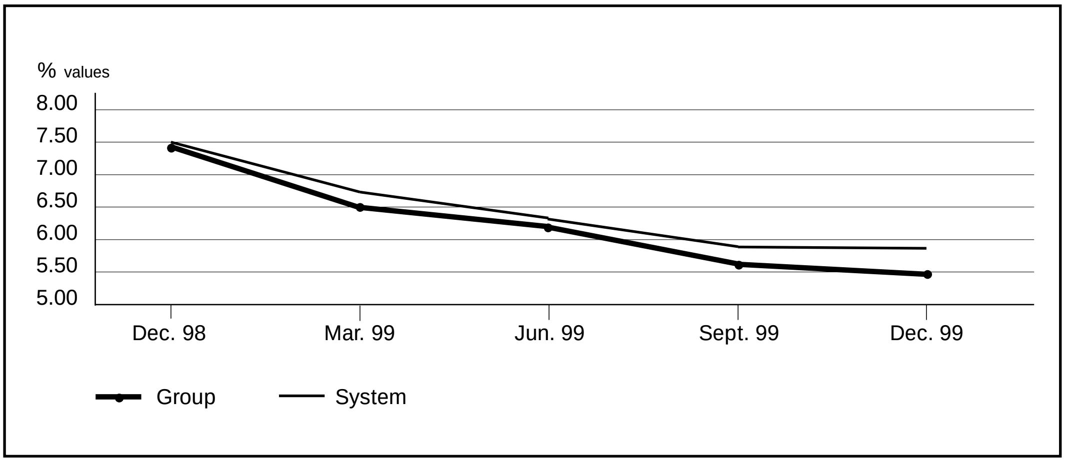
The average interest rate applied to short-term loans granted by the banking system dropped by almost 1.5 points in the first nine months of the year (Graph 3), and registered their all-time minimum of 5.25%, then to rise by 30 basis points in the last quarter. Also the corresponding interest rate applied on average by Gruppo Intesa’s five main banks touched its minimum at the end of the third quarter with 5.15%, and then increased to 5.22% in the last part of the year. Compared to December 1998, it recorded a 128 basis point drop compared to the 115 basis point drop recorded by the system. The Group’s lower average short-term lending rate compared to the system, as well as the higher reduction recorded during the year, can be attributed to the above-mentioned geographic presence, the importance of intergroup operations and operations with large corporate customers, and the fact that the latter’s incidence increased during the year.

Graph 3 - Average interest rate on short-term loans



With regard to the interest rate applied to medium- and long-term loans, average return of outstanding loans, excluding subsidised loans, decreased more significantly than that recorded by short-term interest rates (Graph 4): for the banking system it moved from 7.50% to 5.89% in the twelve months, and reached a minimum of 5.83% in October.
On average, the interest rate applied to medium- and long-term loans by the Group was 23 basis points lower than the system's. Furthermore, with a 184 basis point drop registered by the Group, compared to the 161 basis point decrease recorded by the system, at year-end the difference was even higher. It must be noted that medium- and long-term loans reflected even more than short-term loans the Group's aforementioned focus on lower risk and more competitive markets.

Graph 4 - Average interest rate on medium- and long-term loans

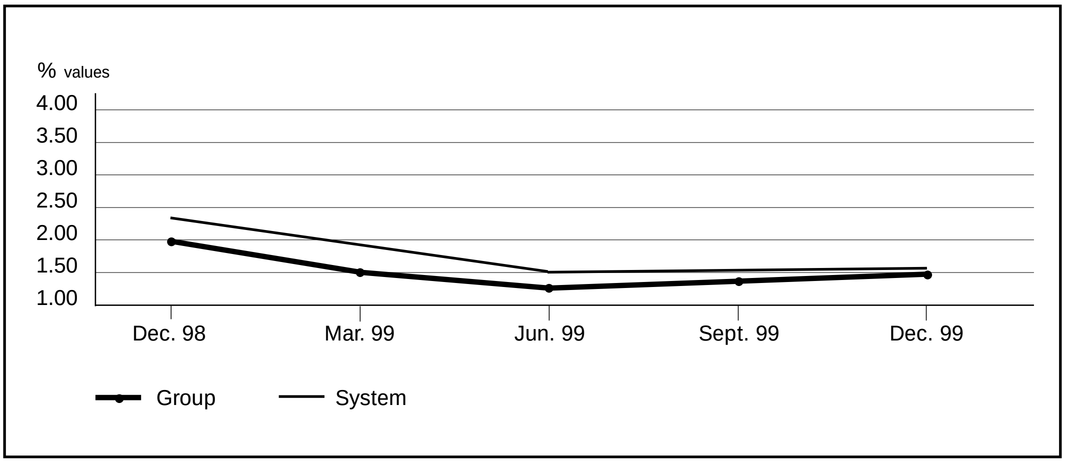


Funding costs

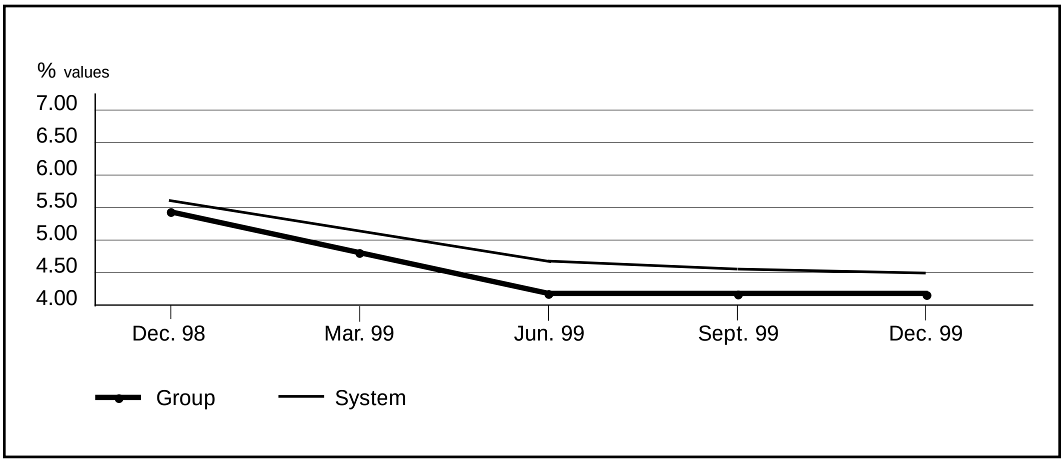
Turning to funding costs, the average interest rate applied by Italian banks to customer deposits, which totalled 1.52% at year-end, dropped by 77 basis points compared to December 1998, notwithstanding the slight increase from the minimum recorded in October (Graph 5).
During the year, Intesa took advantage of a nominal funding rate on average 20 basis points lower that the system's, though its recorded a more contained decrease, limited to 56 basis points.
In issued bonds, the system paid continuously decreasing interest rates (Graph 6), from 5.57% to 4.45%. On average, the Group realised a nominal cost on deposits approximately 40 basis points lower than the system's, anticipating the reduction in the second quarter.

In short, lower “funding” costs seem to confirm the persisting competitive advantage deriving from the fact that Gruppo Intesa banks are deeply-rooted in their respective local markets even though the evolution of the spread shows its progressive erosion.

Graph 5 - Average interest rate on customer deposits



Graph 6 - Average interest rate on issued bonds



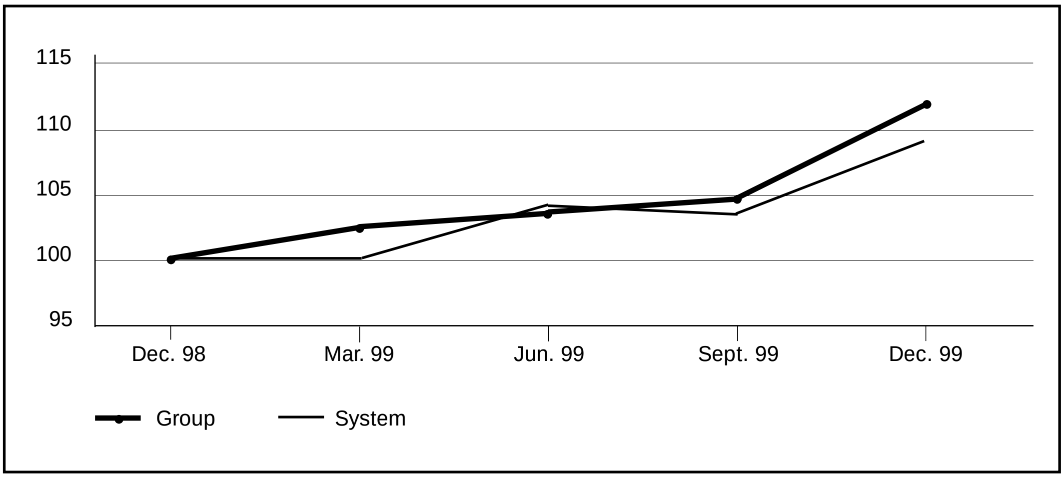
Lending

The economic recovery in the Euro area was confirmed by the considerable growth recorded by bank lending. In the last part of the year, following the improved economic backdrop, the expansion in bank loans accelerated in spite of the rise in interest rates. According to the European Central Bank, this can be attributed first of all to capital market operations carried out by companies, with the temporary use of bank loans and, with regard to households, to the financing of the flamboyant housing demand.

In Italy, following the aforementioned trends, bank loans recorded considerable growth rates, slightly higher than the average of the European market, notwithstanding a less favourable economic environment. Total loans to customers, net of non-performing loans and repurchase agreements, registered a 9.4% rise in twelve months. Particularly high was the rise recorded in loans to households: apart from demand of mortgages, also favoured by tax incentives on restructuring, an expansion in ad hoc loans for the purchase of tangible assets occurred, which recorded a 4.4% growth rate in the first three quarters.
The incidence of the household sector on total loans to customers granted by Italian banks reached 19%, corresponding to a 2 point increase.

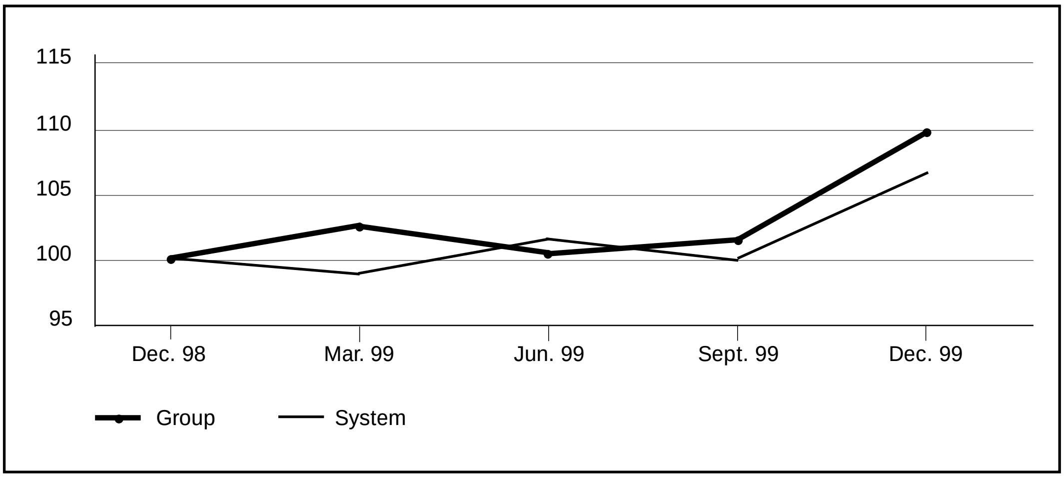
With regard to Group activities, a rise in loans to customers higher than the system’s was recorded (Graph 7). Consequently, market share at year-end rose by 0.4 points, to 12.3%. Excluding relations with financial companies, market share was one point lower due to the higher incidence, compared to competitors, both of intergroup relationships and relations with private financial companies created by industrial groups. Incidence of loans to households remained in line with the system's average both in terms of percentage incidence and growth rate for the year.

Graph 7 - Total loans (1999 trend; December 1998 = 100)



In Italy, short-term loans registered a 6.6% growth rate in twelve months (Graph 8), also as a result of the numerous and important concentration operations between industrial firms which required temporary or "bridge" financing granted by banks.
At the end of 1999, Gruppo Intesa registered a rise in short-term loans in excess of 10.5%. Consequently, the Group's market share increased by almost half a point and reached 12.3%. However the actual rise in the Group's penetration in short-term lending could be lower to that indicated as a result of the aforementioned distortive effects due to the accounting of intergroup financing.

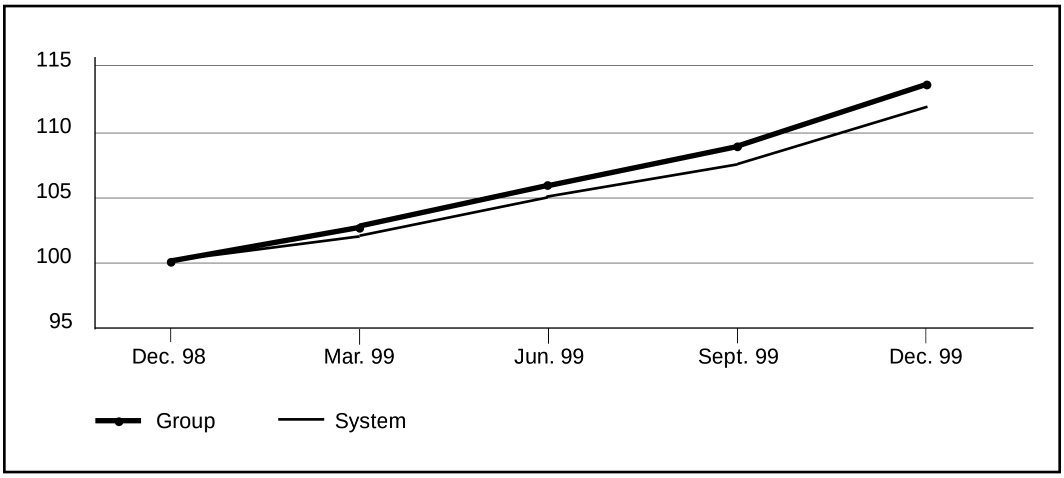
Graph 8 - Short-term loans (1999 trend; December 1998 = 100)



Similarly to European trends, the growth in medium- and long-term lending was particularly significant, 12.2% at the end of the year (Graph 9). Industrial lending benefited from the signs of recovery in productive investments in the last part of the year and summed up with the development of mortgage lending. Other factors which influenced growth in this area are attributable to the conversion of loans which were previously short-term and investments abroad for the delocalisation of plants.
In long-term loans, Banca Intesa held a 12.2% market share at the end of 1999, slightly higher than in 1998 (+ 0.2 points), due to the progress recorded by volumes, up by 14.1%, which outperformed the already noteworthy increase registered by the market. This favourable competitive result testifies the synergies arising on the internal diffusion

of the Group’s best practices, particularly with regard to mortgage lending and loans granted to the construction sector. Increasing specialisation in project financing - a small market in absolute terms but with promising growth rates - must also be highlighted.

Graph 9 - Medium- and long-term loans (1999 trend; December 1998 = 100)

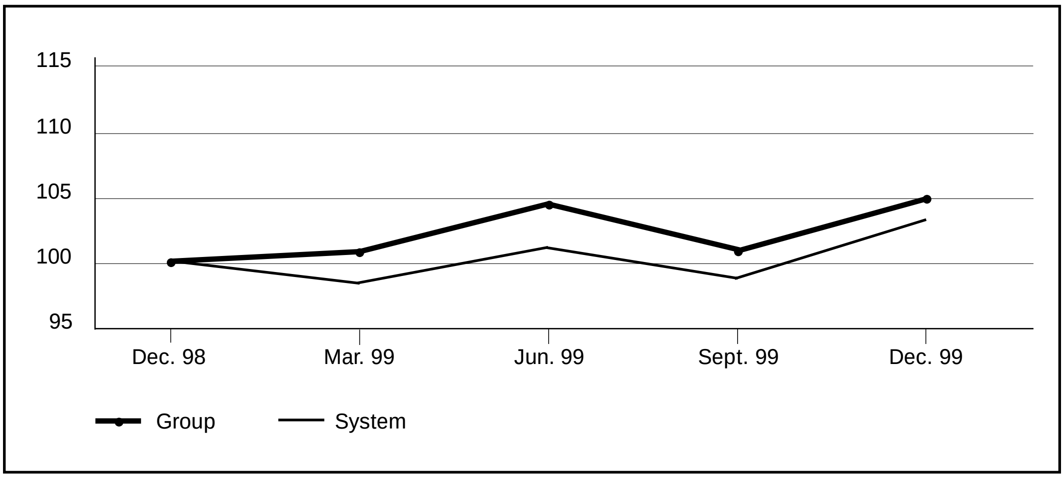


Deposit Collection

With regard to direct customer deposits, 1999 confirmed the polarisation of demand on the two extreme contract types, that is current accounts and bonds, which were the only products which recorded a rise in volumes. In particular, the former showed the highest growth rate in bank funding, with a 13.4% rise in the year. Growth recorded by total customer deposits - composed of the sum of deposits, current accounts and bonds, excluding repurchase agreements - equalled 2.9% at year-end (Graph 10), particularly low if compared to the substantial rise in loans to customers. The ratio between these two aggregates increased by 5.7 points and reached 99.4%, whereas maturity mismatching rose. In this respect, in twelve months the ratio between medium- and long-term loans and deposits with similar maturities went up by 16 points and reached 135%.

Growth in funding recorded by Group banks was slightly higher than that recorded by the market: in December the annual growth rate of the total aggregate equalled approximately 5%, approximately two points higher than the system. This led to a moderate increase in market share which moved from 12.4% to 12.6%, thanks to the higher growth rate recorded by deposits.

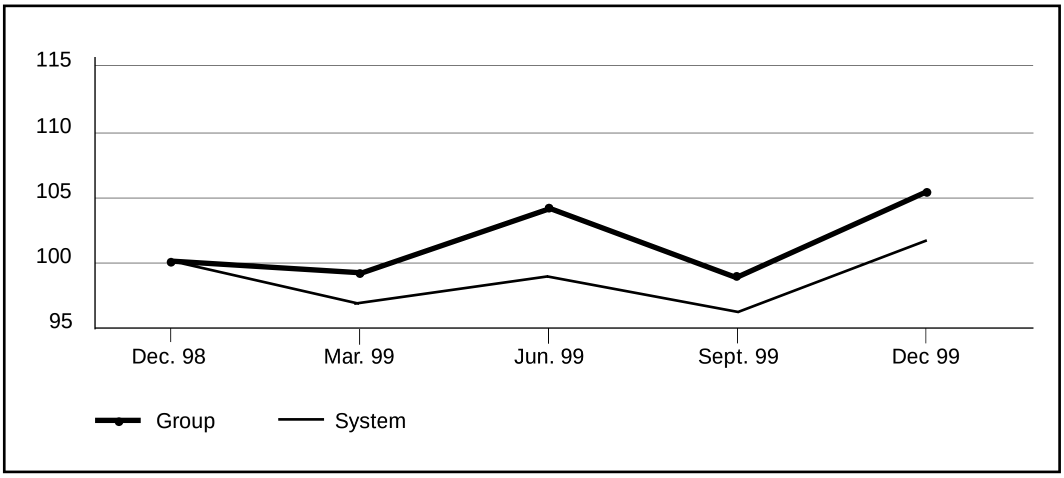
Graph 10 - Total customer deposits (1999 trend; December 1998 = 100)



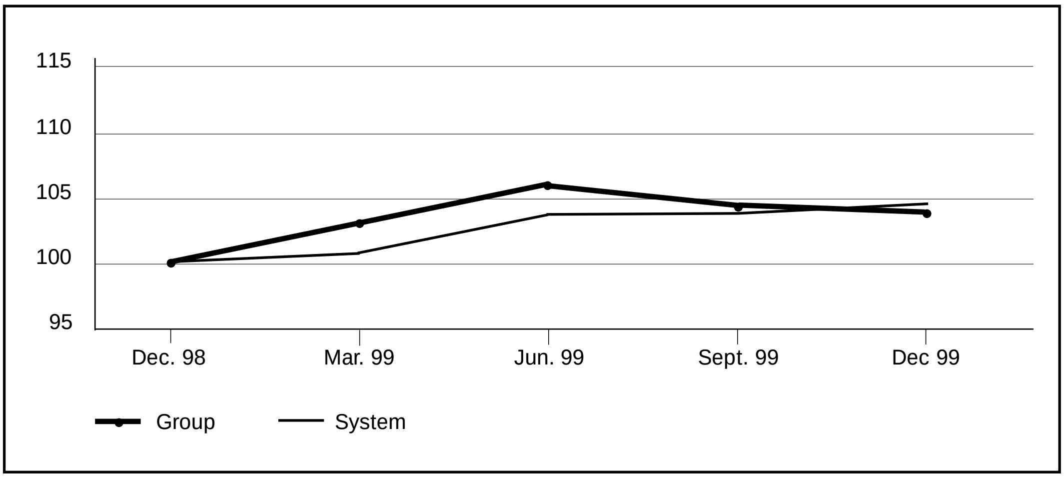
Graph 11 shows the trend recorded by deposits collected by the entire system and the Group.

Lastly, Graph 12 sets out the trend in issued bonds, comparing the system's aggregate to Gruppo Intesa's.

Graph 11 - Deposits (1999 trend; December 1998 = 100)



Graph 12 - Issued bonds (1999 trend; December 1998 = 100)



Investment services and asset management

Also in Italy the tensions on long-term interest rates had repercussions on the secondary market, prices of fixed-income bonds were consequently particularly volatile.
The gross MTS index on BTPs recorded a drop in excess of 1.5% in the year.
Performances of fixed-income mutual funds, especially those specialised in medium- and long-term securities in the Euro area, were adversely affected by this trend and their result was on average negative and amounted to over 2%.

Notwithstanding this, the evolution of financial instruments and markets in the Euro area continued. An example of this is the significant and perhaps unexpected development of corporate bonds. This segment is still small in absolute terms compared to both capital markets in the Euro area and the US corporate bond market. However, it recorded a considerable progress fuelled by bond issues connected to important "merger & acquisition" and "leveraged buy-out" deals both in the banking and industrial sectors and by the growing interest of institutional investors such as mutual funds, insurance companies and pension funds.

The Stock market

The trend registered by the Italian Stock market was strongly affected by the tensions in the international market: in the first nine months, though with oscillations, performance was deluding negative. Starting from the second half of October the market began to grow both in terms of prices and volumes traded, led by stocks in the Internet and telecom sectors. This trend continued until the end of the year and further strengthened in the first part of 2000. At the end of December the MIB index recorded a 22.3% rise for the year. Total volumes traded reached 503 billion euro, with an 18.5% growth rate compared to 1998 and an average daily volume of almost 2 billion euro.
At year-end capitalisation of companies listed on the three markets (Borsa, Mercato ristretto and Nuovo mercato) reached 726.6 billion euro, corresponding to 66.4% of GNP (compared to 45.7% of 1998). The number of listed companies in the three markets increased to 270, with a 41 unit rise with respect to 1998.
Particularly outstanding was the start-up of Nuovo mercato (the Italian high-growth companies market), operational as of June, with the floatation of six companies which all recorded excellent performances compared to issue price: at year-end capitalisation of the Nuovo mercato touched 7 billion euro, higher than that of the Mercato ristretto (the Italian unlisted securities market).
The considerable increase in trading on covered warrants (introduced in June 1998) must also be noted. It more than tripled in the year and reached a daily average of 56 million euro, with a total value of 14.2 billion euro, corresponding to 2.7% of the market's total.
With regard to the derivatives market, volumes traded in futures slightly decreased, whereas trading on MIB 30 index options remained virtually unchanged and stock options increased moderately.

Group activities

Gruppo Intesa holds a favourable market position in securities trading, which was strengthened during the year thanks to the activities of Caboto group companies. Caboto Sim's market share on the stock market totalled 8.2%, with an almost one point increase. Caboto Holding Sim traded 6.8% of volumes exchanged on the MTS (the information system of the Government securities market), with a 2.7 points rise in its market share.

Corporate finance

During the year the Group developed corporate finance activities through 23 share issues, of which 21 IPO, and 29 bond issues. Furthermore Banca Intesa, through Mediocredito Lombardo, is among the reference players in merchant banking and venture capital in Italy, with the completion of 16 equity deals.

Mutual funds

Growing market volatility, with the consequent need to diversify portfolios and product complexity, now seem to have correctly achieved a guiding role in fuelling the demand for professional asset management, which had initially taken advantage of the decrease in bond returns and that, with different means, had turned to individual or collective portfolio management products and in life insurance policies.
Mutual funds continue to be most successful products. Assets managed collectively via mutual funds reached 979,000 billion lire, with a certain decrease in the growth rate (+ 29%) compared to the outstanding and extraordinary increases recorded in previous years. Two types of elements influenced their slowdown: the first, structural, is connected to the decreased tendency to convert assets under static management with banks; the second, which is temporary, is related to the bond market crisis, which occurred in the second half of the year and negatively affected the performance of the most important product type. Aside the partial reduction in funds invested in fixed-income funds, mostly related to the domestic market, a more market oriented for equity funds, mostly specialised in foreign investments, led to a rise in assets managed

by funds incorporated under Italian law with this specialisation but especially in funds created by Italian intermediaries and incorporated under foreign law (funds and Sicavs incorporated under Luxembourg and Irish law).
Gruppo Intesa increased its market share, measured in terms of assets under management by funds incorporated under Italian and “Luxembourg” law, from 14.9% to 15.1% in the year. This increase is also attributable to the institutional investors sector, in which Intesa Asset Management has reached an important positioning thanks to the new multicompartment fund Geo. Furthermore, new products tailored to meet the needs of different market segments have been launched and testify the continuous update in products offered. Among these, the following must be mentioned because of their success with customers: Centrale PMI Europa fund (a fund specialised in European small cap) and the “flexible” fund Carifondo Trend. Among products incorporated under foreign law, five new compartments have been developed for Eurobridge and a new Sicav (Intesa Euroglobal) has been established in collaboration with Indocam, part of the Crédit Agricole Group, which began placement in February 2000.

Individual portfolio management

Individual portfolio management increased less considerably than collective portfolio management: between the end of 1998 and September 1999, total assets managed by intermediaries via individual portfolio schemes reached 584,000 billion lire, with a 15.3% growth rate. In particular, “classic” individual portfolio management schemes (GPM - gestioni di patrimoni mobiliari) grew at a rate considerably lower than the average growth rate, whereas individual portfolio management schemes invested in funds, introduced more recently and targeted to a wider potential market, grew in line with the rise recorded in the funds market.

With regard to Intesa Asset Management SGR, in 1999 managed funds, including private banking schemes, increased by approximately 60%. Individual portfolio management schemes invested in mutual funds continued to be the most successful product; assets managed increased considerably (+ 80.8%). On the contrary, funds managed by classic individual portfolio management schemes (GPM) decreased by 12.2%.

Insurance products

As far as life insurance products are concerned, collected premiums have been estimated to total 67,000 billion lire, with a growth rate in excess of 27% with respect to 1998.
In terms of distribution, bank distribution increased at the expense of insurance networks: almost 60% of gross premiums collected transited through bank branches, with a 15 percentage point rise compared to 1998. Therefore the growth rate recorded by bancassurance was far higher than the sector’s average: the rise in terms of gross premiums was in excess of 67%, due to a flow of funds of approximately 40,000 billion lire.
The breakdown of new premiums showed a marked increase in insurance policies with a higher financial content, unit or index linked, which are indexed to specific baskets of financial assets or indices.
At the end of September, with gross premiums amounting to 3,049 billion lire, of which 2,114 billion lire of products offered by the subsidiary Carivita, Gruppo Intesa held a 6.4% market share of the life insurance market in Italy, and 11.4% of the “bancassurance” sector, in second place among banking groups in Italy.

Distribution channels

With regard to distribution channels, it must be highlighted that the networks of personal financial consultants proved to be more effective in contrasting the tendency to withdraw from fixed-income funds when the crisis in the bond market was at its worst, that is in the second half of the year. In the first nine months of 1999 volumes traded by distribution Sims was in excess of 120,000 billion lire compared to 147,000 billion lire for the whole of 1998.
With regard to Intesa Italia Sim, formerly Ambro Italia Sim of the Ambroveneto Group, the network of personal financial consultants which is now the Group’s network, in the first nine months of the year market share in terms of gross assets traded increased from 3.8% to 3.9%, also as a result of the synergies stemming from the personal financial consultants dedicated to the support of Cariplo’s branch network.

The concentration of the Italian banking system

The banking and financial system in Italy maintained, or even increased the intensity reached by the concentration process in 1998. Based on incomplete information, in the first three quarters of 1999 approximately 50 banks were acquired or merged, representing 10% of the banking system's total assets, thus equalling the trend recorded in 1998 even if in just a portion of the year.

A strong impulse in the sector's ownership reallocation and reorganisation came from delegated law 461 of 1998 and the subsequent Legislative Decree for its implementation (153 of 1999). These set forth incentives for the privatisation of the former Casse di Risparmio and introduced tax incentives for concentration operations between banks. In particular, these had provided for a reduction in the Irpeg corporate income tax rate from 37% to 12.5% for banks that, starting from 1998, carried out mergers, spin-offs, contributions or acquisitions. The incentive is applied for 5 consecutive tax periods on Irpeg due on net income allocated to a "special reserve".
It must be noted that such incentives are not temporary and may therefore further stimulate concentration in the banking industry in the next few years.

Therefore the number of banks operating in Italy decreased further, from 921 at the end of 1998 to 901 in September 1999. The portion of the Italian branches belonging to the top 10 banking groups increased to 56%, with an 8 percentage point rise compared to the end of 1998. In the last two years the aggregation process particularly affected large and largest groups, considerably affecting their competitive positioning in strategic and dimensional terms. Certain important aggregations currently being defined would lead to a redefinition of the banking industry's competitive map and further increase concentration: the top 10 groups would control two thirds of bank branches operating in Italy.

In this context, Gruppo Intesa was particularly active and completed numerous deals: considering 1999 only, the acquisition of a controlling stake in Cassa di Risparmio di Parma e Piacenza and, in the final part of the year, of Banca Commerciale Italiana enabled it to reach first position on the domestic market in terms of total assets, branch network and in most banking and financial business areas.

The "federal" organisational structure, which Gruppo Intesa was the first to adopt in Italy, inspired an increasing number of aggregations both in their start-up and in later implementation phases. The capacity of combining the advantages of maintaining the identity and peculiarities of banks taking part in the aggregation and the economies of scale and scope typical of a strongly integrated structure is the feature which is particularly appreciated in this model.
The increase in the size of Italian banking groups occurred together with internal reorganisation, through disposal of non-strategic equity investments, merger of product companies, establishment of group "operating engines" providing auxiliary and support services to all companies in the conglomerate.

Also at the European level, the concentration process in the banking, financial and insurance industries accelerated during the year. The Single Currency fuels competition in banking and lending services, favours the development of a wider securities market, stimulates competition in investment services. Consequently, if up to now a defensive strategy aimed at creating national champions seems to have prevailed, the time is right for a phase of cross-border alliances, with the acquisition of equity stakes or cross holdings, with the objective of creating pan-European financial and banking groups via the aggregation with intermediaries specialised in high value added businesses.

In terms of total assets, Intesa is currently ranked from 10th to 15th position among banking groups resident in Countries taking part in the European Monetary Union and holds particularly noteworthy positions in asset management, securities trading and factoring.

Group activities

Lending activities

In this area Banca Intesa carries out lending activities directly as well as direction, co-ordination and control functions for the entire Banking Group.

Direct lending activities

During the year direct lending activities recorded a considerable increase. Apart from the progressive centralisation of lending activities to subsidiary companies, Banca Intesa took part in arranging important financing to service Tender Offers and/or Merger & Acquisition deals, for a total, including finance provided by Group banks, of almost 7,300 billion lire.

Project financing

Banca Intesa manages on behalf of Group banks financing and guarantees connected to project financing operations. During 1999 it received mandates (pre-advisory, advisory, arranging and expert opinions) of projects for over 2,700 billion lire, whereas negotiations are currently under way with regard to the assignment of mandates relative to projects amounting to approximately 1,750 billion lire.
Sectors which are mostly involved in project financing deals proved to be those related to infrastructures, environment and electric power plants and the restoration of abandoned areas.

Parent Company activities

Banca Intesa, as part of its Parent Company functions, defines the rules, the processes and the instruments for granting loans and controlling risks; it determines maximum exposure levels applied by the entire Group to large corporate customers (the 43 most important economic groups that have credit lines within the Group - cash loans and guarantees and commitments on the domestic market - for a total of about 67,000 billion lire, used for almost 35,000 billion lire); it evaluates large loans; takes part in the management of Group companies' non-performing loans when they exceed certain limits; it manages the Group's "Centrale Rischi" (exposure monitoring and control system).

The new lending model

In the first months of the year Gruppo Intesa completed the "project books" of the new lending model and the implementation and test phases started in Banca Intesa, Cariplo and Ambroveneto. At the same time the extension of the programme to all other Group entities was planned.
The model includes all the different phases of lending (granting, management and monitoring) and identifies for each area ideal instruments and processes.

Granting

Co-ordination of the Group's large exposures occurs by means of two mechanisms:

- defining maximum exposure limits for large corporate clients;
- analysing the exposures of groups of economically related clients which, though not individually large, lead to an overall individual and/or consolidated exposure in excess of certain limits.

Banca Intesa's intervention leads to an improvement in the granting process of loans to large corporate clients and favours a unitary direction in lending activities among Group banks and companies and eliminates duplications in the analysis of economically related groups.

Analysis and monitoring

In order to attain a unitary and complete vision of the risk position of the client and the economically related group's, it is necessary to equip the Group with integrated and consistent instruments. For this purpose the analysis and customisation of the electronic lending request process has been completed, whereas the analysis of the lending and guarantee procedure is in an advanced stage.
Credit risk measurement and monitoring methods are mostly based on Gruppo Intesa's risk index. This instrument is made up of three modules:
- analysis of the evolution of the relationship;
- credit scoring using financial statements;
- guarantee coverage.

The risk index is the central element of the structure which is the interface with the numerous management procedures and processes (position review, lending requests, problem loans), monitoring procedures (control framework, auditing, management control) and planning and development (budget, marketing).
The risk index has been implemented by Cariplo, Ambroveneto and Banca di Trento e Bolzano. Later this process will be extended to all other Group entities.
In order to guarantee the exchange of basic information between Banca Intesa and other Group entities, the Parent Company set up a "Centrale Rischi" (exposure monitoring and control system) for the Group which allows the analysis of risk indicators referred to the single client or group of economically related clients both for each Group bank and company and for the banking Group as a whole.
The internal "Centrale Rischi" contains approximately 1,060,000 clients.

Problem loans

The entire "problem loan process" was also defined and created with the objective of integrating and standardising the identification and management of problem loans. The process is differentiated according to the severity and the diffusion of the problem within the Group and it is structured according to predefined steps, timing and responsibilities.
The "problem loan process" is already operational in Ambroveneto and Cariplo where it was implemented in 1999 and will be extended gradually to all other Group entities.
To ensure homogeneous actions and behaviours, Banca Intesa manages and co-ordinates interventions regarding the Group's most significant problem positions.

Financial activities

After the relatively calm phase at the end of 1998, in the first months of 1999 financial markets recorded a sudden worsening of the international economic situation.
This was affected by the Brazilian currency crisis, the further decrease in investors' confidence in Russia and the recovery uncertain prospective for the Asian economies which were most severely hit by the 1997 crisis.
Interventions decided upon by the Federal Reserve to guarantee liquidity to the international financial system gave the markets the impression that the descent recorded by US money market interest rates had not yet finished; in the first days of April, in a context of moderate inflation pressures and weak economic growth, the European Central Bank decreased the refinancing rate by 50 basis points, to 2.50%.

Given this evolution in the financial context, the Group's securities portfolio increased considerably in the first six months. After having taken advantage of the situation via a partial disposal, the reduction in the "repo" rate enacted by the ECB suggested a re-composition of positions. Profits realised with this operation offset the losses incurred following price volatility recorded in the first months of the year. The new portfolio has a moderate duration and is concentrated in the three-five year segment of the yield curve. The strategy reflected the expectation that, even in case of economic recovery, the immediate intervention of the central banks would have led to an increase in the short-term end of the yield curve; the consequent flattening of long-term returns would have pivoted round the five year maturity.

Starting with the second half of the year, the economic scenario showed signs of recovery. The expansive orientation of public spending and, especially, monetary policy, financial support provided by the international community to Emerging Countries hit by

the later effects of the crisis, the decidedly higher-than-forecasted strength of the US economy, the first signs of recovery in Euroland all contributed to sustain and strengthen world demand.
During 1999, in particular Asian Countries showed a recovery capacity far beyond expectations, which was related to the restart of export flows. These Countries' progress in terms of financial system restructuring created the preconditions for the return of foreign capital. In a more stable currency context, this area has regained the conditions for a reduction in domestic interest rates which had always further contributed to their growth.
New momentum in word demand favoured a sudden rise in oil prices and a more contained increase in other raw material prices which in turn confirmed expectations of higher rises in prices at production and consumption world-wide.
In the second half, long-term returns started an upward trend; increases were particularly significant in June and July, at the same time of the consolidation in expectations of a rise in the official interest rate in the Euro area.
As of June, in order to react to tensions which were not deemed to be transitory, Banca Intesa changed its deposit collection and lending policies with the purpose of ensuring itself the best conditions in both areas of activity for the years to come.

The change in the economic context and the consequent modifications in strategic orientation occurred at a particularly delicate stage. The difficulties and the inefficiencies of decentralised management of Group banks' securities portfolios started to emerge in late spring.
In an increasingly uncertain market situation and after the first shock in market interest rates, urgent action was needed to gradually reduce the volume of the subsidiaries' securities portfolios and its sensitivity to interest rate movements. The definition of policies relative to the transfer of securities portfolios to Intesa and their centralised management led to a deep reconsideration both in purely technical terms (explicit identification of the risk level inherent in the portfolio's funding structure and the definition of budget objectives in terms of interest margin and profits on trading instead of total return) and with regard to the Group's governance rules.

The need to rationalise the Group's overall portfolio emerged clearly from the elements just described. Rationalisation would enable optimisation of the use of financial resources and would ensure the Bank a risk profile in line with return objectives sustainable in the medium-term.
The re-definition plan prepared during the summer, which started implementation as of September, sets out a clear distinction between speculative activities and the Bank's structural position - that is excess funding compared to lending for each institution and for the Group as a whole.
The flows from the financial assets of different maturities coming from Group banks are concentrated in the structural position; such flows are managed with the objective of immunising the financial statements of the network banks. Consequently, the latter will primarily focus their actions on expanding lending and distribution of financial products. Banca Intesa's exclusive focus on speculative activities ensures immediate control and intervention capabilities, as well as unitary management strategies. The first moves in this direction led to a considerable decrease in the Group's exposure to market risks, with a consequent limitation of capital absorption.

To complete aforementioned interventions and consistently with the management model, it was decided that valuation of performance of Bank finance activities in its two components, structural and speculative, must no longer be carried out in planning and budgeting with the distinction between interest margin and the contribution to profits on trading activities, but with exclusive reference to the total return of assets.
Actions were taken to contain the size and the sensitivity of the portfolio to interest rate fluctuations. This occurred simultaneously with the definition of the action plan for Group finance which became fully operational in February with the transfer to Banca Intesa of all of these activities.
The effects of these actions began to show results starting from June even if very gradually, also as a result of the aforementioned management complexity.
In particular, sensitivity (for 1 "basis point") of the Group's portfolio totalled 5.4 million euro at the end of May, was reduced in the subsequent months (4.3 million euro in June, 3.1 million euro in July, 2.6 million euro in August), then to remain almost constant until the end of the year. In terms of duration, the total position remained under 2.6 years in the first months of the year and then decreased in the second half, down to 1.4 years in December.
The impact on profitability connected to the upward shift in the yield curve was thus contained even though not eliminated.

Commercial activities

Banca Intesa's co-ordination of commercial activities only began in the second half of 1999. These activities consist in supporting and directing banks and single business units in the definition of commercial strategies, planning of market positioning and territorial development.
In the Marketing and Customer Service area organisational actions implemented led to:

- the creation of the Strategic marketing division, whose mission consists in supporting top management in identifying optimal solutions for the coverage of distribution channels and the realisation and management of the Group's marketing IT system;
- the creation of the Operational marketing division, which is responsible for identifying new product and service solutions to propose to commercial networks, product companies and other distribution channels. In this context the division is also responsible for the co-ordination of pricing policies;
- the definition of responsibilities of the Large corporate clients division, which has become directly responsible for relationships with large industrial and financial groups, through a system of powers delegated by commercial banks. This solution has been very successful with customers, which benefit from the simplified management of relations with a marked improvement in responsiveness.

With the beginning of operations of the new central services structure it was possible to enact Group commercial initiatives for the first time; their impact in terms of value creation will become evident as of 2000. Important examples of this type of initiatives are set out below:

- the establishment of "Club Intesa", a system for increasing customer fidelity which, by assigning points convertible in gifts (Alitalia miles, sojourns in hotels, discounts on consumer goods, etc.), is aimed at stimulating the purchase of services and products offered by Group companies;
- the convention with SACE (Institute for insurance services on foreign trade) and Viscontea "Easy export", which provides SMEs which are equipment manufacturers with a fast and simplified access to "safe" exports;
- the realisation of Internet projects in the trading on line and fund management sectors which will be launched in the immediate future;
- the stipulation of an agreement which will enable Group customers to buy personal computers at particularly advantageous prices. This initiative is aimed at favouring a simplified distribution of the Group's Internet services and is described in greater detail in the subsequent events section;
- the participation of Gruppo Intesa to the Jubilee celebrations as banking partner. All Group banks prepared specific bank services to assist participants. The most important initiative is the "Pilgrim's card", a smart card which allows holder to access all Sacred Year events.

Organisational activities and IT system management

At the end of 1998, as set out by Gruppo Intesa's industrial plan, Cariplo's and Ambroveneto's Organisation and IT systems divisions were merged. Organisational activities were contributed to the Parent Company and the Organisation and organisational development division was set up and is responsible for strategic decisions with regard to the models, rules and organisational processes for Banca Intesa and other Group companies. Management of IT systems was, instead, centralised in Intesa Sistemi e Servizi - as already described above, a company which was especially established to develop and co-ordinate activities related to operational and IT systems.

Activities in 1999 were mostly aimed at:

- implementing Parent Company processes for the optimisation of direction, governance and control of Group companies and the realisation of activities necessary to transfer Group finance activities and foreign branches to Banca Intesa;
- defining the reference IT system for all Group banks, implementing it and commencing operations required for its realisation and starting activities for the progressive migration of all Group banks to the reference system;
- initialising of integration programmes involving the structures of Banca Popolare FriulAdria, of Cassa di Risparmio di Parma e Piacenza and those belonging to Banca Carime, according to the guidelines already followed in 1998 to integrate Cariplo and Ambroveneto structures.

Activities on processes

With regard to interventions related to the Parent Company's processes, main actions referred to: the Lending area, the Marketing and Customer Service area, the Finance area and the transfer of foreign branches.

Lending area

In the Lending area the new Group model for granting, managing and monitoring loans was completed. With regard to granting, interventions concentrated on the implementation of the first opinion process which sets out that Group banks request the Parent Company's first opinion with regard to granting large corporate clients credit lines which exceed certain limits. As far as risk management and monitoring is concerned, the new IT programmes for the attribution of the risk level to each position were implemented; the Group's "Centrale Rischi" (exposure monitoring and control system) which monitors exposures for the Group as a whole was completed. The review of the effectiveness of the Group's loan granting process will be developed in 2000. Furthermore, a problem loan management process has been prepared and will enable problem positions shared within the Group to be managed in a centralised fashion.

Marketing and Customer Service area

As regards the Marketing and Customer Service area, during 1999 the Strategic marketing, Operative marketing and the Large corporate clients divisions were activated - as already mentioned above - together with a division responsible for co-ordinating and developing commercial activities between Gruppo Intesa customers and customers of the Crédit Agricole Group. Furthermore, a new commercial project for the entire Group was prepared and is divided in different sections: analysis of customer needs and preferences, design and development of products and services consistent with the indications contained in customer analysis, identification and realisation of marketing initiatives to support the new products and services offered.

Finance area

With regard to activities aimed at centralising Bank finance within the Parent Company, during 1999 the new structure's organisation and monitoring mechanisms were defined and the IT programmes for the management of the securities and derivative portfolio, both at front office and back office level, were completed. Furthermore, the Bank activated the links to the national and international entities responsible for managing and monitoring risks related to financial markets. Activities were completed at the end of last January and consequently Banca Intesa started operating on financial markets in February.

Foreign branches

The following actions were taken with regard to the opening of Banca Intesa branches abroad and the consequent transfer of operations from current Cariplo and Ambroveneto foreign branches: all the necessary procedures with the Authorities of foreign Countries were completed, the logistics structures were planned, the new integrated IT system was installed and tests and staff training for its use have almost been completed.

System integration

Integrating the IT systems presently used by Group banks is a fundamental condition for attaining savings on operating costs. Therefore, as of the last part of 1998 and in the first few months of 1999 the processes and procedures present in Cariplo and Ambroveneto were reviewed for the purpose of identifying the best practices to be applied in the construction of the Group's new IT system (the "target" system). A new structure responsible for the progressive migration of Group banks to the "target" system as of the second half of last year was set up inside Intesa Sistemi e Servizi.

An important project in the development of the target IT system is the realisation of the "Nuovo sportello Intesa", which pursues the main objective of standardising the operations of all Gruppo Intesa branches in terms of processes, systems and internal standards of practice. In particular, the project sets out the realisation of a single IT environment for all Group branches, which will maximise the networks' operational efficiency, liberating them from the logic of central applications in order to ensure maximum operational standardisation of the branch and installing a technological infrastructure which is the same for the alternative distribution channels (home banking, telephone banking, self-service, etc.).

Another project in the definition of the "target" IT system refers to the passive cycle and analytical accounting. A control and accounting model that creates responsibility centres has been developed. It guarantees that management can count on adequate information on operational costs and leads to a simplification and standardisation of purchase procedures. In 1999 the design phase was completed and implementation commenced. The new system is forecasted to become operational first in Intesa Sistemi e Servizi (which centralises accounting of Group suppliers) and later, within next July, in the individual banks.

Migration to the "target" system

During 1999, after the integration of the central service structures of Cariplo and Ambroveneto, the integration projects involving Banca Popolare FriulAdria, Cassa di Risparmio di Parma e Piacenza and Banca Carime commenced.
With regard to FriulAdria, last July the planning phase was completed and last September project groups started their work for: the transfer of Ambroveneto branches in the Friuli-Venezia Giulia region, the centralisation within Banca Intesa of certain central service functions and, obviously, the migration of the IT system to the Group's "target" system.
FriulAdria will be transformed in a network bank integrated in the Group, in the same way as had previously been done with Cariplo and Ambroveneto. Direction, government and control functions will be centralised in the Parent Company and the management of the IT systems and infrastructures will be centralised in Intesa Sistemi e Servizi.
The distribution model and the loan granting and management process will be redefined according to Group standards. The transfer of Ambroveneto branches will occur with effects as of 1st July 2000 and by that date organisational activities and those relative to the migration of the IT system will be completed.

Also with regard to Cariparma the planning of the restructuring of banking activities according to the network bank model was completed. With regard to implementation, almost all direction and control functions have already been attributed to Banca Intesa structures.

Lastly, with reference to Banca Carime, during the year organisational interventions have already been defined whereas the realisation of the integration and the migration of the IT system should be completed by the first months of 2000.

Year 2000 issue

The passage to the year 2000 created possible problems for IT systems related to an incorrect interpretation of the date, with possible calculation errors, operational blocks, etc. It must be noted that such problems involved a wide number of national and international players, since malfunctioning derived not only from own IT systems but also from in and out connections with external IT systems (other companies, markets, clients).

In consideration of the significant impact which this change had on all Group companies and consequently on the unification of organisational divisions and management of IT systems, initiatives which had already started implementation before 1999 at different Group companies were subject to a single co-ordination function.
This led, on the one hand, to the establishment of a "Co-ordination Committee for the Year 2000" within Banca Intesa and, on the other hand, to a review of the organisation of various programmes and processes, in order to exploit all possible synergies and pursue maximum effectiveness of the entire process.
Representatives of all divisions responsible for Group activities took part in the Committee. The latter's mission was to promote and monitor the necessary adjustments of the IT systems as well as develop the appropriate emergency measures in all Gruppo Intesa companies. Such emergency measures ensured that companies were able to guarantee reasonable process continuity at the beginning of 2000.

Intesa Sistemi e Servizi provided an important support to the Committee by means of the “Centri di raccolta flussi adeguamento informatico e logistico” (Collection centres for the flows of IT and logistic adjustment). These structures periodically received adjustment plans drawn up by Group companies which were analysed, aggregated and presented to the Committee together with the identification of any inconsistencies or problem areas.
It was also decided to establish a “Program Manager” and a “Year 2000 Secretariat” at the main subsidiary companies. These were the interface between the aforementioned Committee and prepared monthly reports on the advancement of the adjustment plans and at the same time responded to any questions posed by clients on the year 2000 issue.

As regards review of activities, the entire programme was articulated in a series of complementary and integrated projects which covered the entire IT system, namely: central and peripheral system hardware and software, networks and telecommunications, application software, functional systems (ATM, home and telephone banking, front-office finance, help desk).
In the central and peripheral system hardware and software area, valuation of compliance of machines and programmes has been completed and an adjustment plan has been defined and sets out: for central systems the update of the system’s software and for peripheral systems the upgrading of personal computers. In the application software area, test and update activities continued regularly.

Great attention was paid to creating test environments aimed at verifying the correct functioning of the entire IT system (central and peripheral hardware, system and application software) with simulated operations on various dates of 2000.
All activities were carried out according to schedule and results achieved were extremely satisfactory since no problems occurred in 2000 and all procedures were implemented opportunely and started functioning correctly.

Year 2000 management required interventions and compliance verification for infrastructures (elevators, electric plants, central heating and air conditioning systems, etc.) of branches and head offices. These activities were co-ordinated by Intesa Sistemi e Servizi, which is now responsible for the Group’s real estate management.

Furthermore, as concerns potential operational and legal risks stemming from contractual relationships with customers, suppliers and other parties - potentially capable, via the exchange of data, of damaging the Group’s systems as a result of issues or problems which have not been identified or solved correctly by the party involved, specific questionnaires have been prepared in order to inform clients on the problems posed by the change of date and to service suppliers in order to obtain year 2000 compliance certification for equipment used.

Lastly, with regard to accounting of costs related to management of the year 2000 issue, it must be noted that especially in Cariplo and in Ambroveneto numerous IT programmes have recently been substituted (with the introduction of the euro or following the integration of the IT systems). The new programmes, which have been accounted for in intangible fixed assets, are naturally year 2000-compliant. Charges relative to all other interventions specifically related to this problem, included infrastructure costs, have been expensed in the statement of income of the respective Group company.
Overall, at Group level, approximately 93,000 man/days were invested and charges totalled approximately 133 billion lire.

Internal audit system

At the end of 1998, as part of its supervisory functions, the Bank of Italy issued instructions on the correct management of internal auditing systems which require banks to carry out a “self diagnosis” process.
The federal model chosen by Gruppo Intesa sets out, as is generally known, that direction and control functions for all Group companies will be centralised in the Parent Company. In order to implement Bank of Italy requirements and consistently with its organisational model, Banca Intesa co-ordinated all Group banks in the execution of the self diagnosis process and commenced a project aimed at carrying out an in-depth analysis of internal auditing systems and prepare a complete picture of the situation for the entire Group. A valuation grid has been set up for this purpose. It is made up of over 500 points and has been used to guide the self diagnosis process carried out by the Internal audit divisions in the single banks.

The overall design of the risk control system set out in Banca Intesa's industrial plan, is inspired by principles issued by the Basle Committee for banking supervisions and is consistent with instructions set forth by the Bank of Italy. The regulatory framework sets out that banks must take initiatives aimed at identifying, measuring and controlling risks, and at the same time evaluate the efficiency and effectiveness of the internal auditing systems with regard to single processes. The Parent Company must also define criteria and means for verifying effectiveness of solutions adopted by single Group members. The model defined by Banca Intesa meets these requirements. The risk control system is applied to every unit within Gruppo Intesa, for the aspects for which it is responsible, from the Parent Company's Board of Directors to the single branch of each commercial bank.
The Board of Directors and top management define strategies, policies and objectives of the internal auditing systems with regard to all risks identified: the former also defines the exercise of delegated powers aimed at ensuring articulated and effective management of the different risk levels.
Distribution networks are responsible for controls relative to sale of products and services, according to means set out by the commercial banks on the basis of guidelines formulated by the Parent Company.

Identification, measurement and control of quantifiable risks have been centralised in an autonomous structure (the Risk management division) established within the Parent Company, with the objective of guaranteeing constant control of the Group's present and prospective exposure to market, credit and Country risk. From an organisational viewpoint the division is in staff to the General Manager and Chief Operating Officer and is therefore functionally separated and hierarchically independent from the structures responsible for operational risk management.
Internal review activities are attributed to Banca Intesa's Internal audit division which has wide responsibilities and may also act in the interest of the different Group companies. This division is has three main areas of responsibility:

- institutional: it directly carries out the internal auditing of all of Banca Intesa's operational and management processes, develops control models, methods and instruments for the entire Group and verifies that the behaviour of Group companies complies with Parent Company guidelines;
- governance: it carries out the direction, support and supervision of the internal auditing structures within Group banks;
- service: it carries out internal auditing activities for various Group companies, with which the Parent Company must programme internal auditing and the necessary information flows required for connected activities.

The Internal audit division comprises three staff units (technical secretariat, anti-money laundering, audit development) and four line sectors (finance, commercial banking, systems and services, equity investments) each of which is dedicated to supervising the respective area in the Group. The division directly reports to the General Manager and Chief Operating Officer and it is competent for and has access to all data, information and physical premises both within the Group and outside the Group (for all activities which have been outsourced to third parties according to specific agreements).

Financial and credit risk management and control

Gruppo Intesa's risk management and monitoring system involves first of all the Board of Directors and top management, which have ultimate strategic responsibility. These bodies, with the support of Group Committees, define the strategies, policies and objectives for risk management and monitoring for various business areas.

Identification, measurement and control of market, credit and Country risk have been centralised in the Risk management division, an autonomous structure which is hierarchically independent from the structures responsible for operational management of risks (the Finance, the Lending and Product companies areas). The division has been set up within the Parent Company and reports directly to top management
Risk monitoring of intergroup relationships is managed with “in service” contracts for all Group commercial banks, Caboto Holding and Caboto Sim, for Intesa Asset Management and Carivita, and with second level controls on all other Group companies.

Following the start of Banca Intesa's direct operations on capital markets, which occurred

on 7th February 2000, and the redefinition of the Bank finance operative system, with the separation of speculative and structural activities and the centralisation of Group liquidity management, the Risk management division created a new system of operative limits for Bank finance and Caboto Holding. Such limits, defined in terms of capital absorbed, VaR, sensitivity and “Greek letters”, are monitored daily by the Risk management division.

Market risk

The Risk management division, responsible for the identification, measurement and monitoring of market risk, decided to opt for an information system directly fed by the front-office platform which allows the Bank’s exposure to market risk to be monitored daily according to the Value at Risk approach.
VaR is calculated with reference to all types of market risk (interest rate, foreign exchange and equity) and, via the use of appropriate correction factors, overall VaR is also calculated. The flexibility of the IT system enables the quantification of market risk exposure for different aggregations of operational units (desk, portfolio, bank, Gruppo Intesa) and/or for different groups of instruments/currencies. Daily calculation of market VaR occurs based on a parametric approach (Riskmetrics), which requires sufficiently short processing periods. VaR is calculated daily and is based on a parameterisation with a 99% confidence interval and a 10-day holding period. If necessary, the system can also use simulation approaches (Montecarlo, Historical VaR).

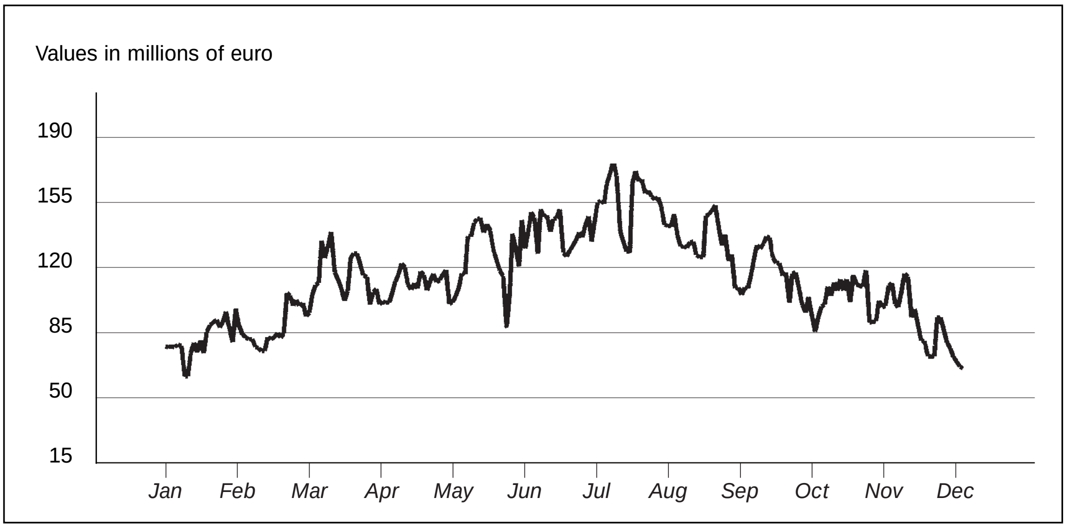
Quantification of market risk extends to all of the main sources of risk: the calculation of interest rate risk also considers the flows generated by the banking book (e.g. mortgages and loans) and not only operations carried out by the units which manage the trading book.

A report on market risks is prepared daily and contains VaR and other more traditional indicators (sensitivity, ten years equivalent position) in order to enable operational structures to adapt to the new risk measurement systems gradually. Banca Intesa can boast a reporting system for each level of responsibility (with the same risk indicators calculated for different operational aggregates) which allows single managers responsible to easily identify their respective exposures.

Bank finance

In 1999, Gruppo Intesa’s Bank finance recorded an average interest rate VaR of approximately 200 billion lire corresponding to an interest rate sensitivity (10 basis points) of approximately 68 billion lire. The figure included all positions (cash and derivatives) of the proprietary portfolio currently managed or monitored by the Milano trading room, that is the portfolios of Cariplo, Ambroveneto, Carime, Cariparma, C.R. Carrara, Banca di Trento e Bolzano and FriulAdria.

Gruppo Intesa interest rate VaR



Evolution of financial risks in 1999 is set out in the graph above, calculated based on the time series of the “interest rate VaR”.
As at 31st December 1999 total “Mark-to-Market” of overall exposure amounted to 28,796 billion lire, “sensitivity” equalled – 45 billion lire and VaR summed up to 120 billion lire. Breakdown of MtM and “sensitivity” among various banks (including the investment portfolio) is provided in the table below (data as at 31st December 1999, in millions of euro)

Portfolios	MtM	Sens. 10 b.p.
Cariplo *(1)*	7,475	(12.78)
BAV *(1)*	1,578	(0.99)
Cariparma	1,849	(2.34)
Carime	2,939	(4.44)
FriulAdria	1,030	(2.85)
Total bank finance	14,871	(23.4)
Interest rate VaR *(2)*	62.57	

(1) Excluding foreign branches.
(2) Does not include positions relative to the trading portfolio and own securities.

Equity VaR calculated as at 31st December 1999 totalled 40 billion lire for a position equal to 630 billion lire. The position’s yearly average equalled 600 billion lire and the average VaR for the year amounted to 25 billion lire.

With regard to foreign branches, a risk control unit which reports directly to the Risk management division has been set up in the London branches. The same front-office system is operational in London and in the Bank finance dealing room in Milano. Data can be fed directly in a single information Risk management system and can thus be consolidated daily with that coming from the Milano dealing room. In London the system is already operational but the production of Value at Risk indicators is still being tested. However, at the end of the year sensitivity indicators were available.
At the end of 1999, the 10 basis point interest rate sensitivity on the trading books of Cariplo’s and Ambroveneto’s London branches totalled approximately 1 billion lire each. The same systems are being installed in the New York branch.

Caboto Holding Sim

Inside Banca Intesa’s new organisational structure, the Risk management division seconded a control unit at Caboto Holding. This unit’s main activity entails the definition and control of the system of limits which governs trading room operations. This series of structured limits is based, for the various desks, on different parameters among which:
- VaR (Value at Risk);
- TYE (ten year equivalent);
- MtM (Mark-to-Market);
- Nominal value;
- Greeks letters.

VaR measures are currently being extended to all desks. These use both parametric approaches (such as “RiskMetrics”) and simulation approaches (“historical VaR”).
Daily reports which furbish senior management with a daily MtM valuation and the risk profile of all desks are among the most important responsibilities of this unit.
During 1999 the activities of each desk were valued in terms of RAPM (“Risk Adjusted Performance Measurement”) which monitors performance in terms of risk-adjusted measures, enables a more effective allocation of capital at risk and, therefore, favours value creation.
Caboto Holding is among the principal players in Italy on most market segments, both in terms of stock and bond trading as well as activities on derivative and structured products markets.

In particular, with regard to interest rate risk, Caboto Holding's position as at 31st December 1999 was "short" for approximately 100 billion lire in "Ten Years Equivalent"; furthermore the Company had floating rate bonds amounting to approximately 2,300 billion lire of nominal amount, among which the management of the securitisation of INPS (National Institute for Social Security Benefits) loans.
Exposure to foreign exchange risk was limited in spite of intense trading activities carried out by the desks. With regard to equities risk, Caboto Sim's delta equivalent position at the same date was in excess of 60 billion lire.

Asset & Liability Management

The Risk management division also controls interest rate and liquidity risk in an integrated asset & liability management context applied to the entire Group and uses static gap analysis and sensitivity models. In December the Risk management division monitored medium- and long-term assets of Cariplo, Ambroveneto, Mediocredito Lombardo, Cariparma and Banca di Trento e Bolzano. Sensitivity was measured in terms of modified duration (sensitivity to parallel shifts in the yield curve amounting to 100 basis points, expressed in percentage terms). Gap analysis was conducted on monthly time bands for the first 24 months and biannual for longer maturities.
Exposure to interest rate risk in the medium- and long-term segment remained limited. Cariplo presented a modified duration of 1.68 for assets and 1.46 for liabilities; Ambroveneto 1.46 for assets and 0.67 for liabilities; Mediocredito Lombardo 0.86 for assets and 0.63 for liabilities; Cariparma 0.5 for assets and 0.49 for liabilities; Banca di Trento e Bolzano 1.29 for assets and 1.39 for liabilities.
Gap analysis for the medium- and long-term segment for Cariplo shows a slight funding deficit compared to loans in the next 24 months and for the subsequent two years. Mediocredito Lombardo for the subsequent 12 months and for Banca di Trento e Bolzano for the next 8 months showed gaps of the same sign. Cariparma showed a constantly positive gap.

Credit risk

During the year the Risk management division completed the credit risk management model, which has the objective of producing synthetic valuations of the loan portfolio's risk exposure according to the "Value at Risk" approach.
The division also completed the design of the databases necessary for feeding the model and started the consequent data extraction phases that should furbish a constant and normalised information flow for the main Group banks within 2000 (for Cariplo and Ambroveneto before the end of the first half).
In order to value default probabilities of the most significant economically related groups in the loan portfolio, a project for the creation of an internal rating system specifically developed for these entities was commenced. This should work alongside the scoring system for the early detection of potential insolvency of medium-sized enterprises.
The progressive extension of the scoring system to the retail segment in order to obtain the overall coverage of the entire loan portfolios within the end of the year.
The operational fall-outs of the credit risk management project forecasted for 2000 are numerous: it will be possible to define uniform capital absorption measures for the Group's various banks and business units and, therefore, calculate risk-adjusted performance indices, which may be used to base lending policies. Such risk measures will also simplify pricing decisions thus leading to an objective comparison of the consistency of risk exposure and pricing.

Transactions in Parent Company's shares

Banca Intesa did not trade any own shares; no own share is included in Banca Intesa's portfolio neither directly nor through fiduciary companies or third parties.
In 1999, Group companies carried out the following transactions:

- ordinary shares: initial number 100,300 (countervalue 776 million lire); 52,767,463 purchased (countervalue 475,133 million lire); 52,817,661 sold (countervalue 474,794 million lire); number of shares at year-end 50,102 (countervalue 451 million lire);
- non-convertible savings shares: initial number - (countervalue -); 5,324,809 purchased (countervalue 22,369 million lire); 5,224,809 sold (countervalue 21,991 million lire); number of shares 100,000 at year-end (countervalue 420 million lire);
- bonds convertible in ordinary shares: initial nominal amount - (countervalue -); purchases of nominal 260 million lire (countervalue 717 million lire); sales of nominal 260 million lire (countervalue 714 million lire); end-of-year nominal amount - (countervalue -);
- bonds convertible in non-convertible savings shares: initial nominal amount - (countervalue -); purchases of nominal 284 million lire (countervalue 588 million lire); sales of nominal 284 million lire (countervalue 588 million lire); nominal amount at year-end - (countervalue -);
- warrants on ordinary shares: initial number 12,000 (countervalue 22 million lire); 235,127 purchased (countervalue 461 million lire); 216,127 sold (countervalue 417 million lire); number of warrants at year-end 7,000 (countervalue 14 million lire);
- warrants on non-convertible savings shares: no amounts held nor negotiated.

Comments on the consolidated financial statements

Some preliminary indications are necessary in order to present 1999 balance sheet and statement of income, as well as to compare them with the previous year's results. As already pointed out in the first part of this Report, Gruppo Intesa's consolidated financial statements for 1999 include the balance sheet of Banca Commerciale Italiana and the consolidated companies belonging to the latter's group as at 31st December 1999, whereas with regard to statement of income only data referring to companies which were part of Gruppo Intesa before the acquisition of BCI and its group were considered. This choice complies with current regulations and the Italian accounting principles according to which the acquiring Company's consolidated statement of income includes the acquired Company's statement of income only after the acquisition. Since the preparation of Banca Commerciale Italiana's and the consolidated companies belonging to its group's statement of income as at 10th December 1999 would have been extremely burdensome, the exclusion of statement of income data referring to these companies from Gruppo Intesa's consolidated statement of income as at 31st December 1999 was deemed to be appropriate.

The following tables show data referring to Intesa and BCI before the aggregation, whereas the “Total” column records consolidated financial statements data. Reciprocal items, which were eliminated in the consolidation procedure, and figures pertaining to BCI's consolidation represent the difference between “BI” plus “BCI” and the “Total”.
The following comparisons and comments on various balance sheet and statement of income aggregates refer to 1999 Gruppo Intesa data (excluding aggregates referring to Banca Commerciale Italiana and its consolidated companies) and to 1998 financial statements; the latter were reclassified in order to consider, on the one hand, the change in the consolidation area following the aggregation of Cassa di Risparmio di Parma e Piacenza, the acquisition of a controlling stake in Cassa di Risparmio di Foligno and Cassa di Risparmio di Spoleto and, on the other hand, Banca Popolare FriulAdria's and Cassa di Risparmio di Ascoli Piceno's statements of income data registered in the months which preceded their entrance in Gruppo Intesa.

However, with the sole objective of presenting more complete information to Shareholders and the market, pro forma financial statements of the whole Group as at 31st December 1999 have been prepared by aggregating Banca Intesa's and BCI's consolidated statements of income. Pro forma financial statements are included in this Annual report as one of the Attachments.

Consolidated balance sheet data

Highlights

(in billions of lire)

Assets	1999			1998			% Changes		
	BI	BCI	Total	BI	BCI	Total	BI	BCI	Total
1. Cash and deposits with central banks and post offices	1,419	1,166	2,585	1,303	994	2,297	8.9	17.3	12.5
2. Loans									
• loans to customers	187,529	125,626	312,798	174,546	100,423	274,969	7.4	25.1	13.8
• due from banks	41,148	48,430	84,415	52,478	53,752	106,230	(21.6)	(9.9)	(20.5)
3. Trading portfolio	55,257	34,984	90,241	49,934	35,430	85,364	10.7	(1.3)	5.7
4. Fixed assets									
• securities	19,550	7,406	26,956	12,201	5,715	17,916	60.2	29.6	50.5
• equity investments	9,584	2,661	5,933	2,839	2,399	5,238	237.6	10.9	13.3
• tangible and intangible	6,223	3,666	10,722	6,172	3,269	10,182	0.8	12.1	5.3
5. Goodwill arising on consolidation	817	998	817	851	510	851	(4.0)	95.7	(4.0)
6. Goodwill arising on application of the equity method	8	41	8	10	89	10	(20.0)	(53.9)	(20.0)
7. Other assets	36,519	17,545	54,054	25,210	16,110	41,320	44.9	8.9	30.8
Total Assets	**358,054**	**242,523**	**588,529**	**325,544**	**218,691**	**544,377**	**10.0**	**10.9**	**8.1**

(in billions of lire)

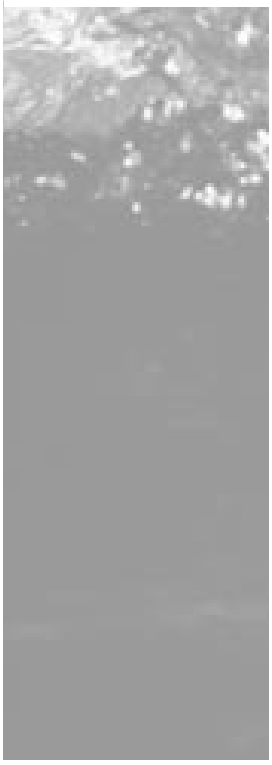
Liabilities and Shareholder's Equity	1999			1998			% Changes		
	BI	**BCI**	**Total**	**BI**	**BCI**	**Total**	**BI**	**BCI**	**Total**
1. Debts									
• due to customers	120,261	84,312	204,554	118,190	74,527	192,717	1.8	13.1	6.1
• due to banks	73,802	91,598	159,879	63,239	85,165	148,404	16.7	7.6	7.7
• securities issued	89,537	27,255	116,792	91,039	23,136	114,175	(1.6)	17.8	2.3
2. Allowances with specific purpose	9,536	2,496	12,385	7,655	2,845	10,814	24.6	(12.3)	14.5
3. Other liabilities	32,952	19,724	52,686	25,410	17,546	43,136	29.7	12.4	22.1
4. Allowance for possible loan losses	660	25	685	859	27	886	(23.2)	(7.4)	(22.7)
5. Subordinated liabilities	10,091	6,512	16,603	7,506	4,974	12,480	34.4	30.9	33.0
6. Minority shareholders	1,379	1,024	5,109	1,350	951	5,157	2.1	7.7	(0.9)
7. Shareholders' equity									
• share capital and reserves	18,131	8,802	18,131	9,043	8,511	15,355	100.5	3.4	18.1
• negative goodwill arising on consolidation	57	119	57	48	114	48	18.8	4.4	18.8
• net income (loss) for the year	1,648	656	1,648	1,205	895	1,205	36.8	(26.7)	36.8
Total Liabilities and Shareholders' Equity	**358,054**	**242,523**	**588,529**	**325,544**	**218,691**	**544,377**	**10.0**	**10.9**	**8.1**

Loans to customers

(Comments refer to Banca Intesa's consolidated results)

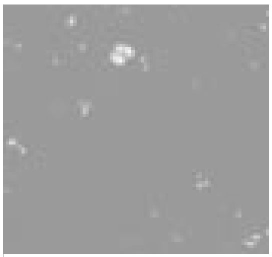
(in billions of lire)

Loans	1999			1998			% Changes		
	BI	**BCI**	**Total**	**BI**	**BCI**	**Total**	**BI**	**BCI**	**Total**
Euro lending	174,426	75,933	250,288	161,131	67,273	228,404	8.3	12.9	9.6
Foreign currency lending	11,890	45,697	57,587	9,107	27,503	36,610	30.6	66.2	57.3
	186,316	121,630	307,875	170,238	94,776	265,014	9.4	28.3	16.2
Repurchase agreements	1,213	3,996	4,923	4,309	5,646	9,955	(71.8)	(29.2)	(50.5)
Total	**187,529**	**125,626**	**312,798**	**174,547**	**100,422**	**274,969**	**7.4**	**25.1**	**13.8**



Loans to customers increased by 7.4% compared to the corresponding figure as at 31st December 1998.
Excluding repurchase agreements, which are mainly carried out with financial counterparts and which showed a significant contraction with respect to the previous year, the increase amounted to 9.4%.
The increase in loans to customers is attributable for a 72% portion to banking activities, which registered a 7.2% rise - and reduced its impact on total loans by 2 percentage points - whereas the rise attributable to financial activities is affected by the latter's positive performance, both for factoring (+ 35.9%) and leasing (+ 30.5%).

With regard to banking activities, the amount referring to ordinary lending improved by 8.4% compared to 1998, with very similar percentage growth rates registered by the Italian banks (+ 8.4%) and by foreign branches and banks (+ 8%). At year-end, the total equalled 108,030 billion lire.
Mortgage credit showed a satisfactory trend, which benefited from the recovery of the real estate market, which was also due to the reduction in interest rates expressed by the market: as at 31st December 1999, mortgage credit amounted to 31,555 billion lire, with a 2,376 billion lire rise (+ 8.1%) with respect to the previous year. In 1999 a total amount of 7,658 billion lire was granted (compared to 5,508 billion lire in 1998, + 39%).
The 6.9% increase in specialised lending to SMEs - which totalled 22,221 billion lire - is attributable to the contraction in interest rates, the moderate rise in investments in machines and installations, corporate finance activities involving SMEs in conjunction with the support offered by the Group's commercial network.

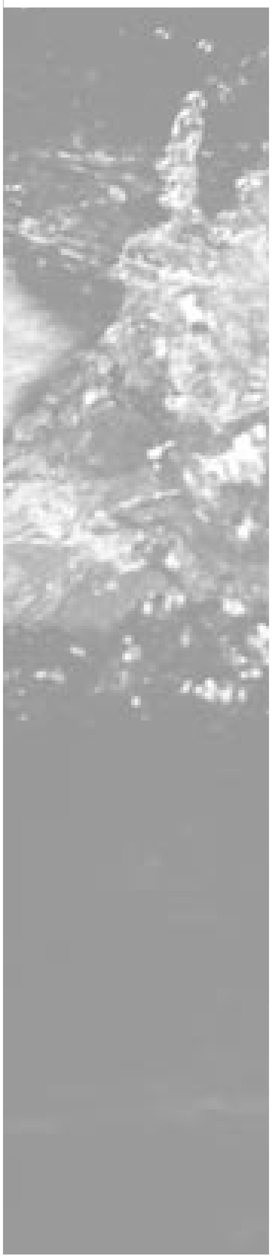


As at 31st December 1999, agricultural lending registered a slight growth (3.3%) and totalled 2,374 billion lire, whereas lending related to the Public work's division was affected by the low profitability of large loans and therefore presented a 10.2% reduction to 6,615 billion lire.
Lending in repurchase agreements registered a significant contraction (– 71.8%).

Analysis of loans by contract type

(in billions of lire)

Loans	1999			1998			% Changes		
	BI	BCI	Total	BI	BCI	Total	BI	BCI	Total
Overdrafts	39,578	18,011	57,588	37,996	16,890	54,886	4.2	6.6	4.9
Mortgages	76,453	15,406	91,859	66,856	12,366	79,222	14.4	24.6	16.0
Advances	9,434	12,477	21,841	10,042	11,515	21,557	(6.1)	8.4	1.3
Other loans	44,816	70,504	115,319	39,705	49,441	89,146	12.9	42.6	29.4
Non-performing loans	9,833	2,806	12,639	9,792	2,881	12,673	0.4	(2.6)	(0.3)
Portfolio risk	6,202	2,426	8,629	5,847	1,683	7,530	6.1	44.1	14.6
Repurchase agreements	1,213	3,996	4,923	4,309	5,646	9,955	(71.8)	(29.2)	(50.5)
Total	**187,529**	**125,626**	**312,798**	**174,547**	**100,422**	**274,969**	**7.4**	**25.1**	**13.8**



The analysis of loans to customers by contract type showed, apart from the aforesaid significant decrease in repurchase agreements, the increase in mortgage transactions which benefited, to a larger extent than other sectors, from the reduction in interest rates and other lending, including non-banking financial activities (factoring and leasing). On the other hand, overdrafts registered a moderate improvement.

The following table shows percentage breakdown of loans by borrower's economic sector, which is substantially in line with the previous year's.

Economic sectors	1999			1998		
	BI	BCI	Total	BI	BCI	Total
Governments	3.1%	0.8%	2.2%	3.1%	1.0%	2.3%
Other public agencies	3.5%	2.3%	3.0%	3.8%	2.2%	3.2%
Non-financial businesses	58.9%	58.5%	58.8%	59.8%	58.2%	59.2%
Financial institutions	7.9%	19.4%	12.5%	7.7%	21.0%	12.6%
Personal businesses	6.7%	2.1%	4.9%	7.0%	2.8%	5.5%
Other operators	20.0%	16.8%	18.7%	18.6%	14.8%	17.2%

Geographic breakdown of Italian branches' performing loans is the following:

Geographic areas	BI	BCI	Total
North-West	58.9%	49.9%	56.2%
North-Est	16.3%	17.4%	16.6%
Central Italy	12.8%	17.6%	14.2%
South and Isles	12.0%	15.1%	12.9%

Analysis of the loan portfolio quality

(in billions of lire)

Loans	1999			1998			% Changes		
	BI	BCI	Total	BI	BCI	Total	BI	BCI	Total
Non-performing loans	9,833	2,806	12,639	9,792	2,881	12,673	0.4	(2.6)	(0.3)
Problem loans	3,511	839	4,350	3,805	850	4,655	(7.7)	(1.3)	(6.6)
Loans under restructuring	58	90	148	82	110	192	(29.3)	(18.2)	(22.9)
Restructured loans	579	572	1,151	752	682	1,434	(23.0)	(16.1)	(19.7)
Loans subject to Country risk	115	2,560	2,675	198	1,724	1,922	(41.9)	48.5	39.2
Performing loans	173,433	118,759	291,835	159,918	94,175	254,093	8.5	26.1	14.9
Total	**187,529**	**125,626**	**312,798**	**174,547**	**100,422**	**274,969**	**7.4**	**25.1**	**13.8**

As at 31st December 1999 non-performing loans equalled 9,833 billion lire, virtually unchanged compared to the 1998 financial statements.
Instead, problem loans (7.7%) and all the other loans subject to risk dropped.
Net non-performing loans to total loans ratio amounted to 5.2% (5.6% as at 31st December 1998) whereas, gross of adjustments, the ratio decreased from 9.4% to current 9.2%.

Percentage coverage of non-performing loans on average (adjustments to face value ratio) amounted to 45.7%, whereas that referring to problem loans equalled, again in terms of average, 14.4%. However, it must be remembered that these percentages are calculated without considering losses, that is adjustments to loans to companies undergoing bankruptcy procedures; such losses were not accounted for in the financial statements and were, therefore, not reflected neither in gross value nor in adjustments to the aforesaid loans.
Provisions for so-called generic coverage amounted to 938 billion lire and, on average, corresponded to 0.54% of performing loans; this percentage is in line with that recorded in 1998.

Country risk

(in billions of lire)

Country	Cash exposure								
	BI			BCI			Total		
	Gross amount	Adjustments	Net amount	Gross amount	Adjustments	Net amount	Gross amount	Adjustments	Net amount
Russia	99	58	41	537	322	215	636	380	256
Brazil	36	7	29	585	175	410	621	182	439
Argentina	193	4	189	281	56	225	474	60	414
Venezuela	2	–	2	166	33	133	168	33	135
Indonesia	11	4	7	121	49	72	132	53	79
India	41	6	35	47	7	40	88	13	75
Colombia	–	–	–	87	17	70	87	17	70
Philippine Islands	92	13	79	–	–	–	92	13	79
Cayman Islands	111	5	106	–	–	–	111	5	106
Republic of South Africa	12	2	10	50	8	42	62	10	52
Peru	–	–	–	55	11	44	55	11	44
Other Countries	112	14	98	227	47	180	339	61	278
Total	**709**	**113**	**596**	**2,156**	**725**	**1,431**	**2,865**	**838**	**2,027**
including									
• loans to customers	184	68	116	820	185	635	1,004	253	751
• due from banks	57	22	35	1,103	438	665	1,160	460	700
• securities	468	23	445	233	102	131	701	125	576

(in billions of lire)

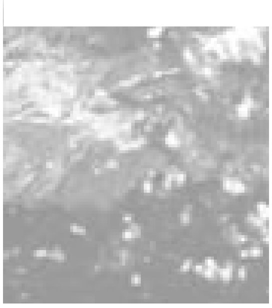
Country	Non cash exposure								
	BI			BCI			Total		
	Gross amount	Adjustments	Net amount	Gross amount	Adjustments	Net amount	Gross amount	Adjustments	Net amount
Argentina	3	–	3	21	4	17	24	4	20
Brazil	–	–	–	20	6	14	20	6	14
India	4	1	3	13	2	11	17	3	14
Indonesia	–	–	–	15	6	9	15	6	9
Peru	–	–	–	13	3	10	13	3	10
Other Countries	23	–	23	55	11	44	78	11	67
Total	**30**	**1**	**29**	**137**	**32**	**105**	**167**	**33**	**134**
including									
• loans to customers	1	–	1	52	14	38	53	14	39
• due from banks	29	1	28	85	18	67	114	19	95

Due from banks

(Comments refer to Banca Intesa's consolidated results)

(in billions of lire)

Lending	1999			1998			% Changes		
	BI	BCI	Total	BI	BCI	Total	BI	BCI	Total
Euro lending	16,501	14,615	28,494	29,500	19,067	48,567	(44.1)	(23.3)	(41.3)
Foreign currency lending	12,993	26,366	37,680	12,293	27,171	39,464	5.7	(3.0)	(4.5)
	29,494	40,981	66,174	41,793	46,238	88,031	(29.4)	(11.4)	(24.8)
Repurchase agreements	11,654	7,449	18,241	10,685	7,514	18,199	9.1	(0.9)	0.2
Total	**41,148**	**48,430**	**84,415**	**52,478**	**53,752**	**106,230**	**(21.6)**	**(9.9)**	**(20.5)**
including									
• residents	17,738	15,023	28,701	24,510	16,035	40,545	(27.6)	(6.3)	(29.2)
• non residents	23,410	33,407	55,714	27,970	37,716	65,686	(16.3)	(11.4)	(15.2)



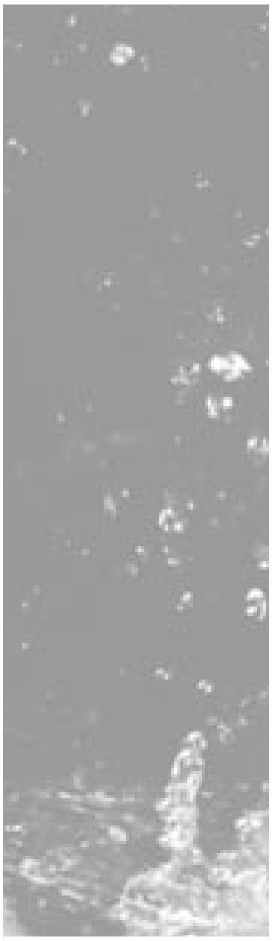
Due from banks summed up to 41,148 billion lire with an 11,330 billion lire (21.6%) reduction with respect to as at 31st December 1998; this reduction is mainly attributable to transactions carried out in euro with resident banks.
Repurchase agreements transactions showed a 9.1% increase.

Securities

(Comments refer to Banca Intesa's consolidated results)

(in billions of lire)

Securities	1999			1998			% Changes		
	BI	BCI	Total	BI	BCI	Total	BI	BCI	Total
Investment portfolio									
Treasury bills and Government-backed securities	14,462	1,931	16,393	8,827	1,971	10,798	63.8	(2.0)	51.8
Bonds and other debt securities	5,088	5,475	10,563	3,374	3,744	7,118	50.8	46.2	48.4
Total investment portfolio	19,550	7,406	26,956	12,201	5,715	17,916	60.2	29.6	50.5
Trading portfolio									
Treasury bills and Government-backed securities	33,136	12,713	45,849	33,490	20,852	54,342	(1.1)	(39.0)	(15.6)
Bonds and other debt securities	20,151	20,414	40,565	15,134	13,979	29,113	33.2	46.0	39.3
Shares, quotas and other forms of capital	1,970	1,857	3,827	1,310	599	1,909	50.4	210.0	100.5
Total trading portfolio	55,257	34,984	90,241	49,934	35,430	85,364	10.7	(1.3)	5.7
Total	**74,807**	**42,390**	**117,197**	**62,135**	**41,145**	**103,280**	**20.4**	**3.0**	**13.5**



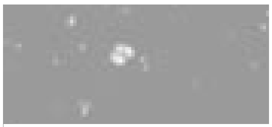
The securities portfolio amounted to 74,807 billion lire, with a 12,672 billion lire increase (+ 20.4%) compared to the corresponding figure registered as at 31st December 1998. This increase was attributable for 7,349 billion lire (+ 60%) to the investment portfolio and for 5,323 billion lire (+ 11%) to the trading portfolio.
As far as the investment portfolio is concerned, Banca Intesa set up the guarantee (5,095 billion lire) provided for by the “Regolamento” for the issue of “Warrant Put Intesa-BCI” - which occurred simultaneously with the Public Tender Offer according to which Banca Commerciale Italiana shares were tendered with Banca Intesa shares. As is generally known, these warrants will be exercisable between 1st and 15th November 2002.
Other lower increases referred to Bankhaus Löbbecke (1,444 billion lire) which developed its activity on the equity market via the acquisition of securities issued by corporate customers and banks, whereas Ambroveneto’s London branch sold its investment portfolio in view of the close of its activities. Lastly, Cariplo Ireland increased its investment portfolio by 2,234 billion lire which were transferred from the trading portfolio following the increase in financial activities essentially related to repurchase agreement transactions on securities in the investment portfolio.
Since December 1999, markets were significantly volatile, the sale and re-allocation transactions usually carried out by Caboto Holding at year-end were not deemed to be appropriate. For this reason, Caboto Holding’s securities portfolio registered a significant rise (10,940 billion lire) which was reflected by the change in the Group’s trading portfolio, only partially mitigated by the reductions registered by Banco Ambrosiano Veneto (3,697 billion lire), Cariplo Ireland (2,166 billion lire) and Banca Carime (1,038 billion lire).
Among trading securities, 3,528 billion lire of Buoni Ordinari del Tesoro (short-term Treasury bills) were included.
Securities issued by companies within the Group and held by the same or by other companies within the Group equalled 6,870 billion lire, with a 14.5% increase compared to as at 31st December 1998.

The book value of securities compared with their market value as at 31st December 1999 is set out below:

(in billions of lire)

Securities	BI			BCI			Total		
	Book value	**Market value**	**Net capital gain**	**Book value**	**Market value**	**Net capital gain**	**Book value**	**Market value**	**Net capital gain**
Investment portfolio									
Treasury bills and Government-backed securities	14,462	14,764	302	1,931	2,054	123	16,393	16,818	425
Bonds and other debt securities	5,088	5,070	(18)	5,475	5,348	(127)	10,563	10,418	(145)
Total investment portfolio	19,550	19,834	284	7,406	7,402	(4)	26,956	27,236	280
Trading portfolio									
Treasury bills and Government-backed securities	33,136	33,136	–	12,713	12,713	–	45,849	45,849	–
Bonds and other debt securities	20,151	20,188	37	20,414	20,433	19	40,565	40,621	56
Shares, quotas and other forms of capital	1,970	2,117	147	1,857	1,859	2	3,827	3,976	149
Total trading portfolio	55,257	55,441	184	34,984	35,005	21	90,241	90,446	205
Total	**74,807**	**75,275**	**368**	**42,390**	**42,407**	**42**	**117,197**	**117,682**	**410**

The application of the “Mark-to-Market” criteria to listed securities in the trading portfolio should have brought a book value perfectly in line with market value.
The difference is essentially referred to securities held by Cariplo and bound by the latter to provisions for integrative social security benefits which are subject to separate accounting and to specific fiscal provisions; such securities were accounted for maintaining the lower between cost and market value valuation criterium.



Derivative contracts

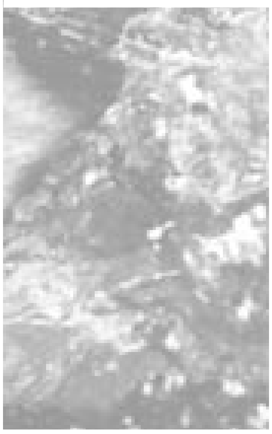
(Comments refer to Banca Intesa’s consolidated results)

(in billions of lire)

Type of contract	1999								
	BI			BCI			Total		
	Dealing	Hedging	Total	Dealing	Hedging	Total	Dealing	Hedging	Total
Interest rate and indices derivatives	398,038	103,920	501,958	853,084	35,624	888,708	1,237,232	138,903	1,376,135
Securities derivatives	31,657	418	32,075	3,599	474	4,073	35,230	892	36,122
Currency derivatives	21,284	3,967	25,251	5,038	5,279	10,317	26,267	9,246	35,513
Total	**450,979**	**108,305**	**559,284**	**861,721**	**41,377**	**903,098**	**1,298,729**	**149,041**	**1,447,770**

(in billions of lire)

Type of contract	1998								
	BI			BCI			Total		
	Dealing	Hedging	Total	Dealing	Hedging	Total	Dealing	Hedging	Total
Interest rate and indices derivatives	164,662	74,066	238,728	497,458	24,309	521,767	662,120	98,375	760,495
Securities derivatives	5,495	–	5,495	3,021	528	3,549	8,516	528	9,044
Currency derivatives	9,435	4,505	13,940	7,209	3,613	10,822	16,644	8,118	24,762
Total	**179,592**	**78,571**	**258,163**	**507,688**	**28,450**	**536,138**	**687,280**	**107,021**	**794,301**



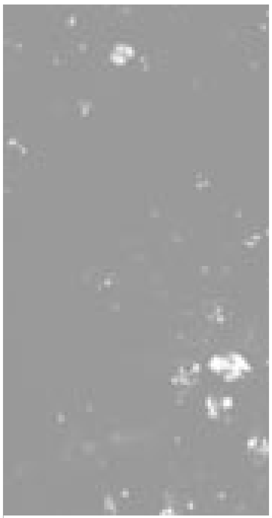
Transactions did not include 4,976 billion lire corresponding to the nominal value of put warrants issued by Banca Intesa at the time of the Public Tender Offer in which Banca Commerciale Italiana shares where tendered with Banca Intesa shares.
The increase in derivative contracts is mostly attributable both to the development in operations regarding interest rate derivatives - in this sector Caboto Holding is ranked in first position and is one of the major international players - and to the improvement registered by Cariplo in transactions on securities.

Customer funds

(Comments refer to Banca Intesa’s consolidated results)

(in billions of lire)

Funding	1999			1998			% Changes		
	BI	BCI	Total	BI	BCI	Total	BI	BCI	Total
Deposits	12,307	7,873	20,180	13,048	5,647	18,695,0	(5.7)	39.4	7.9
Current accounts	93,846	69,663	163,509	81,758	62,367	144,125	14.8	11.7	13.4
Bonds	65,247	7,919	73,166	62,884	7,053	69,937	3.8	12.3	4.6
Certificates of deposit	21,434	15,019	36,453	25,133	13,146	38,279	(14.7)	14.2	(4.8)
Other	8,538	6,236	14,774	6,942	3,888	10,830	23.0	60.4	36.4
	201,372	106,710	308,082	189,765	92,101	281,866	6.1	15.9	9.3
Repurchase agreements	8,193	4,828	13,002	18,568	5,534	24,102	(55.9)	(12.8)	(46.1)
Public funds under administration	133	29	162	135	28	163	(1.5)	3.6	(0.6)
	209,698	111,567	321,246	208,468	97,663	306,131	0.6	14.2	4.9
Subordinated liabilities	10,091	6,512	16,603	7,506	4,974	12,480	34.4	30.9	33.0
Total direct deposits	219,789	118,079	337,849	215,974	102,637	318,611	1.8	15.0	6.0
Indirect deposits	330,953	250,720	581,673	286,801	219,720	506,521	15.4	14.1	14.8
Total deposits under administration	**550,742**	**368,799**	**919,522**	**502,775**	**322,357**	**825,132**	**9.5**	**14.4**	**11.4**

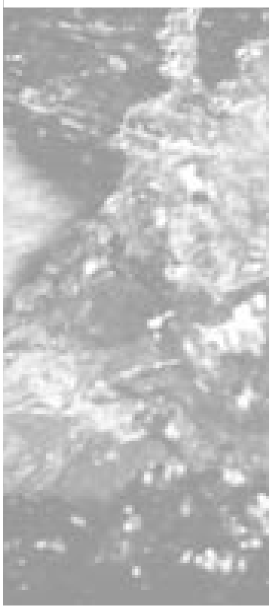


Total assets under administration registered a 9.5% increase with respect to the corresponding figure recorded in 1998. Within this aggregate, direct customer deposits - which equalled 219,789 billion lire - remained virtually unchanged compared to the previous year as a result of two opposite phenomena: on the one hand, the significant increase in current accounts (+ 14.8%) due to the extensive presence of Group banks on the Italian market; on the other hand, the drastic contraction in repurchase agreements on securities.
This reduction in repurchase agreements referred to: Cariparma - which, after the entrance in Gruppo Intesa, adopted different funding and treasury management policies; Banco Ambrosiano Veneto's London branch - which, contrary to previous year, acquired funding directly within the Group; and to Cariplo, for the different investment policy adopted by the homonymous Foundation.
If these particular operations are not considered (that is by summing traditional funding and subordinated liabilities) the percentage growth rate totalled 6.1%.

Breakdown of deposits by currency is as follows:

(in billions of lire)

Direct deposits	1999			1998			% Changes		
	BI	**BCI**	**Total**	**BI**	**BCI**	**Total**	**BI**	**BCI**	**Total**
Lire/euro deposits	203,973	71,744	275,698	202,787	73,437	276,224	0.6	(2.3)	(0.2)
Currency deposits	15,816	46,335	62,151	13,187	29,200	42,387	19.9	58.7	46.6
Total	**219,789**	**118,079**	**337,849**	**215,974**	**102,637**	**318,611**	**1.8**	**15.0**	**6.0**



The increase in currency deposits is mainly attributable to deposits denominated in US dollars and collected by Cariplo's foreign branches.

Geographic breakdown of deposits recorded by the Italian branches of the banks which are part of the Group is set out below:

Geographic areas	BI	BCI	Total
North-West	56.8%	46.1%	53.3%
North-Est	19.6%	10.2%	16.6%
Central Italy	10.6%	20.9%	13.9%
South and Isles	13.0%	22.8%	16.2%

Like in the previous year, 1999 results confirmed the physiological reduction in certificates of deposit which were replaced by bonds, both via ordinary and subordinated issues. Subordinated issues were carried out both by the Parent Company and the major commercial banks, in order to improve individual and consolidated capital ratios. Breakdown by return characteristics of securities in issue is given hereafter:

(in billions of lire)

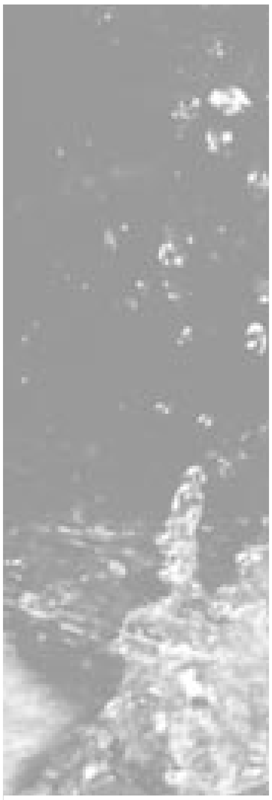
Bonds	1999			1998			% Changes		
	BI	**BCI**	**Total**	**BI**	**BCI**	**Total**	**BI**	**BCI**	**Total**
Fixed rate	27,759	5,355	33,114	20,319	5,338	25,657	36.6	0.3	29.1
Indexed rate	37,488	2,564	40,052	42,566	1,703	44,269	(11.9)	50.6	(9.5)
Total	**65,247**	**7,919**	**73,166**	**62,885**	**7,041**	**69,926**	**3.8**	**12.5**	**4.6**

(in billions of lire)

Certificates of deposit	1999			1998			% Changes		
	BI	**BCI**	**Total**	**BI**	**BCI**	**Total**	**BI**	**BCI**	**Total**
Fixed rate	18,373	13,543	31,916	22,063	12,481	34,544	(16.7)	8.5	(7.6)
Indexed rate	3,061	1,476	4,537	3,070	665	3,735	(0.3)	122.0	21.5
Total	**21,434**	**15,019**	**36,453**	**25,133**	**13,146**	**38,279**	**(14.7)**	**14.2**	**(4.8)**

(in billions of lire)

Certificates of deposit	1999			1998			% Changes		
	BI	BCI	Total	BI	BCI	Total	BI	BCI	Total
Short-term	15,440	11,763	27,203	15,313	10,206	25,519	0.8	15.3	6.6
Medium- and long-term	5,994	3,256	9,250	9,820	2,940	12,760	(39.0)	10.7	(27.5)
Total	**21,434**	**15,019**	**36,453**	**25,133**	**13,146**	**38,279**	**(14.7)**	**14.2**	**(4.8)**



With regard to bonds, interest rate risk was covered by specific derivative contracts (IRS and interest rate options).
The item “Other” - funding includes in particular 3,235 billion lire of loans for factoring activities, 1,626 billion lire of outstanding cheques and 910 billion lire of commercial papers.
Subordinated liabilities which, as already noted, grew by 19.1%, totalled 10,091 billion lire. The item included 678 billion lire of preference shares included in Tier 1 capital, 8,980 billion lire included in subordinated liabilities (of which 2,673 billion lire Upper Tier 2) and 433 billion lire of subordinated liabilities which may be used to cover market risks only (Tier 3).
Subordinated liabilities issued by the Group in 1999 totalled 2,804 billion lire.

Indirect deposits

(Comments refer to Banca Intesa’s consolidated results)

In 1999 indirect deposits recorded a 15.4% increase with respect to as at 31st December 1998, and totalled 330,953 billion lire. This contains customer investments and showed the best performances.
The strategy which entails a change in the breakdown of indirect deposits - from assets under administration to managed funds - and which is based on Intesa Asset Management SGR’s role, was reflected by the different trend registered by assets under administration - which equalled 137,013 billion lire, with an 8.6% growth rate - compared to the different forms of asset management, all of which presented higher percentage increases:

(in billions of lire)

Managed funds	1999			1998			% Changes		
	BI	BCI	Total	BI	BCI	Total	BI	BCI	Total
Individual portfolio management	108,142	36,399	144,541	96,275	45,090	141,365	12.3	(19.3)	2.2
Assets managed by mutual funds	151,221	77,698	228,919	118,717	46,263	164,980	27.4	67.9	38.8
deducted:									
Funds from individual portfolios placed in mutual funds	(65,423)	(14,003)	(79,426)	(54,369)	(11,355)	(65,724)	20.3	23.3	20.8
Total	**193,940**	**100,094**	**294,034**	**160,623**	**79,998**	**240,621**	**20.7**	**25.1**	**22.2**

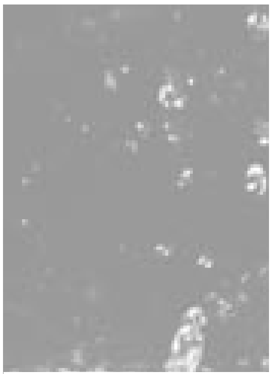
Managed funds to assets under administration ratio grew from 56% in 1998 to 58.6% as at 31st December 1999.
The positive trend registered by all the aggregates, both in terms of growth and average volumes for the year, was reflected in the breakdown of commission income, which rose by 30.2% in the asset management sector and by “only” 18.4% in the assets under administration sector.
The positive performance registered by Carivita and Po Vita Assicurazioni, the companies which operate in the insurance field, must be pointed out, even though these companies are not included in the consolidation area. As at 31st December 1999, the technical reserves of Carivita and Po Vita Assicurazioni totalled 7,925 billion lire (+ 52%) and 825 billion lire (+ 81%) respectively and collected premium equalled 2,728 billion lire (+ 14%) and 376 billion lire (+ 52%) respectively.

Due to banks

(Comments refer to Banca Intesa’s consolidated results)

(in billions of lire)

Funding	1999			1998			% Changes		
	BI	**BCI**	**Total**	**BI**	**BCI**	**Total**	**BI**	**BCI**	**Total**
Euro funding	36,028	28,293	61,278	31,272	35,744	67,016	15.2	(20.8)	(8.6)
Currency funding	17,333	50,744	66,635	17,978	42,072	60,050	(3.6)	20.6	11.0
	53,361	79,037	127,913	49,250	77,816	127,066	8.3	1.6	0.7
Repurchase agreements	20,441	12,561	31,966	13,989	7,349	21,338	46.1	70.9	49.8
Total	**73,802**	**91,598**	**159,879**	**63,239**	**85,165**	**148,404**	**16.7**	**7.6**	**7.7**
including									
• residents	25,252	17,497	38,840	24,782	22,224	47,006	1.9	(21.3)	(17.4)
• non residents	48,550	74,101	121,039	38,458	62,941	101,399	26.2	17.7	19.4



Funding on the interbank market was mainly made up of time contracts and included deposits, financing and repurchase agreements. Repurchase agreements represent the sole type of contract which recorded a rise compared to the correspondent figure registered the previous year.
Balance of interbank relationships as at 31st December 1999 showed a debt position amounting to 28,298 billion lire, with an increase in excess of 17,000 billion lire compared to 1998.

Shareholders' equity

(Comments refer to Banca Intesa's consolidated results)

(in billions of lire)

	1999			1998			% Changes		
	BI	**BCI**	**Total**	**BI**	**BCI**	**Total**	**BI**	**BCI**	**Total**
Share capital	3,333	2,073	5,406	3,047	2,073	5,120	9.4	–	5.6
Share premium reserve	5,977	4,239	10,216	4,545	4,239	8,784	31.5	–	16.3
Reserves	1,727	–	1,727	930	–	930	85.7	–	85.7
Revaluation reserves	490	–	490	449	–	449	9.1	–	9.1
Negative consolidation differences	57	–	57	48	–	48	18.8	–	18.8
	11,584	6,312	17,896	9,019	6,312	15,331	28.4	–	16.7
Reserve for general banking risks	292	–	292	71	–	71	311.3	–	311.3
	11,876	6,312	18,188	9,090	6,312	15,402	30.6	–	18.1
Net income for the year	1,648	–	1,648	1,205	–	1,205	36.8	–	36.8
Total Shareholders' Equity	**13,524**	**6,312**	**19,836**	**10,295**	**6,312**	**16,607**	**31.4**	**–**	**19.4**

In the table above, variations in shareholders' equity are conventionally drawn up:

- column "1999 - BI" shows Gruppo Intesa's shareholders' equity (without considering the acquisition of BCI);
- column "1998 - BI" records Banca Intesa's shareholders' equity recalculated in order to consider the increase following the merger of the three Holding companies which had stakes in Cariparma;
- columns "1999 - BCI" and "1998 - BCI" do not record Banca Commerciale Italiana's consolidated shareholders' equity referring to 1999 and 1998; however, both of them show - conventionally - the increase in shareholders' equity carried out by Banca Intesa to service the Public Tender Offer on BCI;
- columns "1999 - Total" and "1998 - Total", record the sum of values contained in the previous columns (BI + BCI).

Consequently, variations in shareholders' equity recorded in the table above derived from transactions which do not concern the Group's enlargement; in particular, changes in share capital and in share premium reserve are a consequence of the increase in capital paid in cash carried out in May 1999 and reflect the conversion of bonds and the exercise of warrants which occurred in 1999. The following table illustrate all these changes in consolidated shareholders' equity. This allows the reconciliation between shareholders' equity recorded in the previous Banca Intesa's consolidated financial statements and that recorded as at 31st December 1999.

Statement of changes in consolidated shareholders' equity

	Share capital	Share premium reserve	Legal reserve
Balance as at 31st December 1998	2,732	4,116	479
Allocation of 1998 net income			
Legal reserve			15
Statutory reserves			
Other consolidation reserves			
Dividends			
Reserves for social, charitable and cultural contributions			
New share issues	2,534	5,756	
Exercise of warrants	74	150	
Conversion of convertible bonds	66	141	
Other variations which occurred during the year			
Sale of unclaimed rights		1	
Establishment of special reserve			
Changes in the area of consolidation			
Intergroup demergers		52	
Use of allowance for taxation			
Provisions to the reserve for general banking risks			
Other changes			
Net income for the year			
Balance as at 31st December 1999	**5,406**	**10,216**	**494**

(in billions of lire)

Statutory reserves	Other reserves	Reserve for general banking risk	Revaluation reserves	Negative consolidation differences	Net income for the year	Total shareholders' equity
152	299	71	383	4	1,130	9,366
					(15)	–
11					(11)	–
	843				(843)	–
					(251)	(251)
					(10)	(10)
						8,290
						224
						207
						1
(10)	10					–
	31		61	53		145
	(97)		45			–
	(7)					(7)
		221				221
	2					2
					1,648	1,648
153	**1,081**	**292**	**489**	**57**	**1,648**	**19,836**

Reconciliation between the Parent Company's net income, shareholders' equity and the consolidated net income

(in billions of lire)

	Shareholders' equity (*)	Net income as at 31/12/1999
Balance as at 31st December 1999 of Parent Company shareholders' equity	19,247	2,373
Elimination of write-downs on equity investments	96	96
Effect of full and proportional consolidation	2,432	1,678
Effect of consolidation of subsidiaries accounted for by the equity method	(44)	(6)
Elimination of provisions carried out solely in order to comply with fiscal regulations	37	23
Amortisation of positive differences arising on consolidation and application of the equity method	(390)	(131)
"Accrued" dividends	(1,542)	(1,542)
Dividends received during the year	–	(843)
Consolidated shareholders' equity as at 31st December 1999	**19,836**	**1,648**

(*) *Including net income.*

Consolidated statement of income data

Consolidated statement of income does not include the BCI Group's results.

(in billions of lire)

	1999	1998	Changes amount	Changes %
10. Interest income and similar revenues	15,998	18,889	(2,891)	(15.3)
20. Interest expense and similar charges	(9,358)	(12,056)	(2,698)	(22.4)
30. Dividends and other charges	185	50	135	270.0
85. Provisions for integrative social security benefits	(83)	(80)	3	3.8
170. Income (Loss) from investments carried at equity	(5)	48	(53)	–
Interest margin	6,737	6,851	(114)	(1.7)
40. Commission income	5,514	4,718	796	16.9
50. Commission expense	(840)	(696)	144	20.7
Net commission	*4,674*	*4,022*	*652*	*16.2*
60. Profits (Losses) on financial transactions	(268)	919	(1,187)	–
70. Other operating income	834	820	14	1.7
110. Other operating expenses	(154)	(165)	(11)	(6.7)
Net interest and other banking income	11,823	12,447	(624)	(5.0)
80. Administrative costs				
a) payroll	(4,792)	(4,774)	18	0.4
b) other administrative costs	(2,857)	(2,748)	109	4.0
90. Adjustments to tangible and intangible fixed assets	(1,009)	(869)	140	16.1
Operating costs	*(8,658)*	*(8,391)*	*267*	*3.2*
Operating margin	3,165	4,056	(891)	(22.0)
100. Provisions for risks and charges	(357)	(106)	251	236.8
120. Adjustments to loans and provisions for guarantees and commitments	(1,601)	(1,538)	63	4.1
130. Write-back of adjustments to loans and provisions for guarantees and commitments	469	398	71	17.8
140. Provisions for possible loan losses	(138)	(195)	(57)	(29.2)
150. Adjustments to financial fixed assets	(48)	(43)	5	11.6
160. Write-backs of financial fixed assets	2	1	1	100.0
180. Income (Loss) from operating activities	1,492	2,573	(1,081)	(42.0)
210. Extraordinary income (loss), net	1,110	192	918	478.1
Income before taxation	2,602	2,765	(163)	(5.9)
230. Change in the reserve for general banking risks	(221)	(29)	192	–
240. Income taxes for the year	(630)	(1,410)	(780)	(55.3)
250. Income attributable to minority shareholders	(103)	(121)	(18)	(14.9)
260. Net income (loss) for the year	**1,648**	**1,205**	**443**	**36.8**

Interest margin

(in billions of lire)

	1999	1998	Changes amount	Changes %
Interest income and similar revenues				
• loans to customers	9,807	12,381	(2,574)	(20.8)
• debt securities	3,624	3,478	146	4.2
• other	2,567	3,030	(463)	(15.3)
Total	15,998	18,889	(2,891)	(15.3)
Interest expense and similar charges				
• customer deposits	(1,757)	(3,166)	(1,409)	(44.5)
• securities issued	(4,538)	(5,313)	(775)	(14.6)
• other	(3,063)	(3,577)	(514)	(14.4)
Total	(9,358)	(12,056)	(2,698)	(22.4)
Dividends and other revenues	185	50	135	270.0
Provisions for integrative social security benefits	(83)	(80)	3	3.8
Income (Loss) from investments carried at equity	(5)	48	(43)	(89.6)
Total	**6,737**	**6,851**	**(114)**	**(1.7)**

(in billions of lire)

Analysis of the interest margin	1999	1998	Changes amount	Changes %
Business with customers	3,512	3,902	(390)	(10.0)
Securities	3,624	3,478	146	4.2
Interbank business	(1,168)	(717)	451	62.9
Other	589	90	499	554.4
Dividends and other revenues	180	98	82	83.7
Total	**6,737**	**6,851**	**(114)**	**(1.7)**

1999 interest margin amounted to 6,737 billion lire, with a 114 billion lire (– 1.7%) reduction compared to 6,851 billion lire recorded in 1998; this reduction was attributable to the lower difference between interest income and interest expense (– 193 billion lire), which was partially offset by the increase in dividends received from companies which are not included in the consolidation area.
In particular, with regard to business with customers, which registered a 10% drop (– 390 billion lire), in 1999 lending registered a 9.1% average growth rate with a 2.1 percentage point contraction in average interest rates and a 6.4% increase in deposits with a 1.60 percentage point decrease compared to the previous year. Consequently, interest rate differentials presented an approximately 50 basis points reduction.

With regard to securities, the increase in the interest margin was a consequence of both a rise in investments in this type of asset which occurred during the year and investment decisions which privileged fixed-income securities with return for higher than the interest rates paid on funding. Lastly, interest margin on interbank business showed a significantly higher negative balance (1,168 billion lire compared to 717 billion lire the previous year) which was due both to the above-mentioned changes in securities occurred in 1999 and to the increase in the Group’s debt.

Net commissions

(in billions of lire)

	1999	1998	Changes	
			amount	%
Commission income	5,514	4,718	796	16.9
Commission expense	(840)	(696)	144	20.7
Total	**4,674**	**4,022**	**652**	**16.2**

Also in 1999, commissions registered a notable improvement (+ 16.2%).
Particularly important results were registered by commissions from: the management of individual portfolios placed in mutual funds (1,543 billion lire compared to 1,096 in 1998, with an over 40% increase); other customer services (1,689 billion lire compared to 1,390 billion lire the previous year, with a 21.5% increase). On the other hand, commissions related to transactions on securities decreased: commissions on dealing (– 6.1%) and on acceptance of instructions (– 13.3%).

Profits (Losses) on financial transactions

(in billions of lire)

Financial transactions	1999	1998	Changes	
			amount	%
Results from dealing in				
• securities and securities derivatives	545	298	247	82.9
• currency and currency derivatives	(99)	124	(223)	(179.8)
• interest rates and indices derivatives	(333)	147	(480)	(326.5)
Total	113	569	(456)	(80.1)
Valuation of securities				
• adjustments	(837)	(203)	634	312.3
• capital gains on securities traded on regulated markets	329	–	329	–
• write-backs on unlisted securities	12	64	(52)	(81.3)
• higher/lower value of hedging derivatives	2	15	(13)	(86.7)
Total	(494)	(124)	370	298.4
Valuation of securities derivatives	(43)	23	(66)	(287.0)
Total	(537)	(101)	436	431.7
Use/provision for commitments on securities	28	1	27	–
Valuation of interest rate and index derivatives	128	450	(322)	(71.6)
Total	**(268)**	**919**	**(1,187)**	**(129.2)**

The aggregate reflected both the contraction in results from dealing in securities and other financial instruments and, mostly, the capital losses recorded by almost all Group companies and which were attributable to the rise in interest rates which started late spring.

The negative result registered by the item was only partially mitigated by the effects of the new valuation criteria adopted for securities traded on regulated markets and included in the trading portfolio. The new valuation criteria caused a capital gain of 293 billion lire on securities and a capital loss of 207 billion lire on related hedging contracts.

Net interest and other banking income

The above-mentioned items contributed to the result registered by net interest and other banking income, which amounted to 11,822 billion lire with a 5% contraction compared to the previous year.

Operating costs

(in billions of lire)

	1999	1998	Changes amount	Changes %
Administrative costs				
• payroll	(4,792)	(4,774)	18	0.4
• other administrative costs	(2,857)	(2,748)	109	4.0
	(7,649)	(7,522)	127	1.7
Adjustments to tangible and intangible fixed assets	(1,009)	(869)	140	16.1
Total	**(8,658)**	**(8,391)**	**267**	**3.2**

Operating costs increased by 3% to 8,658 billion lire with administrative costs virtually stable and an increase in adjustments mainly attributable to permanent write-downs (91 billion lire) carried out on deferred charges included in the balance sheet in previous years and which, following the changes in Group strategies, are no longer deemed to be productive in the future:

(in billions of lire)

	1999	1998	Changes amount	Changes %
Tangible fixed assets				
• real estate	(164)	(174)	(10)	(5.7)
• other tangible fixed assets	(258)	(249)	9	3.6
Total	(422)	(423)	(1)	(0.2)
Intangible fixed assets				
• goodwill	(23)	(34)	(11)	(32.4)
• cost of installations	(93)	(59)	34	57.6
• other deferred charges	(341)	(214)	127	59.3
Total	(457)	(307)	150	48.9
Amortisation of positive differences arising on consolidation	(129)	(120)	9	7.5
Amortisation of positive differences arising on application of the equity method	(1)	(19)	(18)	(94.7)
Total	**(1,009)**	**(869)**	**140**	**16.1**

It must be positively considered that during such an intense period - in which Intesa and Group companies are busy in implementing the integration projects and other fundamental projects (Year 2000 compliance) - operating costs remained substantially stable.
Considering the decrease in net interest and other banking income, operating costs to net interest and other banking activities ratio increased from 67.4% to current 73.2%; in particular, payroll absorbed a 40.5% portion of net interest and other banking income (38.3% in 1998).

Operating margin

Operating margin summed up to 3,165 billion lire with respect to 4,056 billion lire achieved in 1998, with a 891 billion lire contraction (22%).

Provisions for risks and charges

Provisions for risks and charges registered a 251 billion lire increase, from 106 billion lire to 357 billion lire and mainly included 144 billion lire of provisions for legal disputes and amounts reclaimed, 65 billion lire of provisions carried out by Banco Ambrosiano Veneto for losses forecasted for a case of misappropriation of funds, 42 billion lire of provisions carried out by Cariplo for a guarantee of the same amount given in favour of Bankhaus Löbbecke after the request of the German supervisory authority for the partial coverage of Bankhaus Löbbecke's so-called "white-quota" loan portfolio and, lastly, 10 billion lire of provisions carried out by Cassa di Risparmio di Parma e Piacenza for possible losses following the liquidation of Banque Transalpine de Paris.

Adjustments and write-backs to loans and provisions for possible loan losses

(in billions of lire)

	1999	1998	Changes amount	Changes %
Adjustments	(1,601)	(1,538)	63	4.1
Write-backs	469	398	71	17.8
Net adjustments	(1,132)	(1,140)	(8)	(0.7)
Provisions for possible loan losses	(138)	(195)	(57)	(29.2)
Total	**(1,270)**	**(1,335)**	**(65)**	**(4.9)**

Net adjustments to loans were substantially stable compared to the figure registered the previous year, whereas prudential provisions for possible loan losses dropped by 29%; net adjustments to loans to a little less just under 5%.

Extraordinary income and charges

(in billions of lire)

	1999	1998	Changes amount	Changes %
Extraordinary income	1,980	472	1,508	319.5
Extraordinary charges	(870)	(280)	590	210.7
Extraordinary income, net	1,110	192	918	478.1

Extraordinary income and charges generated an income of 1,110 billion lire, with a significant rise with respect to 1998.
Extraordinary income was significantly affected by the application of the new accounting principle regarding deferred and prepaid taxes, which led to a net amount of 813 billion lire due from tax authorities for prepaid taxes never accounted for in previous years. Capital gains reflect Banca Intesa's sale of a minority stake in Banca Popolare FriulAdria (245 billion lire), pursuant to a clause in the agreement which, at the end of last year, led the bank to join the Group and the disposal of minority stakes held by Cariparma and Cariplo in Cassa di Risparmio di Reggio Emilia (214 billion lire) and in Banca del Monte di Parma (75 billion lire), which were no-longer strategic after these banks decided to join other groups.

Extraordinary charges mainly stemmed from the provision of 515 billion lire carried out by the main Group companies in order to complete the Intesa Project and to offset forecasted charges following the integration between Gruppo Intesa and the BCI Group. Though they are provisions for future charges, they have been accounted for in extraordinary charges since they do not refer to the Group's normal operations.

Income taxes

(in billions of lire)

	1999	1998	Changes	
			amount	%
Income before taxation	2,602	2,765	(163)	(5.9)
Income taxes for the year	(630)	(1,410)	(780)	(55.3)
Changes in the reserve for general banking risks	(221)	(29)	192	662.1
Income attributable to minority shareholders	(103)	(121)	(18)	(14.9)
Net income for the year	**1,648**	**1,205**	**443**	**36.8**

Fiscal burden decreased compared to the previous year from 51% to 24.2%, as a result of the application of the new accounting principle regarding prepaid and deferred taxes, which led to account prepaid taxes pertaining to 1999 for 588 billion lire.
The reduction in fiscal burden was also due (for 178 billion lire) to fiscal benefits provided for by Law 461 of 1998 in favour of all the aggregations carried out by the Parent Company in 1998 and 1999 (integration between Banco Ambrosiano Veneto and Cariplo and subsequent aggregation of FriulAdria, Cariparma and Banca Commerciale Italiana).

Net income for the year

After the provisions of 221 billion lire to the reserve for general banking risks and the allocation of a portion of income to minority shareholders (103 billion lire; – 15%), consolidated statement of income closed 1999 with a net income for the year of 1,648 billion lire, yet again with a considerable growth (36.8%) with respect to the previous year's result.

Group companies performance

The financial highlights of the most important Group companies divided by area are indicated below.

Banking

As at 31st December 1999, Cariplo, Banco Ambrosiano Veneto, Cassa di Risparmio di Parma e Piacenza, Banca Carime, Banca Popolare FriulAdria, Banca di Trento e Bolzano, Cassa di Risparmio di Ascoli Piceno, Cassa di Risparmio di Città di Castello, Cassa di Risparmio di Foligno, Cassa di Risparmio di Rieti, Cassa di Risparmio di Spoleto, Cassa di Risparmio della Provincia di Viterbo (Banca Intesa controls the last five banks through the company Holding Intesa Centro), Bankhaus Löbbecke, Intesa Bank Overseas, Cariplo Banque and Banca Intesa International carried out banking activities in Gruppo Intesa. Mediocredito Lombardo operated in medium- and long-term lending and in merchant banking.
All these companies are subject to full consolidation.

The Carinord group, which includes Cassa di Risparmio di Carrara, Cassa di Risparmio di La Spezia and Cassa di Risparmio di Alessandria, is subject to proportional consolidation. The Banco de Investimento Imobiliario is valued by the application of the equity method.

In the following pages the main balance sheet and statement of income items, together with the most significant ratios and a brief comment on the aforementioned banks' performance in the year, are shown with specific tables, whereas for the remaining banks the year-end results are briefly commented.

Cariplo

(in billions of lire)

	1999	1998	Change
Balance sheet			
Loans to customers	97,244.9	89,558.7	8.6%
Securities	27,380.5	25,544.4	7.2%
including Investment portfolio	*5,499.0*	*5,242.8*	*4.9%*
Equity investments	3,511.2	6,739.8	(47.9%)
Total assets	198,774.4	172,898.6	15.0%
Direct customer deposits	105,444.5	105,241.7	0.2%
including Subordinated liabilities	*4,389.9*	*2,489.3*	–
Indirect customer deposits	169,338.4	148,145.0	14.3%
including Managed funds	*73,541.5*	*58,272.8*	*26.2%*
Customer deposits under administration	274,782.9	253,386.7	8.4%
Net interbank position (debt)	(15,298.8)	(4,444.4)	244.2%
Shareholders' equity [1]	6,358.5	8,604.8	(26.1%)
Statement of income			
Interest margin	3,249.5	3,033.6	7.1%
Net commissions	1,355.3	1,253.8	8.1%
Net interest and other banking income	4,660.1	4,825.3	(3.4%)
Operating costs	2,839.0	2,838.5	–
Operating margin	1,821.1	1,986.8	(8.3%)
Income (Loss) from operating activities	977.2	1,182.0	(17.3%)
Net income for the year	684.7	522.1	31.2%
Other information			
Earnings per share *(lire)*	196	149	47
Staff *(number)*	13,961	14,115	(154)
Branches *(number)*	811	762	49
including Abroad			
• Branches	*6*	*6*	–
• Representative offices	*2*	*9*	*(7)*
Economic and financial ratios			
Balance sheet ratios			
Loans to customers/total assets	48.9%	51.8%	
Securities/total assets	13.8%	14.8%	
Direct customer deposits/total assets	53.1%	60.9%	
Managed funds/indirect customer deposits	43.4%	39.3%	
Statement of income ratios [2]			
Net commissions/net interest and other banking income	29.1%	26.0%	
Operating costs/net interest and other banking income	60.9%	58.8%	
Net income for the year/total assets (ROA)	0.3%	0.3%	
Net income for the year/shareholders' equity (ROE)	10.8%	6.1%	
Risk ratios			
Net non-performing loans/total loans	3.4%	4.2%	
Total adjustments/gross non-performing loans	24.5%	31.0%	
Capital ratios			
Tier 1 capital/risk-weighted assets	5.0%	7.5%	
Total capital/risk-weighted assets	8.4%	9.9%	
Risk-weighted assets	127,607.6	112,066.1	

[1] Excluding net income for the year. The significant drop in shareholders' equity is attributable to the de-merger operations carried out in the year.

[2] Statement of income ratios were calculated considering the reclassified statement of income.

Balance sheet

Loans to customers, which equalled 97,245 billion lire, registered a 8.6% increase. With regard to lending: loans granted by the Bank, corresponding to 56,700 billion lire, showed a 11.8% growth rate compared to as at 31st December 1998; Mortgage credit division loans amounted to 31,555 billion lire and registered a 8.1% increase; loans

relative to the Public works division summed up to 6,615 billion lire, with a 10.2% reduction; loans granted by the Agricultural lending division equalled 2,375 billion lire and rose by 3.3% with respect to as at 31st December 1998.
The securities portfolio, which amounted to 27,380 billion lire, registered a 7.2% increase. The figure included 5,499 billion lire of investment portfolio and 21,881 billion lire of trading portfolio.
The value of equity investments dropped by 47.9%, essentially as a result of the above-mentioned de-merger operations.

Direct customer deposits - which includes due to customers, securities issued and subordinated liabilities - remained virtually stable (+ 0.2%). In particular, due to customers decreased by 1.7% as a result of the significant drop in repurchase agreements (– 7,013 billion lire). The increase in subordinated liabilities (+ 76.3%) and in certificates of deposit (+ 2.4%) more than offset the reduction in bonds in issue (– 3.2%). Also the considerable rise in interbank deposits must be noted (+ 57.7%); the latter was attributable to the above-mentioned concentration of most of the Group's treasury activities into Cariplo.
The significant rise in indirect deposits continued (169,338 billion lire) and showed again an important increase (+ 14.3%). The figure included 73,541 billion lire of managed funds, which registered a 26.2% growth rate; this increase involved all the components (individual portfolio management schemes, investments in mutual funds, life insurance policies and supplementary pension schemes).

Shareholders' equity - excluding net income for the year - showed a significant contraction (2,247 billion lire, amounting to 26.1%) which is attributable to the above-mentioned de-mergers.

Statement of income

The reclassified statement of income showed an interest margin of 3,249.5 billion lire, with a 7.1% growth rate compared to 1998; such an increase was attributable to a series of concurrent factors:

- firstly, lending and deposit collecting activities with customers was developed, whereas the interest rate spread registered only a moderate decline;
- securities portfolio increased and was mostly financed by interbank funding bearing interest rates lower than those registered on the securities portfolio. In terms of average volumes, the securities portfolio increased by approximately 60%;
- dividends and other revenues from equity investments significantly rose (+ 85%), as a result of the excellent performance registered in 1998 by almost all of the most important product companies.

Net commissions, which totalled 1,355.3 billion lire, increased (+ 8.1%). In particular, commission income registered a satisfactory increase (+ 11.7%) which was accompanied by a similar rise in commission expense. The net commissions to net interest and other banking income ratio rose from 25.98% to 29.09%.

Net interest and other banking income, which equalled 4,660.1 billion lire, registered a 3.4% drop, mostly attributable to losses from financial transactions, which equalled 192.7 billion lire (compared to the positive balance of 316.8 billion lire recorded in 1998).

Other operating income, which summed up to 249 billion lire, showed an increase (+ 11.4%) also as a result of the inclusion in the financial statements of higher amounts referring to higher rental payments and recovery of expenses from customers.

With regard to operating costs, the progressive implementation of Gruppo Intesa's federal model significantly changed the structure of these costs with respect to the previous year: following the start-up of Intesa Sistemi e Servizi, Intesa Gestione Crediti and Banca Intesa's service structures, Cariplo seconded a significant number of employees and transferred part of its own tangible and intangible assets, by means of a de-merger. This resulted in, on the one hand, a reduction in both personnel expenses - net of the corresponding recoveries - and amortisation; on the other hand, an increase in other administrative costs, which included payments for services received by Cariplo from other Group companies.

Therefore, only total operating costs can be compared on a consistent basis (administrative costs and adjustments to tangible and intangible fixed assets). These items summed up to 2,839 billion lire and remained virtually unchanged with respect to 1998 (+ 0.5 billion lire).

With regard to the reclassified statement of income, which includes valuation effects (items from 100 to 170 in the official statement of income), the most significant trends are set out below:

- provisions for risks and charges registered a significant increase, from 44.3 billion lire to 154.5 billion lire. 1999 figure included 74.5 billion lire of charges related to equity investments, of which 42 billion lire of guarantees in favour of Bankhaus Löbbecke and 32.5 billion lire for the coverage of Agricola Investimenti's losses. Another 42.6 billion lire refer to the increase in the risk associated to legal disputes with customers and revocatory actions which are currently under way;
- also adjustments to loans and provisions for guarantees and commitments rose: from 498 billion lire in 1998 to 593.9 billion lire as at 31st December 1999;
- write-backs registered a significant drop, following the sale of short-term non-performing loans to Intesa Gestione Crediti;
- adjustments to equity investments decreased, from 268.5 billion lire in 1998 to 22.8 billion lire only in 1999.

Extraordinary income equalled 440.3 billion lire, compared to 141.6 billion lire the previous year; the most important amount recorded within this item was deferred taxes accounted for in previous years and which will terminate in the course of future years (232.7 billion lire) and income following the sale of equity investments (118.7 billion lire). Extraordinary charge, which equalled 417.7 billion lire (120.5 billion lire in 1998), included 250 billion lire of provisions to the reserve for future integration expenses aimed at covering costs deemed to be necessary in order to sustain the integration of Gruppo Intesa.

1999 closed with a net income of 684.7 billion lire compared to 522.1 billion lire in 1998, after the deduction of 315.1 billion lire of taxes, a significantly lower amount than the previous year. As already mentioned, this figure reflected the amount recorded for prepaid taxes, which equalled 267.9 billion lire, and 33.4 billion lire of savings due to the incentives provided for by the so-called Ciampi Law.

The 2000 financial statements will reflect the contribution to Banca Intesa of important and profitable equity investments as well as most of financial operations. For these reasons, with regard to the current year, expectations almost entirely refer to operations with customers. Interest margin should repeat the positive result recorded in 1999 since loans and deposits are expected to grow more than the banking system and the interest rate spread should remain practically unchanged. Commissions should continue to improve, mostly as a result of the increase in volumes related to banking services and managed funds. The cost/income ratio should further improve, thus enabling Cariplo to reach an excellent positioning in the Italian banking panorama. For all these reasons, operating income should register a rise; however, since net extraordinary income should, for various reasons, drop significantly, net income should register a moderate increase.

In 1999, as part of the updating of Cariplo's technological infrastructures, specific and important software applications were developed and completed; these applications include new programmes regarding general accounting, securities, foreign exchange operations, management of non-performing loans, loan granting process, new risk monitoring data base, public institution treasury management, utility payments and transit items.
The installation of these important software applications significantly affected the Bank's operations. The considerable efforts made especially at the beginning of the year due to the introduction of the euro created difficulties in the start-up of certain procedures (notably foreign exchange operations and securities) which led to certain malfunctions in back office operations and in the feeding of the general accounting system. Corrections which were promptly implemented were successful and already as at 30th June 1999 the system had restarted to work effectively.

Activities aimed at sorting and correcting pending items generated in the first months of the year following the difficult start up of the new procedures commenced in the second half of 1999. These activities, which are in process of completion, have not resulted in any significant charges (which would burden the Bank's statement of income).
The balances of items pending at year-end have been contained to what are deemed to be normal levels considering the volume of transactions managed by these procedures which were also affected by the centralisation in Cariplo of Group treasury operations.

Banco Ambrosiano Veneto

(in billions of lire)

	1999	1998	Change
Balance sheet			
Loans to customers	31,064.1	28,307.4	9.7%
Securities	5,031.8	10,811.5	(53.5%)
including Investment portfolio	*2,826.7*	*4,900.4*	*(42.3%)*
Equity investments	391.3	391.0	0.1%
Total assets	51,016.0	58,225.7	(12.4%)
Direct customer deposits	34,114.8	33,872.1	0.7%
including Subordinated liabilities	*302.1*	–	–
Indirect customer deposits	81,554.4	72,392.9	12.7%
including Managed funds	*42,784.8*	*39,461.1*	*8.4%*
Customer deposits under administration	115,669.2	106,265.0	8.8%
Net interbank position (debt)	545.3	(738.3)	–
Shareholders' equity (1)	1,524.8	1,762.6	(13.5%)
Statement of income			
Interest margin	1,233.9	1,329.3	(7.2%)
Net commissions	1,075.6	931.8	15.4%
Net interest and other banking income	2,441.2	2,578.3	(5.3%)
Operating costs	1,756.4	1,799.5	(2.4%)
Operating margin	684.8	778.8	(12.1%)
Income (Loss) from operating activities	446.4	596.3	(25.1%)
Net income for the year	351.8	231.5	52.0%
Other information			
Earnings per share *(lire)*	290	191	99
Staff *(number)*	8,420	8,599	(179)
Branches *(number)*	630	629	1
including Abroad	*1*	*1*	–
Economic and financial ratios			
Balance sheet ratios			
Loans to customers/total assets	60.9%	48.6%	
Securities/total assets	9.9%	18.6%	
Direct customer deposits/total assets	66.9%	58.2%	
Managed funds/indirect customer deposits	52.5%	54.5%	
Statement of income ratios (2)			
Net commissions/net interest and other banking income	44.1%	36.1%	
Operating costs/net interest and other banking income	71.9%	69.8%	
Net income for the year/total assets (ROA)	0.7%	0.4%	
Net income for the year/shareholders' equity (ROE)	23.1%	13.1%	
Risk ratios			
Net non-performing loans/total loans	0.2%	4.6%	
Total adjustments/gross non-performing loans	49.2%	40.5%	
Capital ratios			
Tier 1 capital/risk-weighted assets	4.3%	4.7%	
Total capital/risk-weighted assets	8.0%	9.2%	
Risk-weighted assets	35,973.7	34,150.7	

(1) Excluding net income for the year.
(2) Statement of income ratios were calculated considering the reclassified statement of income.

Balance sheet

The main balance sheet aggregates recorded satisfactory trends in the year.
Loans to customers amounted to 31,064.1 billion lire compared to 28,307.4 billion lire as at 31st December 1998 (+ 9.7%). Net of repurchase agreements, loans to customers increased by 13.8%, in spite of the negative impact of the sale of non-performing loans and the contraction in operations carried out by the London branch, as a result of various Group strategies described above. In terms of average volumes - again excluding repurchase agreements and operations carried out by the London branch - lending registered an approximately 7% increase in short-term loans, slightly higher than the expansion recorded by the entire banking system, whereas medium- and long-term loans increased by over 30%.

As at 31st December 1999, direct customer deposits, including subordinated liabilities, equalled 34,114.8 billion lire with respect to 33,872.1 billion lire as at 31st December 1998 (+ 0.7%). In spite of the negative impact of the significant contraction in operations carried out by the London branch, the aggregate, net of repurchase agreements, increased by over 11% compared to as at 31st December 1998. Average volumes of deposits, again excluding repurchase agreements and the operations carried out by the London branch, rose by approximately 10% and more than doubled the increase recorded by the banking system.
Indirect customer deposits continued to register a positive trend: the item maintained a significant growth rate (+ 12.7%) and exceeded 81,000 billion lire. Managed funds, which at year-end totalled almost 43,000 billion lire (+ 8.4%), again showed satisfactory results.

With regard to interbank deposits, the contraction in operations carried out by the London branch and the lower amounts required to finance the securities portfolio led the net debt position (corresponding to approximately 700 billion lire as at 31st December 1998) to become a positive balance amounting to approximately 500 billion lire as at the end of 1999.

For the above-mentioned reasons, the securities portfolio decreased from 10,811.5 billion lire as at 31st December 1998 to 5,031.8 billion lire as at the end 1999.

Statement of income

With regard to economic results, 1999 performance was very satisfactory.
The contraction in interest margin (– 7.2%), attributable both to the decline in interest rates and to the significant reduction in debt securities, was contained within physiological levels, also as a result of a change in the re-composition of deposits aimed at privileging less expensive forms of funding and of loans for the purpose of increasing more profitable contract types. In particular, average volumes of banking operations with customers registered a satisfactory performance with a 1,700 billion lire increase in loans and an approximately 1,000 billion lire rise in deposits. These increases led lending and deposit collecting activities with customers to improve their contribution to the interest margin (+ 2.4% compared to 1998), in spite of the contraction in the interest rate spread (down by over 70 basis points).

Net commissions (1,075.6 billion lire) showed a 15.4% growth rate, as a result of the positive trend registered by commissions related to the placement of securities (+ 44.7%) and portfolio management (+ 23.6%). It must be noted that the continuous increase in commissions as well as the containment in operating costs led to improve by over 8 percentage points the coverage of operating costs through net commissions.
Profits on financial transactions - which decreased from 204.8 billion lire as at 1998 to 21.9 billion lire as at 1999 - were significantly affected by the negative impact of the reduction in equity investments and in securities trading, as part of the above-mentioned centralisation of finance activities into the Parent Company.
The reduction in profits on financial transactions had a decisive impact on net interest and other banking income for the year, which dropped from 2,578.3 billion lire as at 31st December 1998 to 2,441.2 billion lire as at 31st December 1999 (– 5.3%).

Operating costs (1,756.4 billion lire), net of amounts debited to Group companies for costs related to seconded personnel, showed an overall 2.4% decrease with respect to 1998. As already noted, such costs (which included personnel expenses, administrative costs and amortisation) must be considered together, since the transfer of certain activities to other Group companies led to a different partition of costs compared to 1998 when the Group's new organisational structure was not complete.
Among valuation effects, the statement of income registered a slight reduction in net adjustments to loans, but was negatively affected by significant provisions for risks and charges which mostly referred to an amount (65 billion lire) aimed at covering the expected loss following an episode of mismanagement which has recently emerged for which all possible legal actions aimed at containing damages procured to the Company has already been taken.

On the other hand, the statement of income benefited from significant extraordinary income, which stemmed from: the sale of certain buildings (24.4 billion lire); the sale of a portion of the investment portfolio and of the correspondent hedging financial derivatives (44.4 billion lire) carried out by the London branch; the inclusion of prepaid taxes which matured in previous years and will be recovered starting with the year 2000 (50.4 billion lire).
Extraordinary income included 50 billion lire of provisions for future integration expenses deemed to be necessary for the integration process of Gruppo Intesa.

Lastly, net income for the year was positively influenced by the significant decrease in the fiscal burden, as a result of both the application of the new accounting principle regarding taxes and the incentives provided for by the so-called Ciampi Law.
1999 closed with a net income of 351.8 billion lire with respect to 231.5 billion lire as at 1998, with a ROE in excess of 23%.

Forecasts for the year 2000 depend on the final transformation of Banco Ambrosiano Veneto into network bank, as provided for by the Group model. This will lead to the transfer of Bank finance activities to the Parent Company and the closing of the London branch.
Balance sheet aggregates should record positive growth rates and also the interest rate spread should register a moderate improvement. Indirect customer deposits, including both customer deposits under administration and managed funds, should increase, even if by more contained growth rates than those registered in 1999.
However, no significant change in the interest margin is expected, whereas commissions should continue to rise, even if with a lower growth rate than that experienced in 1999.
A notable containment in operating costs should lead to an improvement in operating results, whereas the significant containment in provisions for risks and charges and improved loan portfolio quality should determine an important increase in income from operating activities. However, the integral annulment of extraordinary income should lead to a net income for the year slightly lower than that as at 1999.

Cassa di Risparmio di Parma e Piacenza

(in billions of lire)

	1999	1998	Change
Balance sheet			
Loans to customers	14,946.9	15,976.3	(6.4%)
Securities	4,019.8	4,238.7	(5.2%)
including Investment portfolio	*633.2*	*401.6*	*57.7%*
Equity investments	250.4	362.9	(31.0%)
Total assets	23,970.1	26,388.0	(9.2%)
Direct customer deposits	17,690.9	19,566.0	(9.6%)
including Subordinated liabilities	*361.7*	*119.8*	–
Indirect customer deposits	44,467.5	37,438.2	18.8%
including Managed funds	*19,129.3*	*16,313.0*	*17.3%*
Customer deposits under administration	62,158.4	57,004.2	9.0%
Net interbank position (debt)	473.3	694.7	(31.9%)
Shareholders' equity (1)	1,806.2	1,754.2	3.0%
Statement of income			
Interest margin	666.9	685.3	(2.7%)
Net commissions	405.7	336.6	20.5%
Net interest and other banking income	1,066.3	1,182.5	(9.8%)
Operating costs	767.1	811.6	(5.5%)
Operating margin	299.2	370.9	(19.3%)
Income (Loss) from operating activities	10.9	208.7	(94.8%)
Net income for the year	127.3	90.5	40.6%
Other information			
Earnings per share *(lire)*	107	76	31
Staff *(number)*	4,009	4,151	(142)
Branches *(number)*	317	314	3
Economic and financial ratios			
Balance sheet ratios			
Loans to customers/total assets	62.4%	60.5%	
Securities/total assets	16.8%	16.1%	
Direct customer deposits/total assets	73.8%	74.1%	
Managed funds/indirect customer deposits	43.0%	43.6%	
Statement of income ratios (2)			
Net commissions/net interest and other banking income	38.0%	28.5%	
Operating costs/net interest and other banking income	71.9%	68.6%	
Net income for the year/total assets (ROA) (3)	0.6%	0.3%	
Net income for the year/shareholders' equity (ROE) (3)	7.8%	5.2%	
Risk ratios			
Net non-performing loans/total loans	4.5%	4.4%	
Total adjustments/gross non-performing loans	46.7%	40.0%	
Capital ratios			
Tier 1 capital/risk-weighted assets	10.3%	9.1%	
Total capital/risk-weighted assets	12.8%	9.6%	
Growth margin	12,628	6,383	

(1) *Excluding net income for the year.*
(2) *Statement of income ratios were calculated considering the reclassified statement of income.*
(3) *In order to calculate the ratio net income includes provisions to the reserve for general banking risks.*

The entrance of Cariparma in Gruppo Intesa required the concentration of various central services into Banca Intesa, as part of the re-allocation of activities between Cariparma and the Parent Company's structures which specifically carry out direction functions and offer operational support functions.
In order to reach effective organisational and managerial solutions, near-banking activities were unified and concentrated into the different business units belonging to the Group; consequently, Mediocredito Padano was merged with Cariparma, whereas leasing, factoring and asset management companies were merged into Group product companies operating in the same sectors.

Balance sheet

The balance sheet showed a positive evolution in average intermediated volumes. With regard to lending, loans to customers registered a contained drop with respect to the previous year (– 6.4%), as a result of the closing, carried out by the Bank, of all repurchase agreements, which are typically financial transactions with extremely low profit margins. The comparison between data referring exclusively to loans granted to customers showed a 6.9% increase.

A similar phenomenon occurred with regard to deposits. Whereas traditional deposits registered a slight contraction (– 4.4%), repurchase agreement transactions, which are normally more expensive, recorded a significant drop from 2,448 billion lire to 1,085 billion lire. This determined a 9.6% decrease in direct customer deposits, including subordinated liabilities, which went down to 17,691 billion lire. On the other hand, indirect customer deposits increased vigorously, both in terms of the total amount (+ 18.8%) and in terms of managed funds (+ 17.3%).
Overall, customer deposits under administration showed a 9% growth rate.

The securities portfolio remained virtually unchanged, slightly in excess of 4,000 billion lire, whereas net interbank position registered a 473 billion lire credit.

Statement of income

In 1999 the Bank registered an extremely satisfactory result: net income was in excess of 127 billion lire, almost 41% higher with respect to the previous year.
ROE improved, from 5.2% to 7.8%.
Net income for the year benefited from important extraordinary income and was negatively affected by losses on financial transactions and particularly prudent policies used in valuations, which led to important adjustments and provisions.

Typical banking activities registered satisfactory results.
Interest margin showed a 2.7% decrease, which would become a 1.7% increase if certain financial transactions (namely securities sold short) that negatively affected this item are not considered. Furthermore, this result reflected the marked contraction in the yield of Government bonds. In any case, the interest margin to total assets ratio improved (2.8% compared to 2.6% the previous year); this result becomes more impressive considering that the entire banking system experienced a significant contraction in interest rate spreads.
Net commissions registered a very satisfactory result (+ 20.5%), which is related to the increase in the volume of direct customer deposits: consequently, this margin to net interest and other banking income ratio rose from 28.5% to 38%.
The trend recorded by interest rates and market volatility negatively affected financial transactions which closed with a loss in excess of 82 billion lire.
Great efforts were made in order to contain operating costs: administrative costs decreased by a total of 6.3% and, among administrative costs, personnel expenses registered an 8.8% reduction.
Income from operating activities reflected significant provisions for risks and charges and adjustments to loans which were made in order to adapt the Bank’s valuation parameters to those used by the Group; adjustments to loans amounted to 256 billion lire, more than 71 billion lire higher than the previous year.
In 1999 profitability was supported by extraordinary income, which registered a net balance of 188 billion lire. Extraordinary income comprised important capital gains on financial fixed assets, in particular 214 billion lire following the sale of the minority stake - no longer deemed to be strategic - held in Cassa di Risparmio di Reggio Emilia and the recovery of over 40 billion lire of prepaid taxes related to previous years.
Extraordinary charges also recorded significant amounts and included 46 billion lire related to the transformation of the allowance for supplementary coverage schemes.
Furthermore, provisions for general banking risks equalled 13 billion lire.
As already mentioned, net income for the year exceeded 127 billion lire.

There are various elements on which to base the positive forecasts for the year 2000 set out below:

- banking operations are significantly increasing, as proved by both the almost stable interest rate differential and the notable rise in commission, and are safely assumed to improve further;

- the negative trend of profits from financial activities must be considered as not recurring, also in the light of the new management, analysis and control instruments implemented by the Parent Company;
- loan portfolio quality, after significant adjustments, is in line with Group standards, and should require more contained adjustments with respect to 1999;
- operating costs should be easily contained further;
- the 2000 financial statements will certainly not include the significant extraordinary income recorded in 1999, but the agreement reached with Trade Unions with regard to the internal allowance for supplementary benefits and the important provisions for risks and charges, should exclude even the possibility of new conspicuous extraordinary charges.

Based on these elements, forecasts for the current year are positive, with a net income which is expected to outperform the result recorded in 1999.

Banca Carime

(in billions of lire)

	1999	1998	Change
Balance sheet			
Loans to customers	6,833.8	6,690.6	2.1%
Securities	6,960.6	7,795.4	(10.7%)
including Investment portfolio	*594.9*	*342.2*	*73.8%*
Equity investments	51.5	72.0	(28.5%)
Total assets	22,706.5	21,268.4	6.8%
Direct customer deposits	15,914.3	15,585.9	2.1%
including Subordinated liabilities	*125.8*	–	–
Indirect customer deposits	9,815.8	9,052.0	8.4%
including Managed funds	*6,662.6*	*5,639.0*	*18.2%*
Customer deposits under administration	25,730.1	24,637.9	4.4%
Shareholders' equity (1)	1,608.2	1,583.0	1.6%
Statement of income			
Interest margin	604.6	655.2	(7.7%)
Net commissions	199.8	152.3	31.2%
Income from services	222.0	362.4	(38.7%)
Net interest and other banking income	826.6	1,017.0	(18.7%)
Operating costs	770.4	816.9	(5.7%)
Operating margin	56.2	200.0	(71.9%)
Income (Loss) from operating activities	28.4	85.5	(66.8%)
Net income for the year	21.6	25.8	(16.4%)
Other information			
Earnings per share *(lire)*	13.5	16.1	(2.6)
Staff *(number)*	4,236	4,366	(130)
Branches *(number)*	343	335	8
Economic and financial ratios			
Balance sheet ratios			
Loans to customers/total assets	30.1%	31.5%	
Securities/total assets	30.7%	36.7%	
Direct customer deposits/total assets	70.1%	73.3%	
Managed funds/indirect customer deposits	67.9%	62.3%	
Statement of income ratios (2)			
Net commissions/net interest and other banking income	24.2%	15.0%	
Operating costs/net interest and other banking income	93.2%	80.3%	
Net income for the year/total assets (ROA) (3)	0.1%	0.1%	
Net income for the year/shareholders' equity (ROE) (3)	1.8%	1.6%	
Risk ratios			
Net non-performing loans/total loans	0.5%	1.4%	
Total adjustments/gross non-performing loans	64.0%	53.0%	
Capital ratios			
Tier 1 capital/risk-weighted assets	10.7%	10.1%	
Total capital/risk-weighted assets	11.9%	10.0%	
Growth margin	6,867.0	4,064.5	

(1) Excluding net income for the year and provisions to the reserve for general banking risks.
(2) Statement of income ratios were calculated considering the reclassified statement of income.
(3) The ratio was calculated by adding 7 billion lire of change in the reserve for general banking risks to net income for the year.

Banca Carime closed 1999 with a net income of 21.6 billion lire, a satisfactory result considering that the restructuring and organisational integration process, which started in 1998 and is still under way, has not as yet produced to the full its beneficial effects on statement of income results.
During the year, certain actions regarding the organisation and the IT system set forth in the three-year plan for 1999-2001 started implementation, among which:

- "Progetto Corsa", which entails customer segmentation based on dynamic criteria (income for private customers and sales for enterprises), the creation of new branch professionals and the assignment of customer segments to specialised managers;
- the new credit management process mainly aimed at maintaining high loan quality standards and standardising granting, management and monitoring methods within Gruppo Intesa;
- the migration of Banca Carime's IT system to the Intesa model, which will be completed in the first half of 2001.

Balance sheet

Banca Carime sustained the upturn registered in certain areas of activities by increasing its lending activity.
In 1999 Banca Carime operated on its local market by offering loans to companies which benefited from subsidies. The breakdown of amounts granted showed a 2.1% increase in loans to customers compared to the previous year (+ 143 billion lire), which was accompanied by an improvement in loan portfolio quality.
The aggregate referring to loans subject to risk amounted to 480 billion lire, with a 242 billion lire reduction compared to as at 31st December 1998, as a result of both the transfer of certain problem loans to performing loans, and the sale of non-performing loans to Intesa Gestione Crediti - which led the non-performing loans to total loans to customers ratio to drop from 1.4% as at 31st December 1998 to 0.5% as at 31st December 1999.

As far as deposits are concerned, customer deposits under administration summed up to 25,730 billion lire, with a 4.4% increase compared to 1998 corresponding to 1,092 billion lire.
Direct customer deposits registered a 2.1% rise compared to the previous year.
On the other hand, indirect customer deposits increased by 764 billion lire (+ 8.4%).
The indirect customer deposits to customer deposits under administration ratio increased from 37.2% as at 31st December 1998 to 38.5% as at 31st December 1999, whereas in 1999 managed funds represented a 67.9% portion of indirect deposits compared to 62.3% in 1998.

The securities portfolio equalled 6,961 billion lire, with a 834 billion lire contraction with respect to 1998. The composition of this item changed deeply: investment portfolio increased as a result of structured finance operations whereas the percentage of fixed-income securities decreased with a corresponding increase in indexed securities.
Operations on the interbank market registered a remarkable increase, mostly as a result of the asset allocation policies adopted by Banca Carime, which was related to the contraction in the securities portfolio. Net interbank position increased from 2,600 billion lire at the end of 1998 to 3,463 billion lire at the end of 1999.

Statement of income

Carime's statement of income recorded an interest margin of 604.6 billion lire, with a 7.7% drop with respect to 1998.
Net commissions (200 billion lire) showed an increase in excess of 31%, which was mostly due to the rise in commissions on managed funds.
The reduction in net interest and other banking income, which dropped from 1,017 billion lire as at 1998 to 827 billion lire as at 1999, was attributable to losses on financial transactions following the negative trend registered by the bond market in the second half of 1999 and the fact that the 1998 statement of income benefited from certain non-recurring elements.

Personnel expenses (451 billion lire) showed a 4.4% decrease, attributable to the reduction in the average number of employees.

Other administrative costs recorded a 25 billion lire drop (– 10.7%) with respect to the previous year, as a result of the economies of scale and the synergies which stemmed from the integration process involving the three banks and from cost containment projects which were implemented in 1999.

Income from operating activities totalled 56 billion lire, with a 144 billion lire reduction as a result of:

- 111.1 billion lire of adjustments on tangible and intangible fixed assets, of which over 69 billion lire following the amortisation of goodwill which arose at the time of the contribution;
- 47.8 billion lire of adjustments to loans and 47.4 billion lire of write-back of adjustments, attributable to the improvement in loan portfolio quality;
- 27.4 billion lire of adjustments to financial fixed assets, mostly as a result of the write-down of the equity investment in E.Tr. - Esazione Tributi, one of the Group’s tax collection companies (25 billion lire).

Extraordinary operations registered a positive result amounting to 28.4 billion lire and included out-of-period income from prepaid taxes (20.7 billion lire) which was matured in previous years and 10 billion lire of extraordinary future integration charges related to the migration of procedures and the IT system into the Gruppo Intesa system.
Net income for the year equalled 21.6 billion lire after the deduction of income taxes (28.2 billion lire) and provisions to the reserve for general banking risks (7 billion lire).

In 2000, the expected improvement in the economy in Southern Italy should lead to a sounder increase with respect to the Country’s average data. In this scenario, Banca Carime should continue its development according to the positive path it has been following in its first two years of operations; a path which led to satisfactory statement of income levels, contraction in operating costs and structural and organisational integration into the Group, but always maintaining Banca Carime’s mission, which is bound to the Southern Italian territory and to the continuos contribution to the latter’s economic growth.

Banca Popolare FriulAdria

(in billions of lire)

	1999	1998	Change
Balance sheet			
Loans to customers	2,824.6	2,512.5	12.4%
Securities	2,447.4	2,155.1	13.6%
Total assets	5,850.0	5,299.8	10.4%
Direct customer deposits	3,505.8	3,529.5	(0.7%)
including Subordinated liabilities	*75.5*	–	–
Indirect customer deposits	6,545.0	5,413.0	20.9%
including Managed funds	*2,501.0*	*1,651.0*	*51.5%*
Customer deposits under administration	10,050.8	8,942.5	12.4%
Net interbank position (debt)	1,094.7	(502.0)	–
Shareholders' equity (1)	653.8	653.6	–
Statement of income			
Interest margin	163.2	171.6	(4.9%)
Net commissions	66.8	51.9	28.7%
Net interest and other banking income	270.1	274.2	(1.5%)
Operating costs	157.1	157.1	–
Operating margin	113.0	117.1	(3.5%)
Income (Loss) from operating activities	94.4	94.7	(0.3%)
Net income for the year	45.2	50.8	(11.0%)
Other information			
Earnings per share *(lire)*	3,104	3,485	(382)
Staff *(number)*	909	912	(3)
Branches *(number)*	94	89	5
Economic and financial ratios			
Balance sheet ratios			
Loans to customers/total assets	48.3%	47.4%	
Securities/total assets	41.8%	40.7%	
Direct customer deposits/total assets	59.9%	66.6%	
Managed funds/indirect customer deposits	38.2%	30.5%	
Statement of income ratios (2)			
Net commissions/net interest and other banking income	24.7%	18.9%	
Operating costs/net interest and other banking income	58.2%	57.3%	
Net income for the year/total assets (ROA) (3)	0.9%	0.9%	
Net income for the year/shareholders' equity (ROE) (3)	7.8%	7.3%	
Risk ratios			
Net non-performing loans/total loans	0.9%	1.1%	
Total adjustments/gross non-performing loans	37.8%	41.0%	

(1) Excluding net income for the year and provisions to the reserve for general banking risks.
(2) Statement of income ratios were calculated considering the reclassified statement of income.
(3) The change in the reserve for general banking risks (6 billion lire) was added to net income for the year.

Balance sheet

Financial highlights confirmed Banca Popolare FriulAdria's positive overall performance, which was particularly attributable to the significant development in operations related to customers.
Cash deposits amounted to 2,825 billion lire, with a 12.4% increase.
Among medium-term loans, which increased by 32%, loans to the housing sector recorded considerable growth rates, which led to 1,200 mortgage contracts with a total value in excess of 150 billion lire to be granted.
The net non-performing loans to total loans to customers ratio improved with respect to the previous year and amounted to 0.9%.
Own securities, all of which are part of the trading portfolio, summed up to 2,447 billion lire, with a 13.6% increase compared to 1998.

Total assets amounted to 5,850 billion lire, with a 10.4% growth rate compared to 1998.
Direct customer deposits, including subordinated liabilities placed with customers

(76 billion lire), equalled 3,506 billion lire; excluding repurchase agreements the item recorded a 115 billion lire rise compared to 1998. Various components recorded diversified trends: current accounts increased (+ 10.5%); savings deposits and issued bonds remained practically unchanged; certificates of deposit and repurchase agreements decreased.
Indirect customer deposits recorded a 20.9% increase and reached 6,545 billion lire. Managed funds registered a growth rate in excess of 51%.
Shareholders’ equity almost touched 654 billion lire.

Statement of income

Interest margin totalled 163 billion lire, down by 4.9% compared to the previous year; the decrease is mostly attributable to the 1.7% decline in interest rates on assets and to the 1.3% drop in interest rates on liabilities with the consequent 0.4% contraction in the interest rate spread. This effect was partially offset by the significant rise in deposit collecting and lending activities.
Net commission income totalled 67 billion lire, compared to 52 billion lire the previous year (+ 28.7%) and its contribution to net interest and other banking income increased from 18.9% to 24.7%.
Net interest and other banking income was negatively affected by profits on financial transactions which decreased from 33 billion lire to 19 billion lire (– 43%). Considering the increase in other operating income (+ 17%), net interest and other banking income totalled 270 billion lire, just under the result registered in 1998 (– 1.5%).

Operating costs remained practically unchanged with respect to the previous year.
Net income totalled 45 billion lire, after adjustments and write-backs and non-recurring provisions amounting to approximately 21 billion lire, mostly set up to cover expenses related to the disposal of procedures connected to the migration to the Group’s IT system.
ROE, calculated by adding to net income the 6 billion lire change in the reserve for general banking risks, slightly improved with respect to the previous year (from 7.3% to 7.8%).

The economic recovery is forecasted to continue, sustained by the rise in both consumption and exports, and should therefore positively affect the Bank’s future operations. Objectives include a rise in both funding and lending volumes which should lead to greater profitability; a wider range of services will be offered and should be positively influenced by Group synergies. Securities trading will only occur to satisfy customer needs and has up to now been carried out with satisfactory results, thus avoiding the risks which represent an exogenous factor for the Bank’s operations.
All activities are considerably affected by the Bank’s integration in Gruppo Intesa which is currently under way. In particular, in the year 2000 the following events should occur: the review of the organisational structure with the introduction of an updated distribution model, the migration to a new IT system, the acquisition of 60 branches in the Friuli-Venezia Giulia region, currently belonging to Banco Ambrosiano Veneto, aimed at making Banca Popolare FriulAdria the reference Bank for the entire region.

Banca di Trento e Bolzano

(in billions of lire)

	1999	1998	Change
Balance sheet			
Loans to customers	2,103.1	1,895.4	11.0%
Securities	1,000.6	997.4	0.3%
including Investment portfolio	*369.5*	*285.4*	*29.5%*
Total assets	3,798.9	3,491.2	8.8%
Direct customer deposits	2,779.4	2,624.0	5.9%
including Subordinated liabilities	*51.8*	*8.3*	–
Indirect customer deposits	3,370.7	3,127.4	7.8%
including Managed funds	*2,238.0*	*1,904.3*	*17.5%*
Customer deposits under administration	6,150.1	5,751.4	6.9%
Net interbank position (debt)	186.5	102.4	82.1%
Shareholders' equity (1)	192.0	182.0	5.5%
Statement of income			
Interest margin	82.9	89.8	(7.7%)
Net commissions	48.0	39.3	22.1%
Net interest and other banking income	134.8	149.6	(9.9%)
Operating costs	113.0	118.6	(4.7%)
Operating margin	21.8	31.0	(29.7%)
Income (Loss) from operating activities	11.2	13.4	(16.4%)
Net income for the year	14.0	11.3	23.9%
Other information			
Earnings per share *(lire)*	144	119	25
Staff *(number)*	595	610	(15)
Branches *(number)*	69	67	2
Economic and financial ratios			
Balance sheet ratios (2)			
Loans to customers/total assets	55.4%	54.3%	
Securities/total assets	26.3%	28.6%	
Direct customer deposits/total assets	73.2%	75.2%	
Managed funds/indirect customer deposits	66.4%	60.9%	
Statement of income ratios			
Net commissions/net interest and other banking income	35.6%	26.3%	
Operating costs/net interest and other banking income	83.8%	79.3%	
Net income for the year/total assets (ROA) (3)	1.0%	0.3%	
Net income for the year/shareholders' equity (ROE) (3)	20.3%	6.2%	
Risk ratios			
Net non-performing loans/total loans	2.9%	3.0%	
Total adjustments/gross non-performing loans	48.2%	57.2%	

(1) *Excluding net income for the year and provisions to the reserve for general banking risks.*
(2) *Statement of income ratios were calculated considering the reclassified statement of income.*
(3) *The change in the reserve for general banking risks (25 billion lire) was added to net income for the year.*

In 1999 Banca di Trento e Bolzano recorded an overall performance which was decidedly better than the previous year's and reached a net income of 14 billion lire, up by approximately 24% compared to 1998 (11.3 billion lire).

Balance sheet

With regard to balance sheet aggregates, improvements in all areas of operations with customers testify the development in the Bank's activities: loans to customers increased to 2,103 billion lire (+ 11% compared to as at 31st December 1998), whereas customer deposits under administration reached 6,150.1 billion lire (+ 6.9% with respect to the previous year). Direct customer deposits totalled 2,779.4 billion lire, and indirect customer deposits exceeded 3,370 billion lire as a result of the further progress recorded by managed funds. As at 31st December 1999 managed funds represented 66% of indirect deposits.

Statement of income

Statement of income structure was significantly affected by the negative trends recorded by the entire banking system (contraction in the interest rate spread, decrease in income from foreign operations and, especially, the reduction in bond prices with the consequent considerable write-downs of the securities portfolio) which led to considerable decreases in revenues. Interest margin dropped to 82.9 billion lire (– 7.7%) following both the contraction in the interest rate spread on operations with customers (only partly offset by the higher-than-forecasted growth in volumes) and the reduction in the return on the securities portfolio (negatively affected by the continuous decrease in bond yields). Net commission income recorded a satisfactory 22% growth rate, mostly due to asset management. The write-down of securities in the trading portfolio (which equalled 14.2 billion lire) led to a 9.9% drop in net interest and other banking income. Operating costs were further contained (– 4.7%) also as a result of initiatives aimed at rationalising structures and processes; this was not sufficient to cover lower revenues compared to 1998: therefore operating margin decreased to 21.8 billion lire.
With regard to loan portfolio quality (which was subject to considerable interventions during 1999) improvements led to the reduction in provisions for the year (– 21%) and to the satisfactory results obtained in the recovery of problem loans.
Net extraordinary income totalled 30.2 billion lire, of which 25 billion lire referred to the first application of the new accounting treatment of deferred taxes. In order to eliminate the effect of this accounting change on 1999 profitability, the same amount, 25 billion lire, was used to increase the reserve for general banking risks. Net income for the year, as already mentioned above, totalled 14 billion lire with a 24% growth rate compared to 11.3 billion lire achieved in 1998.

In 1999 the distribution structure was expanded further with two branch openings and the development of automated channels: more specifically, as at 31st December 1999, the Bank could rely on 69 branches and 595 employees, with a 15 unit reduction with respect to 1998. In 2000, Banca di Trento e Bolzano activities will focus on its core business, that is operations with customers, with initiatives aimed at developing the distribution network and extending the product range. With regard to the statement of income, interest margin is expected to improve following the development of operations with customers which should have more favourable spreads thanks to the rise in interest rates and the increase in volumes in lending and deposit collecting activities which will follow from the expectations of an improvement in the economic cycle. Further rises are also forecasted in the services to customers area mainly due to the development of asset management. With regard to operating costs, the Bank should consolidate the results obtained in past few years.
Overall, 2000 is expected to be a more favourable year than 1999 with regard to operations with customers.

Cassa di Risparmio di Ascoli Piceno

(in billions of lire)

	1999	1998	Change
Balance sheet			
Loans to customers	1,095.7	955.1	14.7%
Securities	777.2	866.2	(10.3%)
Total assets	2,173.1	2,210.4	(1.7%)
Direct customer deposits	1,611.9	1,668.0	(3.4%)
Indirect customer deposits	1,358.0	1,125.6	20.6%
including Managed funds	*627.0*	*419.9*	*49.3%*
Customer deposits under administration	2,969.9	2,793.6	6.3%
Net interbank position (debt)	(396.4)	(265.7)	49.2%
Shareholders' equity (1)	288.2	290.1	(0.7%)
Statement of income			
Interest margin	85.5	84.6	1.1%
Net commissions	24.2	18.8	28.7%
Net interest and other banking income	118.9	125.1	(5.0%)
Operating costs	95.6	98.1	(2.5%)
Operating margin	23.2	27.1	(14.4%)
Income (Loss) from operating activities	7.8	20.5	(62.0%)
Net income for the year	12.7	10.6	19.8%
Other information			
Staff *(number)*	488	485	3
Branches *(number)*	52	52	–
Economic and financial ratios			
Balance sheet ratios			
Loans to customers/total assets	50.4%	43.2%	
Securities/total assets	35.8%	39.2%	
Direct customer deposits/total assets	74.2%	75.5%	
Managed funds/indirect customer deposits	46.2%	37.3%	
Statement of income ratios			
Net commissions/net interest and other banking income	20.4%	15.0%	
Operating costs/net interest and other banking income	80.4%	78.4%	
Net income for the year/total assets (ROA) (2)	1.1%	0.5%	
Net income for the year/shareholders' equity (ROE) (2)	8.3%	3.7%	
Risk ratios			
Net non-performing loans/total loans	3.9%	4.6%	
Total adjustments/gross non-performing loans	42.8%	29.7%	

(1) *Excluding net income for the year and provisions to the reserve for general banking risks.*
(2) *The change in the reserve for general banking risks (11 billion lire) was added to net income for the year.*

Balance sheet

Ordinary banking activities recorded positive results in 1999 with satisfactory growth rates both in terms of balance sheet aggregates and overall performance.
With regard to volumes, loans to customers recorded a considerable rise and totalled 1,096 billion lire (+ 14.7%); in particular, medium- and long-term loans showed the most favourable trend and increased by 20.2%.
The decrease in direct customer deposits (– 3.4%) was more than offset by the considerable rise registered by indirect customer deposits. Following specific penetration strategies, the Bank increased indirect deposits by 20.6% and managed funds recorded a 49.3% growth rate.

Statement of income

With regard to the statement of income, interest margin remained at previous levels (+ 1.1%); the interest rate spread applied to operations with customers decreased, from 6.1% in 1998 to 5.1% in 1999, but was in any case higher than the average spread recorded by the Bank's reference market.

Positive performance recorded by commission income must be noted; it follows from a change in company strategy. Net commission income increased from 18.8 billion lire to 24.2 billion lire corresponding to a 28.7% growth rate.
Finance operations recorded a negative trend which absorbed results obtained on lending and deposit collecting activities. Net interest and other banking income therefore recorded a 5% reduction mostly as a result of the slump in securities prices which determined a reduction in profits on financial transactions compared to the previous year, down from 15 billion lire in 1998 to just over 2 billion lire in 1999.

Operating costs recorded a considerable contraction (– 2.5%). Personnel expenses decreased by 6.4% also following incentive-driven pension schemes.
Adjustments and write-backs were stable with respect to the previous year.
The non-performing loans to loans to customers ratio decreased from 4.6% in 1998 to 3.9% in 1999.

Operating margin recorded a 3.9 billion lire decrease (– 14.4%) which mostly reflected the reduction in profits on financial transactions.
1999 results were also positively influenced by considerable extraordinary effects connected to the new accounting treatment of deferred taxes (12.3 billion lire), as well as a capital gain on the sale of real estate and equity investments amounting to approximately 3 billion lire. Among extraordinary charges the following items must be noted: the write-off of the last extraordinary instalment of provisions to allowance for supplementary termination indemnities (1.9 billion lire) and software which has become obsolete (1 billion lire), as well as provisions for future charges connected to incentive-driven exit plans amounting to 1.1 billion lire and provisions to the allowance for company restructuring for 2 billion lire.
The existence of net extraordinary income in excess of 17 billion lire enabled the Bank to record substantial provisions for risks and charges amounting to over 4.4 billion lire as well as provisions to the reserve for general banking risks amounting to 11 billion lire.
Net income for the year totalled 12.7 billion lire (+ 19.8% compared to the previous year). ROE, calculated by adding to net income provisions to the reserve for general banking risks, increased from 3.7% to 8.3%.

2000 will be a particularly challenging year for the Bank which must respond to the continuous increase in competition in its reference market by focusing its efforts on short-term lending, expanding managed funds and extending the range of banking and financial products offered and paying particular attention to more sophisticated and technological services.

Holding Intesa Centro

The Company was established in November 1999 with a share capital amounting to 765 billion lire distributed among the following shareholders: Cariplo 97.63%, Fondazione Cassa di Risparmio di Spoleto 0.76%, Fondazione Cassa di Risparmio di Città di Castello 0.71%, Fondazione Cassa di Risparmio di Foligno 0.90%.
Shareholders paid Holding Intesa Centro shares by contributing the shares held in Cassa di Risparmio di Città di Castello, Cassa di Risparmio di Foligno, Cassa di Risparmio di Rieti, Cassa di Risparmio di Spoleto and Cassa di Risparmio della Provincia di Viterbo.

The Company carries out sub-holding functions within Gruppo Intesa, in its local territories.
The objective is to centralise in the Company the co-ordination of commercial activities, credit risk monitoring, human resource management, auditing, planning and management control so that the individual banks can focus on commercial and lending activities.
The Company started operations at the beginning of 2000. It has a very lean organisation which is consistent with the fact that it carries out direction and not operational functions.

Banca Intesa, as well as providing the Group institutional services (such as risk management, treasury and strategic planning), supplies Holding Intesa Centro with administrative and corporate services and a support in all other areas.

The Company closed its first financial statements which referred to just forty days with a loss of 3.7 billion lire. The loss reflected the write-down of the equity investment in Cassa di Risparmio Città di Castello (3.6 billion lire), following the loss registered by this Bank in 1999.

Cassa di Risparmio di Foligno

(in billions of lire)

	1999	1998	Change
Balance sheet			
Loans to customers	917.9	825.5	11.2%
Securities	352.5	420.6	(16.2%)
Total assets	1,437.9	1,446.8	(0.6%)
Direct customer deposits	1,089.3	1,066.9	2.1%
Indirect customer deposits	1,387.9	1,210.2	14.7%
including Managed funds	*316.1*	*243.6*	*29.8%*
Customer deposits under administration	2,477.2	2,277.1	8.8%
Net interbank position (debt)	39.8	28.2	41.1%
Shareholders' equity (1)	100.1	96.0	4.3%
Statement of income			
Interest margin	46.9	48.4	(3.1%)
Net commissions	14.1	15.1	(6.6%)
Net interest and other banking income	67.3	81.1	(17.0%)
Operating costs	57.7	57.9	(0.3%)
Operating margin	9.6	23.2	(58.6%)
Income (Loss) from operating activities	4.1	16.2	(74.7%)
Net income for the year	6.0	6.2	(3.2%)
Other information			
Staff *(number)*	295	294	1
Branches *(number)*	32	31	1
Economic and financial ratios			
Balance sheet ratios			
Loans to customers/total assets	63.8%	57.1%	
Securities/total assets	24.5%	29.1%	
Direct customer deposits/total assets	75.8%	73.7%	
Managed funds/indirect customer deposits	22.8%	20.1%	
Statement of income ratios (2)			
Net commissions/net interest and other banking income	21.0%	18.6%	
Operating costs/net interest and other banking income	85.7%	71.4%	
Net income for the year/total assets (ROA) (3)	0.9%	0.6%	
Net income for the year/shareholders' equity (ROE) (3)	12.7%	8.6%	
Risk ratios			
Net non-performing loans/total loans	3.9%	4.4%	
Total adjustments/gross non-performing loans	68.3%	67.1%	

(1) Excluding net income for the year and provisions to the reserve for general banking risks.

(2) Statement of income ratios were calculated considering the reclassified statement of income.

(3) The change in the reserve for general banking risks (2 billion lire in 1998 and 6 billion lire in 1999) was added to net income for the year.

Balance sheet

With regard to balance sheet aggregates, the satisfactory trend recorded by loans to customers (+ 11.2%) must be attributed to the Bank's efforts in the reconstruction after the earthquake and in the support of renewed economic activity in the area, as well as the decline in interest rates.
The non-performing loans to total loans to customers ratio decreased to 3.9% from 4.4% recorded the previous year.
Notwithstanding prudent policies adopted for the management of the securities portfolio (down by 16.2%), the trend recorded by financial markets led to write-downs expensed in the 1999 statement of income.

Direct customer deposits recorded a 2.1% growth rate, mostly driven by current accounts. The rise is attributable to liquidity related to the financial flows regarding the reconstruction which followed the earthquake.
Indirect customer deposits rose by 14.7% and confirmed the positive trend of managed funds. In particular, customer interest referred to products with higher risk profiles.
Customer deposits under administration registered an 8.8% growth rate.

Statement of income

Statement of income figures highlight an interest margin amounting to approximately 47 billion lire, with a slight reduction compared to 1998.
This result was influenced by the contraction in the interest rate spread, whereas the contribution of dividends was particularly noteworthy and included the extraordinary dividends paid by ICCRI.

Operating costs remained practically unchanged with respect to 1998 (– 0.3%).
Personnel expenses decreased by 3.1% following incentive-driven exit plans carried out the previous year.
Other operating costs mostly reflected IT costs connected to the Millennium Bug.
The year closed with an income from operating activities lower than that recorded in 1998 due to the adjustments to the securities portfolio which were entirely expensed in the statement of income.
Extraordinary items were particularly noteworthy due to the new accounting principle applied to taxes prepaid in previous years (7.3 billion lire) and the insurance payment following the damages on real estate properties used by the Bank, caused by the earthquake.
Provisions to the reserve for general banking risks amounting to 6.3 billion lire were decided upon considering these extraordinary items.
The costs to be sustained to refurbish real estate properties led to provisions to the allowance for future charges which, considering the non-recurring nature of the provisions, was accounted for in extraordinary expenses.
Net income for the year, which amounted to 6 billion lire, will lead to an adequate strengthening of the capital base and a consistent dividend pay-out.

With regard to expected results it must be noted that in 2000 the integration in Gruppo Intesa will occur and Holding Intesa Centro will become fully operational.
This will influence both the structure of the Bank and its financial statements.
In particular, Finance and treasury activities will be progressively transferred to the Parent Company with the following consequences: a decrease in the securities portfolio, a rise in due from banks and connected changes in the statement of income.

Cassa di Risparmio della Provincia di Viterbo

(in billions of lire)

	1999	1998	Change
Balance sheet			
Loans to customers	1,046.2	1,148.3	(8.9%)
Securities	349.1	411.7	(15.2%)
Total assets	1,956.6	1,994.6	(1.9%)
Direct customer deposits	1,620.9	1,648.4	(1.7%)
Indirect customer deposits	1,296.1	1,231.2	5.3%
including Managed funds	*773.2*	*748.3*	*3.3%*
Customer deposits under administration	2,917.0	2,879.6	1.3%
Net interbank position (debt)	(396.4)	(265.7)	49.2%
Shareholders' equity (1)	104.8	101.9	2.8%
Statement of income			
Interest margin	70.5	75.7	(6.9%)
Net commissions	26.0	24.6	5.7%
Net interest and other banking income	102.9	109.3	(5.9%)
Operating costs	82.6	83.9	(1.5%)
Operating margin	20.3	25.4	(20.1%)
Income (Loss) from operating activities	3.8	7.4	(48.6%)
Net income for the year	8.1	7.0	15.7%
Other information			
Staff *(number)*	427	437	(10)
Branches *(number)*	43	43	–
Economic and financial ratios			
Balance sheet ratios			
Loans to customers/total assets	53.5%	57.6%	
Securities/total assets	17.8%	20.6%	
Direct customer deposits/total assets	82.8%	82.6%	
Managed funds/indirect customer deposits	59.7%	60.8%	
Statement of income ratios (2)			
Net commissions/net interest and other banking income	25.3%	22.5%	
Operating costs/net interest and other banking income	80.3%	76.8%	
Net income for the year/total assets (ROA) (3)	1.7%	0.4%	
Net income for the year/shareholders'equity (ROE) (3)	31.1%	6.9%	
Risk ratios			
Net non-performing loans/total loans	3.2%	20.0%	
Total adjustments/gross non-performing loans	35.0%	60.7%	

(1) *Excluding net income for the year and provisions to the reserve for general banking risks.*
(2) *Statement of income ratios were calculated considering the reclassified statement of income.*
(3) *The change in the reserve for general banking risks (24.5 billion lire) was added to net income for the year.*

Balance sheet

During the year the Bank implemented a strategy aimed at recomposing its deposits and loans by:

- privileging medium- and long-term loans (+ 32.8%) in the mortgage, agricultural, commerce and artisan sectors as well as personal loans;
- restructuring traditional deposit collecting activities with an increase in bonds issued (+ 31.8%) and a rise in bond maturities to recover the lower use of certificates of deposit (– 18%) and in presence of a satisfactory expansion in current accounts (+ 5.5%);
- accompanying customers in the switch to more sophisticated savings forms, such as indirect deposits (+ 5.3%), and managed funds (+ 3.3%) with outstanding performances in the placement of insurance products (+ 31%) and mutual funds (+ 15.4%).

The sale pro soluto of non-performing loans (of nominal value 573.7 billion lire) to Intesa Gestione Crediti last December positively influenced balance sheet structure and led the non-performing loans to loans to customers ratio to decrease from 20% in 1998 to 3.2% in 1999.

Indirect customer deposits also recorded satisfactory results in terms of volume increases (+ 5.3%).
The growth in customer deposits under administration equalled a modest 1.30% and was negatively affected by the widespread reduction in customers' use of repurchase agreements (– 60.1%) which led direct customer deposits to decrease by 1.7%.

Statement of income

With regard to the statement of income, the 34% increase in the interest margin on operations with customers (notwithstanding the 70 basis points decrease in the interest rate spread), was accompanied by a reduction in returns on the securities portfolio (– 35%) which was almost entirely made up of Government securities, of which approximately two thirds with floating interest rates. Interest margin dropped by 6.9%.
Due to adjustments on the securities portfolio which almost completely absorbed profits on financial transactions and, in spite of the increase in commission income (+ 11% for management, intermediation and consulting services), income from services was lower than the previous year and negatively affected net interest and other banking income which recorded a 5.9% contraction.
Operating costs decreased by 1.5% which testifies the efforts made in cost containment.

Provisions to allowances for risks and charges were virtually unchanged with respect to 1998. Adjustments to loans and provisions for guarantees and commitments reached 14.7 billion lire compared to 16.8 in 1998. Adjustments to loans mainly referred to problem loans (over 11 billion lire).
High extraordinary income mostly reflected new accounting treatments of deferred taxes and enabled the Bank to record high provisions to the reserve for general banking risks (24.5 billion lire)
Net income for the year totalled 8.1 billion lire, compared to 7 billion lire in 1998, corresponding to a 15.7% growth rate.

Cassa di Risparmio di Rieti

(in billions of lire)

	1999	1998	Change
Balance sheet			
Loans to customers	905.9	911.1	(0.6%)
Net interbank position (debt)	284.6	17.0	–
Securities	939.2	1,210.2	(22.4%)
Total assets	2,338.2	2,343.5	(0.2%)
Direct customer deposits	1,852.5	1,861.3	(0.5%)
Indirect customer deposits	1,419.0	1,110.0	27.8%
including Managed funds	*658.0*	*535.0*	*23.0%*
Customer deposits under administration	3,271.5	2,971.3	10.1%
Shareholders' equity [1]	263.3	257.7	2.2%
Statement of income			
Interest margin	75.7	83.6	(9.4%)
Net commissions	29.8	27.2	9.6%
Net interest and other banking income	110.5	123.3	(10.4%)
Operating costs	98.2	92.3	6.4%
Operating margin	12.3	31.0	(60.3%)
Income (Loss) from operating activities	11.7	14.0	(16.4%)
Net income for the year	9.5	5.5	72.7%
Other information			
Staff *(number)*	535	544	(9)
Branches *(number)*	49	48	1
Economic and financial ratios			
Balance sheet ratios			
Loans to customers/total assets	38.7%	38.9%	
Securities/total assets	40.2%	51.2%	
Direct customer deposits/total assets	79.2%	79.4%	
Managed funds/indirect customer deposits	46.4%	48.2%	
Statement of income ratios [2]			
Net commissions/net interest and other banking income	27.0%	22.1%	
Operating costs/net interest and other banking income	88.9%	74.9%	
Net income for the year/total assets (ROA) [3]	1.6%	0.2%	
Net income for the year/shareholders' equity (ROE) [3]	14.7%	2.2%	
Risk ratios			
Net non-performing loans/total loans	1.4%	14.0%	
Total adjustments/gross non-performing loans	69.6%	48.7%	

[1] *Excluding net income for the year and provisions to the reserve for general banking risks.*
[2] *Statement of income ratios were calculated considering the reclassified statement of income.*
[3] *The change in the reserve for general banking risks (28,850 million lire) was added to net income for the year.*

Balance sheet

Direct customer deposits, excluding repurchase agreements, totalled 1,710.3 billion lire as at 31st December 1999, with a 2.9% growth rate compared to the figure as at 31st December 1998.
Repurchase agreements recorded a significant contraction (– 28.6%) which was in part guided to augment the growth in assets managed, in administration and in custody.
Indirect customer deposits increased from 1,110 billion lire in 1998 to 1,419 billion lire (+ 27.8%). Managed funds recorded a 23% growth rate, driven by excellent performances registered on insurance portfolios and direct investments in mutual funds.
Customer deposits under administration showed a 10.1% overall growth rate.
Loans to customers remained virtually unchanged.
Non-performing loans amounted to 42.4 billion lire, with an impressive contraction following the sale pro soluto of these loans for a nominal amount of 248.1 billion lire to Intesa Gestione Crediti.

Statement of income

Interest margin totalled 75.7 billion lire (– 9.4%).The contraction was mostly due to the decline in the interest rate spread and the gradual reduction in repurchase agreements.
Net commission income (+ 9.6%) and other operating income was approximately 2.6 billion lire higher than the corresponding figure in 1998: higher increases referred to commissions on asset management and collection and payment services.
Profits on financial transactions recorded a 0.9 billion lire loss, with respect to the positive result (5.9 billion lire) as at 31st December 1998.
Net interest and other banking income totalled 110.5 billion lire, 12.8 billion lire lower than the figure as at 31st December 1998.
Personnel expenses were in line with those registered the previous year. Other operating costs record an approximately 6 billion lire rise compared to the 1998 figure attributable to higher legal expenses for the recovery of non-performing loans which amounted to approximately 3.3 billion lire. Furthermore, over 1 billion lire referred to the maintenance cost sustained for software also as result of updating in order to be year 2000 compliant.
Adjustments to loans totalled 28.6 billion lire and also referred to provisions for intrinsic risk for 3.5 billion lire. Write-backs summed up to 30.1 billion lire.
Considerable extraordinary income, of which 24 billion lire referred to deferred taxes, allowed provisions to the reserve for general banking risks to total 28.8 billion lire.
Income taxes for the year equalled 0.6 billion lire, determined by the difference between taxes due for the year which amounted to 2.9 billion lire and deferred taxes for a total of 3.5 billion lire. With regard to current taxes, these were positively affected by the recovery of taxed allowances according to par. 108, Art. 3 of Law 549/95 amounting to approximately 15 billion lire, following the sale pro soluto of non-performing loans.
Net income, after the deduction of taxes for the year, totalled 9.5 billion lire, 4 billion lire higher than the net income generated in 1998.

Cassa di Risparmio di Città di Castello

(in billions of lire)

	1999	1998	Change
Balance sheet			
Loans to customers	330.4	336.9	(1.9%)
Net interbank position (debt)	71.3	50.5	41.2%)
Securities	269.2	280.6	(4.1%)
including Investment portfolio	–	*10.8*	–
Total assets	766.6	790.4	(3.0%)
Direct customer deposits	602.7	595.7	1.2%
Indirect customer deposits	650.9	616.6	5.6%
including Managed funds	*185.7*	*152.1*	*22.1%*
Customer deposits under administration	1,253.6	1,212.3	3.4%
Shareholders' equity (1)	93.1	90.4	3.0%
Statement of income			
Interest margin	28.2	28.7	(1.7%)
Net commissions	7.2	7.7	(6.5%)
Net interest and other banking income	35.5	46.4	(23.5%)
Operating costs	37.1	34.6	7.2%
Operating margin	(1.6)	11.8	–
Income (Loss) from operating activities	(6.9)	8.0	–
Net income for the year	(5.6)	5.5	–
Other information			
Staff *(number)*	183	187	(4)
Branches *(number)*	15	15	–
Economic and financial ratios			
Balance sheet ratios			
Loans to customers/total assets	43.1%	42.6%	
Securities/total assets	35.1%	35.5%	
Direct customer deposits/total assets	78.6%	75.4%	
Managed funds/indirect customer deposits	28.5%	24.7%	
Statement of income ratios (2)			
Net commissions/net interest and other banking income	20.3%	16.6%	
Operating costs/net interest and other banking income	104.5%	74.6%	
Net income for the year/total assets (ROA)	(0.7%)	0.7%	
Net income for the year/shareholders' equity (ROE)	(6.1%)	6.1%	
Risk ratios			
Net non-performing loans/total loans	3.2%	5.0%	
Total adjustments/gross non-performing loans	63.1%	47.5%	

(1) *Excluding net income for the year and provisions to the reserve for general banking risks.*

(2) *Statement of income ratios were calculated considering the reclassified statement of income.*

Cassa di Risparmio di Città di Castello, after the first half closed with a net income of 3.2 billion lire, saw its statement of income negatively affected by the drop registered by the capital markets which led, especially in the second half, to write-downs on the securities portfolio amounting to approximately 10.5 billion lire. The loan portfolio also underwent a thorough and complete review. Therefore 1999 closed with a 5.6 billion lire loss.

Balance sheet

With regard to balance sheet aggregates, direct customer deposits increased by 1.2% to total 602.7 billion lire.
Indirect customer deposits registered a satisfactory growth rate (5.6%), driven by the expansion in managed funds (+ 22%), and reached 651 billion lire.
Total customer deposits under administration increased by 3.4%.
Loans to customers registered a 1.9% contraction. However, mortgages granted to households and small- and medium-sized enterprises recorded a 15.6% growth rate.
Non-performing loans, after adjustments and write-backs, decreased by 38%. The ratio of net non-performing loans to total loans to customers improved from 5% to 3.2%.

Statement of income

Interest margin registered a moderate decrease (– 1.7%) to 28.2 billion lire. The increase in the spread between interest on assets and interest on liabilities did not fully offset the lower return obtained on the Bank’s free capital.
Net revenues on intermediation and services were more than halved with respect to the previous year; this can be attributed to the impact of write-downs related to the drop in bond prices.
Operating costs equalled 37.1 billion lire, corresponding to a 7.2% growth rate; in particular, legal expenses related to the recovery of non-performing loans strongly increased. However, if in certain areas expenses have already been reduced, substantial economies of scale will be obtained from the rationalisation and operational co-ordination process which is one of the responsibilities of Holding Intesa Centro.
In 1999 considerable devaluation effects regarding loans occurred. Provisions and adjustments/write-downs on loans negatively affected the statement of income for 5.3 billion lire, whereas the write-back of loans contributed for 2 billion lire.

In 2000 the Bank will focus on improving income from services especially related to a further expansion in asset management.
With regard to operating costs, reductions will stem from actions taken for the reorganisation of human resources aimed at increasing efficiency and productivity and controlling general expenses in relation to budget projections.
2000 should therefore be a more favourable year in which the Bank should be able to go back to a moderate profitability.

Cassa di Risparmio di Spoleto

(in billions of lire)

	1999	1998	Change
Balance sheet			
Loans to customers	638.4	602.7	5.9%
Net interbank position (debt)	12.1	115.8	(89.6%)
Securities	303.6	159.7	90.1%
including Investment portfolio	*70.0*	*11.2*	–
Total assets	1,136.4	1,075.4	5.7%
Direct customer deposits	851.7	807.0	5.5%
Indirect customer deposits	687.0	639.0	7.5%
including Managed funds	*326.0*	*290.0*	*12.4%*
Customer deposits under administration	1,538.7	1,446.0	6.4%
Shareholders' equity [1]	91.7	87.7	4.6%
Statement of income			
Interest margin	40.6	45.6	(11.0%)
Net commissions	15.0	13.2	13.6%
Net interest and other banking income	56.5	62.5	(9.6%)
Operating costs	45.5	44.8	1.6%
Operating margin	11.0	17.7	(37.9%)
Income (Loss) from operating activities	2.5	10.7	(76.6%)
Net income for the year	5.3	5.0	6.0%
Other information			
Staff *(number)*	227	222	5
Branches *(number)*	29	28	1
Economic and financial ratios			
Balance sheet ratios			
Loans to customers/total assets	56.2%	56.0%	
Securities/total assets	26.7%	14.9%	
Direct customer deposits/total assets	74.9%	75.0%	
Managed funds/indirect customer deposits	47.5%	45.4%	
Statement of income ratios [2]			
Net commissions/net interest and other banking income	26.5%	21.1%	
Operating costs/net interest and other banking income	80.5%	71.7%	
Net income for the year/total assets (ROA) [3]	0.8%	0.5%	
Net income for the year/shareholders'equity (ROE) [3]	9.7%	5.6%	
Risk ratios			
Net non-performing loans/total loans	2.7%	2.4%	
Total adjustments/gross non-performing loans	54.8%	51.4%	

[1] *Excluding net income for the year and provisions to the reserve for general banking risks.*
[2] *Statement of income ratios were calculated considering the reclassified statement of income.*
[3] *The change in the reserve for general banking risks (3.4 billion lire) was added to net income for the year.*

Balance sheet

With regard to balance sheet aggregates, improvements occurred in operations with customers: customer deposits under administration reached 1,539 billion lire, with a 6.4% growth rate compared to 1998.
Direct customer deposits equalled 852 billion lire, corresponding to a 5.5 % rise; indirect customer deposits amounted to 687 billion lire (+ 7.5 %), with a considerable development in managed funds (+ 12.4%). This totalled 326 billion lire, and represented 47.4% of indirect customer deposits and 21.2% of customer deposits under administration.
Loans to customers recorded a 5.9% growth rate and totalled 638 billion lire.
Non-performing loans equalled 38 billion lire and represented 5.6% of total loans to customers; net of recoveries and adjustments the percentage decreased to 2.7%.
Financial investments summed up to 424 billion lire (+ 9.8%) and were made up of due from banks for 92 billion lire, compulsory reserve requirement for 12 billion lire, equity investments for 12 billion lire and securities for 308 billion lire.
The securities portfolio comprised securities held for investment for 70 billion lire and the rest were securities held for trading, of which 20 billion lire destined to be invested in the allowance for supplementary termination indemnities.

Total assets increased from 1,075.4 billion lire in 1998 to 1,136.4 billion lire in 1999 (+ 5.7%, of which 93.2% produced interest).

Statement of income

Interest margin recorded an 11% decrease; net revenues from services and trading showed a 6.1% reduction which stemmed from the development of services to customers (+ 13.6%) and the reduction in trading on securities and foreign exchange.
Operating costs increased by 1.6%. Among these, personnel expenses recorded a 0.8% contraction.
Income from operating activities totalled 11 billion lire, whereas gross of extraordinary items it summed up to 22 billion lire (+ 6.3%).

Income before taxation reflected considerable adjustments mostly to loans and provisions to the reserve for general banking risks which amounted to 4.9 billion lire also as a result of the new accounting treatment applied to deferred taxes; during the year the reserve for general banking risks was used for 1.5 billion lire.
The year closed with a net income of 5.3 billion lire, corresponding to a 6% growth rate compared to 1998.

In 2000, Cassa di Risparmio di Spoleto intends to develop its retail vocation and continue to represent a reference point for the local economy.
With regard to this aspect, the monitoring system was improved and the number of levels in the granting and monitoring process was reduced in order to bring head office and network resources closer and organise them in order to respond more effectively to strategies set out above.

Bankhaus Löbbecke

(in millions of DEM)

	1999	1998	Change
Balance sheet			
Loans to customers	1,946.4	1,749.4	11.3%
Securities	2,368.2	870.5	172.1%
Total assets	5,190.1	4,081.8	27.2%
Direct customer deposits	1,894.7	1,956.6	(3.2%)
including Subordinated liabilities	*60.6*	*61.2*	–
Indirect customer deposits	760.9	486.0	56.6%
including Managed funds	*37.7*	*8.1*	–
Customer deposits under administration	2,655.6	2,442.6	8.7%
Shareholders' equity [(1)]	801.8	790.0	1.5%
Statement of income			
Interest margin	68.9	69.0	(0.1%)
Net commissions	10.5	9.5	10.5%
Net interest and other banking income	83.9	84.0	(0.1%)
Operating costs	66.2	67.7	(2.2%)
Operating margin	17.7	16.3	8.6%
Income (Loss) from operating activities	6.1	0.8	–
Net income for the year	10.1	9.1	11.0%
Other information			
Staff *(number)*	233	260	(27)
Branches *(number)*	4	4	–
Economic and financial ratios			
Balance sheet ratios			
Loans to customers/total assets	37.5%	42.9%	
Securities/total assets	45.6%	21.3%	
Direct customer deposits/total assets	36.5%	47.9%	
Managed funds/indirect customer deposits	5.0%	1.7%	
Statement of income ratios [(2)]			
Net commissions/net interest and other banking income	12.5%	11.3%	
Operating costs/net interest and other banking income	78.9%	80.6%	
Net income for the year/total assets (ROA)	0.2%	0.2%	
Net income for the year/shareholders' equity (ROE)	1.3%	1.2%	
Risk ratios			
Net non-performing loans/total loans	16.2%	27.0%	
Total adjustments/gross non-performing loans	37.1%	39.7%	

[(1)] *Excluding net income for the year and provisions to the reserve for general banking risks.*
[(2)] *Statement of income ratios were calculated considering the reclassified statement of income.*

Balance sheet

In 1999, in order to integrate its traditional fiduciary activities, great efforts were made to stimulate the growth of Bankhaus Löbbecke's assets via participation in underwriting syndicates and the purchase of corporate and bank bond issues which were often associated to asset swaps.
Credit derivatives with high standing counterparts also strongly developed. At the same time, on the liabilities side, low-volume or high-interest deposits continued to be sostituted with bank funding at more competitive rates. In the last few years bank assets were progressively refunded at particularly economical rates. The use of repurchase agreements strongly increased, favoured by the progressive rise in the volume of the securities portfolio, and produced particularly beneficial effects on the interest margin.
Bankhaus Löbbecke's total assets as at 31st December 1999 amounted to 5.2 billion DEM, corresponding to a 27.2% growth rate compared to as at 31st December 1998.
Loans to customers recorded a 197 million DEM rise compared to as at 31st December 1998 and totalled 1,946.4 million DEM (+ 11%).
Securities equalled 2,368.2 million DEM, up by 1,498 million DEM compared to the end of 1998 (+ 172%). The considerable rise is attributable to global capital market activities and not to investments in Government securities which remained practically unchanged at 824 million DEM, of which approximately 297 million DEM were floating rate bonds.

Due from banks decreased by 618 million DEM (– 45%) compared to as at 31st December 1998 and totalled 752 million DEM; interbank funding amounted to 2.4 billion DEM, with a 90% growth rate, attributable to the need to finance the considerable development recorded by the Bank's assets.
Direct customer deposits showed a 3.2% decrease and amounted to 1,834 million DEM, whereas indirect customer deposits recorded a 56.6% growth rate to 760.9 million DEM. Customer deposits under administration, including subordinated loans for approximately 60 million DEM, remained practically unchanged and totalled 2,655.6 million DEM, corresponding to an 8.7% rise.

Statement of income

Interest margin remained virtually constant with respect to 1998 (– 0.1%). From this point of view it must be noted that the contraction in the interest rate spread was more than offset by the growth recorded by assets. Furthermore, the qualitative improvement of the margin must be noted since mortgage loans (typically fixed-income) were progressively substituted by floating rate assets with maturities ranging from 3 to 5 years.
Net commissions recorded a 10.5% growth rate with respect to 1998: the generalised reduction in commissions and fees on foreign exchange transactions was contrasted by the increases recorded by global capital market and asset management activities.
The introduction of new credit derivatives generated a new flow of fees and commissions (+ 937,000 DEM). Commissions on asset management activities recorded a 43.3% growth rate compared to the results reported the previous year.
The reduction in profits on financial transactions (– 23%) negatively affected the net interest and other banking income which remained virtually unchanged at 84 million DEM (– 0.1%).
Operating costs amounted to 66.2 million DEM with a 2.2% negative growth rate compared to 1998; in particular, administrative costs recorded a 4.5 million DEM increase (+ 15%), attributable to rentals paid to Phœnix after it purchased certain buildings from Bankhaus Löbbecke and due to a rise in EDP expenses connected to the introduction of new software systems compliant with euro and year 2000 requirements.
Personnel expenses also remained virtually unchanged (– 0.9%) and amounted to 32.4 million DEM.
A substantial reduction (– 60%) in provisions for possible loan losses which totalled 6 million DEM (resulting from the sum of new provisions which amounted to 40.5 million DEM and write-backs of 34.4 million DEM) led to a net income for 1999 of 10.1 million DEM, corresponding to an 11% rise with respect to 1998.

The considerable reduction in provisions for possible loan losses must be connected to the sale at the beginning of 2000 of part of the non-performing loan portfolio to Intesa Gestione Crediti. Furthermore it must be remembered that Cariplo wrote a guarantee in favour of Bankhaus Löbbecke amounting to 42 million DEM, to cover potential future losses on loans.

Cariplo Banque

(in millions of FRF)

	1999	1998	Change
Balance sheet			
Loans to customers	2,702.2	2,707.0	(0.2%)
Securities	1,620.8	1,148.6	41.1%
Equity investments	371.0	371.0	–
Total assets	6,824.4	6,399.7	6.6%
Direct customer deposits	1,202.1	2,167.9	(44.5%)
Shareholders' equity (1)	312.1	310.0	0.7%
Statement of income			
Interest margin	56.4	54.4	3.5%
Income from services	21.1	24.2	(13.0%)
Net interest and other banking income	77.4	78.6	(1.6%)
Administrative costs	41.9	42.0	(0.3%)
Operating margin	32.5	34.6	(5.9%)
Net income for the year	2.9	12.2	(76.3%)
Other information			
Staff *(number)*	57	60	(3)
Branches *(number)*	2	2	–
Economic and financial ratios			
Interest margin/total assets	0.8%	0.9%	
Income from services/net interest and other banking income	27.2%	30.8%	
Operating margin/total assets	0.5%	0.5%	
Administrative costs/net interest and other banking income	54.1%	53.4%	
Net income for the year/total assets (ROA)	–	0.2%	
Net income for the year/shareholders' equity (ROE)	0.9%	3.9%	

(1) *Excluding net income for the year and provisions to the reserve for general banking risks.*

In 1999 the Bank continued its efforts aimed at developing operations.
The stagnation in loans to customers, 2,702 million FRF as at 31st December 1999 compared to 2,707 million FRF recorded the previous year, does not adequately portray the fact that intermediation in general and lending in particular are only a part of the Bank's operations, which are increasingly oriented to developing services. In any case, average volumes of loans to customers recorded a satisfactory 7% growth rate.
Direct customer deposits decreased by over 44%. The variation reflects the reduction in sight deposits, mostly as a result that those denominated in currencies taking part in the euro can no longer be remunerated as of 1st January 1999. Furthermore it must be noted that term deposits are concentrated on two clients and that accounts as at 31st December 1998 contained an extraordinary deposit amounting to 188 million FRF which was not renewed.
Guarantees and commitments in favour of customers recorded a 59% increase, from 461 million FRF to 732 million FRF and confirmed development of syndicated transactions.

The statement of income recorded a 3.5% improvement in the interest margin, which rose from 54.4 million FRF to 56.3 million FRF.
Income from services decreased from 24.2 million FRF to 21.1 million FRF and the reduction is mostly due to the elimination of foreign exchange trading. Administrative costs recorded a slight containment in spite of the need to cover costs related to the Millennium Bug.
Operating margin remained almost unchanged with respect to the previous year, 32.5 million FRF compared to 34.6 million FRF in 1998.
Adjustments to loans decreased from 49.5 million FRF to 29.4 million FRF.
Net income for the year totalled 2.9 million FRF with respect to 12.2 million FRF recorded the previous year which had benefited from the cash paid by its parent company amounting to 26.1 million FRF.

Banca Intesa International

(in millions of euro)

	1999	1998	Change
Balance sheet			
Loans to customers	83.7	30.2	176.8%
Securities	308.4	273.0	13.0%
Equity investments	–	33.0	–
Total assets	959.0	998.0	(3.9%)
Direct customer deposits	640.6	684.5	(6.4%)
Indirect customer deposits	433.0	334.1	29.6%
including Managed funds	*223.4*	–	–
Customer deposits under administration	1,073.6	1,018.6	5.4%
Shareholders' equity (1)	42.5	41.1	3.3%
Statement of income			
Interest margin	5.1	5.3	(2.9%)
Income from services	7.5	6.0	23.4%
Net interest and other banking income	12.6	11.3	11.2%
Administrative costs	6.9	5.8	18.9%
Operating margin	5.2	4.5	14.3%
Net income for the year	2.5	3.3	(22.2%)
Other information			
Staff *(number)*	52	44	8
Economic and financial ratios			
Interest margin/total assets	0.5%	0.5%	
Income from services/net interest and other banking income	59.3%	53.4%	
Operating margin/total assets	0.5%	0.5%	
Administrative costs/net interest and other banking income	54.7%	51.1%	
Net income for the year/total assets (ROA)	0.3%	0.3%	
Net income for the year/shareholders' equity (ROE)	6.0%	7.9%	
Net non-performing loans/total loans	0.1%	0.2%	

(1) Excluding net income for the year and provisions to the reserve for general banking risks.

In 1999, the Bank changed its name from Cariplo International to Banca Intesa International thus anticipating the change in the majority Shareholder.
1999 confirmed the positive trend recorded on operations already experienced in 1998, and the stable profitability reached by the Bank.

The Mutual fund administration sector, with its activities as Custodian Bank and Accounting Agent offered both to Group companies and customers outside the Group, remains central for the Bank's future development.
It will be the expansion in volumes in this area on which it will base part of the increase and the stabilisation of its profitability, thus confirming its reference role in a highly important sector for the Luxembourg financial market.
With regard to customer deposits under administration, which totalled 1,073.635 million euro, the Bank preferred to focus on improving margins instead of developing volumes by offering more services and consulting to private and corporate customers. The structure was strengthened by developing both consulting and asset management itself.
Indirect customer deposits recorded a marked increase from 334.1 million euro to 433 million euro with a 29.6% growth rate.

Statement of income figures therefore improved: net interest and other banking income recorded an 11.2% growth rate and totalled 12.572 million euro and also the operating margin increased to 5.193 million euro with a 14% growth rate.
Net income, which was negatively affected by a fiscal burden higher than the previous year, decreased to 2.529 million euro.
The expansion in office premises enabled a more rational distribution of the work environment and will allow the further strengthening of the structure in terms of human resources and technical supports. These will be the guidelines for the year 2000 which should enable the Bank to reach profitability and operational targets. The increase in the number of units will be almost uniformly spilt within the organisational structure, with slightly greater emphasis on sectors connected to commercial and trading activities in order to favour the evolution toward the offer of more qualified services.

Carinord Holding

(in billions of lire)

	1999	1998	Change
Balance sheet			
Loans to customers	4,180	3,634	15.0%
Securities	2,090	1,956	6.9%
Equity investments	85	97	(12.6%)
Total assets	8,095	7,856	3.0%
Direct customer deposits	5,960	5,690	4.7%
Indirect customer deposits	7,529	7,326	2.8%
including Managed funds	*4,004*	*3,633*	–
Customer deposits under administration	13,489	13,015	3.6%
Shareholders' equity (1)	569	566	0.5%
Statement of income			
Interest margin	251	271	(7.5%)
Income from services	156	179	(13.0%)
Net interest and other banking income	407	450	(9.6%)
Administrative costs	295	304	(2.9%)
Operating margin	89	125	(29.3%)
Net income for the year	12	11	13.0%
Other information			
Staff *(number)*	1,614	1,634	(20)
Branches *(number)*	159	154	5
Economic and financial ratios (2)			
Interest margin/total assets	3.1%	3.5%	
Income from services/net interest and other banking income	38.3%	39.8%	
Operating margin/total assets	1.1%	1.6%	
Administrative costs/net interest and other banking income	72.5%	67.5%	
Net income for the year/total assets (ROA)	0.2%	0.1%	
Net income for the year/shareholders' equity (ROE)	2.1%	1.9%	
Net non-performing loans/total loans	3.1%	4.1%	

(1) Excluding net income for the year and provisions to the reserve for general banking risks.
(2) Statement of income ratios were calculated considering the reclassified statement of income.

The Carinord group's consolidated financial statements closed with a net income of 12.2 billion lire with a 13% rise compared to the previous year (10.8 billion lire).
The group recorded satisfactory growth rates: loans to customers reached 4,180 billion lire (+ 15%) and customer deposits under administration equalled 13,489 billion lire, up by 3.6%.
Loan portfolio quality significantly improved with a decrease in the ratio of net non-performing loans to total loans to 3.1%, compared to 4.1% recorded the previous year.
With regard to funding, direct customer deposits recorded a 4.7% growth rate and amounted to 5,960 billion lire, mainly as a result of the rises registered by current accounts and repurchase agreements, among short-term funding operations, and bonds issued among medium- and long-term funding.
Indirect customer deposits, which equalled 7,529 billion lire, showed a 2.8% growth rate, accompanied by the considerable rise recorded by managed funds (+ 10.2%).
Total assets reached 8,095 billion lire, with a 3% progress.

With regard to the statement of income, interest margin decreased to 250.9 billion lire, corresponding to a 7.5% contraction which was mostly attributable to the erosion in the interest rate spread.
Income from services summed up to 155.9 billion lire (– 13%) and was severely affected by the decrease in profits on financial transactions (– 83.1%).
Services recorded a marked increase with a 6.4% growth rate in commission income.
Administrative costs totalled 294.9 billion lire, corresponding to a 2.9% drop.
Gross operating margin decreased by 29.3% and totalled 88.7 billion lire.
During the year adjustments to loans amounted to 44.1 billion lire. Write-backs equalled 11.2 billion lire and provisions for possible loan losses summed up to 3.6 billion lire.
Extraordinary income was particularly high (38 billion lire), especially as a result of the new accounting treatment applied to deferred taxes.

Banco de Investimento Imobiliario

The Portuguese Bank is specialised in mortgage lending.
In 1999, in spite of interest rate fluctuations and the adoption of Government measures which limited subsidised lending, quotations on the real estate market and the number of transactions remained stable.
Banco de Investimento Imobiliario rapidly responded to changed market conditions with the launch of new products and the review of the technical features of existing ones.
The support of adequate promotion activities favoured a considerable rise in new mortgages and contributed to consolidating the Bank's strategic positioning.
The balance sheet as at 31st December 1999 recorded total consolidated assets of 1,482.178 billion PTE, with a 48.9% rise with respect to 1998.
38,842 new loans were granted for a total of 348.6 billion PTE (+ 3.5%); of these only 176.6 billion PTE, for the above-mentioned reasons, referred to subsidised mortgages.

With regard to the statement of income, interest margin totalled 25.4 billion PTE (+ 15.9%), whereas the net interest and other banking income equalled 21.4 billion PTE.
A limited increase in operating costs led to the improvement of income from operating activities which increased to 15 billion PTE (+ 13.6%). After provisions for possible loan losses amounting to 3.5 billion PTE (– 24.5%) and the deduction of taxes for 4 billion PTE (+ 30.6%) net income amounted to 7.5 billion PTE, with a 2 billion PTE rise compared to the previous year, corresponding to a 36.3% growth rate.
ROE (29%) remained virtually unchanged with respect to the previous year (28.2%).

Mediocredito Lombardo

(in billions of lire)

	1999	1998	Change
Balance sheet			
Loans to customers	22,234.4	20,791.5	6.9%
Securities	1,767.8	1,964.1	(10.0%)
Equity investments	242.9	194.4	25.0%
Total assets	26,360.4	24,646.0	7.0%
Subordinated liabilities with customers	193.6	–	–
Direct customer deposits	18,249.6	17,988,4	1.5%
Customer deposits under administration	18,443.2	17,988.4	2.5%
Shareholders' equity [1]	1,340.0	1,238.3	8.2%
Statement of income			
Statement of income	392.3	397.6	(1.3%)
Income from services	33.9	48.2	(29.7%)
Net interest and other banking income	426.2	445.8	(4.4%)
Administrative costs	147.5	146.4	0.8%
Operating margin	267.0	287.0	(7.0%)
Net income for the year	100.1	91.7	9.2%
Other information			
Staff *(number)*	584	621	(37)
Branches *(number)*	10	8	2
Economic and financial ratios [2]			
Interest margin/total assets	1.5%	1.6%	
Income from services/net interest and other banking income	8.0%	10.8%	
Operating margin/total assets	1.0%	1.2%	
Administrative costs/net interest and other banking income	34.6%	32.8%	
Net income for the year/total assets (ROA) [3]	0.4%	0.4%	
Net income for the year/shareholders' equity (ROE) [3]	8.1%	8.2%	
Net non-performing loans/total loans	3.8%	3.9%	

[1] Excluding net income for the year and provisions to the reserve for general banking risks.
[2] Statement of income ratios were calculated considering the reclassified statement of income.
[3] The change in the reserve for general banking risks (8.7 billion lire) was added to net income for the year.

In the course of 1999, Mediocredito Lombardo absorbed Mediocredito del Sud, as part of the project aimed at integrating in one company medium- and long-term lending activities and merchant banking. Consequently Mediocredito Lombardo's 1999 financial statements include the balance sheet and the statement of income of Mediocredito del Sud and comparisons with 1998 have been carried out on consistent terms, that is preparing pro forma 1998 financial statements which include the Mediocredito del Sud's figures.

Balance sheet

Loans disbursed in 1999 equalled 7,262 billion lire, of which 281 billion lire relative to former Mediocredito del Sud operations and 1,021 billion lire relative to structured finance operations and acquisition financing, developed by the Merchant Banking division.
Loans to customers registered a 6.9% growth rate compared to the pro forma figure as at 31st December 1998, and totalled 22,234 billion lire, thus confirming the Bank's competitiveness in providing financial solutions appreciated by the market.
Loans were granted to over 15,000 companies, including approximately 3,000 coming from Mediocredito del Sud's books. The incidence of operations originated by the latter on the total loan portfolio as at 31st December 1999 equalled 12%.
At year-end non-performing loans, expressed as gross capital exposure (contractual and accessory interest due totalled 1,059 billion lire (with respect to 974 billion lire in 1998). Approximately 45% of non-performing loans were originated by Mediocredito del Sud.
Net of adjustments non-performing loans totalled 839 billion lire, corresponding to a 3.77% portion of loans to customers, compared to 805 billion lire (3.87% of total loans to customers) in 1998.

Aside traditional activities in the subsidised lending area, Mediocredito Lombardo operated as Agent Bank for operations provided for by Law 488/92 and carried out over 500 filing procedures on behalf of the Ministry of Industry. As part of the negotiated incentive programmes, the Bank took part in eight territorial pacts and area contracts and examined approximately 900 investment projects relative to new enterprises and infra-structural initiatives. In another eight territorial pacts Mediocredito Lombardo was nominated "banca convenzionata" (bank taking part in the pact).
Favourable market conditions sustained equity investments and divestments, financing of large corporate governance changes, consulting projects supporting strategic development plans; the Bank, on the basis of its experience, reputation and specific know-how, played a forefront role in the different areas of merchant banking.
During 1999 Mediocredito Lombardo completed 10 new investments and increased 6 of its existing investments, for a total of 116 billion lire; it granted shareholder loans for 38.2 billion lire. Furthermore 10 disposals of equity investments occurred. Total book value of such equity investments equalled 52.2 billion lire. The Bank recorded a capital gain of 46.8 billion lire and realised an average internal rate of return of approximately 30%.
At year-end Mediocredito Lombardo's private equity portfolio comprised 28 equity investments for a total book value of 207 billion lire (+ 31% compared to as at 31st December 1998) and 6 convertible bond issues amounting to 78 billion lire.

An equally satisfactory result was registered in the corporate finance area (structured finance, acquisition financing, etc.) where Mediocredito Lombardo reached considerable market shares. During the year it assisted 25 companies to raise a total of 2,068 billion lire, of which 1,021 billion lire disbursed by the Bank directly and generating commission for 10.7 billion lire.
Merchant banking activities achieved total revenues amounting to 66.2 billion lire (31.9 billion lire in 1998; + 108%) of which 46.8 billion lire due to realised capital gains, 13.3 billion lire in commission and 6.1 billion lire in dividends and other revenues.

Funding needs were mostly covered by bond issues; direct customer deposits reached 18.2 billion lire with a 1.5% rise; the Bank also issued 35 reverse convertible bonds, which limit funding costs and have a maturity under 12 months.
The Bank carried out 77 bond issues, for a total of 4,979 billion lire. Particularly noteworthy was the subordinated bond issue amounting 100 million euro, carried out in order to improve compliance to capital requirements.

Statement of income

Net income for 1999 totalled 100.1 billion lire, corresponding to a 9.2% growth rate compared to the previous year.
Interest margin recorded a 1.5% reduction; the rise in loans to customers only partly offset the effects of the continuous erosion in the interest rate spread, the decline in the yield curve and lower returns on own funds. Net interest and other banking income recorded a 4.5% decrease which becomes a 0.8% increase if adjustments to securities and financial fixed assets are excluded.
The statement of income recorded write-downs on securities for a total of 33.4 billion lire and on financial fixed assets for 15 billion lire.
Operating costs was in line with that reported the previous year (+ 0.7%).
In particular, personnel expenses recorded a 1.3% contraction compared to the pro forma 1998 financial statements.
Interest on non-performing loans continued to remain high (43.4 billion lire) as well as the write-back on previously written-down loans (31.8 billion lire).
Overall, the balance between adjustments on loans, provisions for possible loan losses and write-backs equalled 104.1 billion lire compared to 108.4 billion lire in 1998.
Deferred taxes relative to the years before 1999 resulted in extraordinary income amounting to 8.7 billion lire and this contribution was balanced by provisions to the reserve for general banking risks, set up to cover general risk.

Investment services

Securities trading

Caboto Holding Sim, Caboto Sim, Caboto Securities, Caboto USA and Cariplo Ireland operate in securities trading.

Within Gruppo Intesa, Caboto is the reference point for investment banking activities. Caboto is a group made up of four companies; each company is characterised by a peculiar identity and is focused on a particular segment:

- Caboto Holding Sim: group holding company, operates on the bond market and the interest rate market;
- Caboto Sim: securities trading company focused on the share market;
- Caboto Securities: established in London in 1997, represents Caboto group’s first step toward an international expansion and it is specialised in the brokerage of options and futures on the most important official markets;
- Caboto USA: the new-born group company, whose registered offices are located in New York, operates in securities trading activities (shares and bonds traded on the European markets) on behalf of American customers. In the last months, it also started a bond issuing activity, a loan origination activity on behalf of the issuers situated in North and South America.

The four companies which belong to the Caboto group mainly operate with institutional investors, insurance companies, banks, large private and public industrial companies and supra-national issuers and are characterised by their expertise, dynamism and high standards in the customer care. Caboto’s mission is to offer innovative and greatly tailor-made solutions. This commitment is particularly evident in the various activities in which the four companies operate: Investment Banking, Sales and Trading, Risk Management, Research and Corporate and Institutional Banking.

Caboto Holding Sim

(in millions of euro)

	1999	1998	Change
Balance sheet			
Loans to banks	2,725.4	2,645.4	3.0%
Loans to financial institutions	83.8	55.7	50.4%
Securities portfolio	6,204.6	554.7	–
Options	517.2	216.2	139.2%
Total assets	11,996.6	4,843.8	147.7%
Due to banks	7,676.9	3,021.4	154.1%
Due to financial institutions	89.8	5.6	–
Written options	483.6	244.6	97.7%
Shareholders' equity [1]	152.1	118.8	28.0%
Commitments	134,161.4	73,013.4	83.7%
Statement of income			
Profits (Losses) on financial transactions and commissions	82.1	59.1	38.9%
Interest margin	42.1	29.9	40.8%
Dividends	51.8	9.6	–
Administrative costs	(61.8)	(38.9)	58.9%
Net income for the year	71.9	26.1	175.5%
Economic and financial ratios			
Net income for the year/total assets (ROA)	0.6%	0.5%	
Net income for the year/shareholders' equity (ROE) [2]	31.4%	22.0%	
Other information			
Volumes of transactions			
Dealing on own account	1,524,416.8	1,040,003.9	46.6%
Dealing on behalf of third parties	–	5,716.9	–
Placement	19,754.0	16,174.4	22.1%
Market share			
Dealing on MTS	4.6%	4.1%	12.2%
Subscriptions on the primary market	5.3%	3.9%	35.9%

[1] Excluding net income for the year and provisions to the reserve on general financial risks.
[2] Net income for the year net of dividends attributable to the year (24.1 million euro).

At the beginning of the year, worldwide the macroeconomic scenario was characterised by the fear that the crisis of the emerging markets, which occurred at the end of 1998, would spread to other industrialised Countries and thus become a systemic crisis, with serious danger of determining global recession and deflation.
In this scenario Caboto Holding Sim continued to operate as Gruppo Intesa's Investment Bank by consolidating its leadership position on the domestic market and a noteworthy position on the international markets. The extension of the range of services offered, the introduction of new professionals from international investment banks and the re-organisation of the Operating Area enabled Caboto Holding Sim to complete important projects on the primary bond market.
On the European primary debt market Caboto Holding Sim was ranked in 20th place, the first Italian institution.
Caboto Holding, which is also active in asset securitisation, at the end of 1999 took part with one of the forefront roles in the largest securitisation operation completed in Europe (4,550 million euro), which referred to Inps's (National Institute for social securities benefits) credits.
On the MTS (Italian Government Securities Market) volumes traded totalled 222,288 million euro corresponding to a 4.62% market share, whereas on the EuroMTS volumes traded equalled 61,475 million euro, corresponding to a 5.71% market share.

The huge increase in the securities portfolio, with respect to 1998, reflected the different behaviour adopted in the previous years, which implied that a significant portion of this item was sold at year-end.
Statement of income aggregates which reflected the Company's operating activities (profits on financial activities and commission plus interest margin) increased by 39.5% (124.1 million euro in 1999 compared to 89 million euro in 1998) and confirmed the Company's capability of generating increasing profits in spite of the high market and product volatility.

The important rise in dividends must be related to the brilliant performances registered by subsidiaries.
The increase in extraordinary income stemmed from the different accounting principle adopted for subsidiaries' dividends: as of this year the latter are accounted for on an accruals basis.
The growth in administrative costs was mainly due to the rise in personnel expenses, which also included the variable component bound to results, higher clearing costs (which were attributable to the increase in volumes traded with foreign counterparts), expenses for consultancy fees and expenses for promotional activities.
1999 closed with a net income of 71.9 million euro. After the deduction of dividends accounted for on an accruals basis, net income would drop to 47.8 million euro, showing in any case a 83.7% increase compared to 1998 net income for the year.
Also the ROE, after the above-mentioned deduction, showed a very positive value (31.4%).

Caboto Sim

(in millions of euro)

	1999	1998	Change
Balance sheet			
Loans to banks	73.0	134.8	(45.8%)
Loans to financial institutions	207.3	11.4	–
Securities portfolio	248.4	65.2	–
Options	998.3	80.4	–
Total assets	2,329.7	330.5	–
Due to banks	300.8	98.1	–
Due to financial institutions	121.6	2.4	–
Written options	996.8	85.6	–
Shareholders' equity	59.4	49.7	19.5%
Commitments	11,432.9	736.6	–
Statement of income			
Profits (Losses) on financial transactions and commissions	88.7	91.4	(3.0%)
Interest margin	1.3	2.4	(45.8%)
Dividends	9.4	2.7	–
Administrative costs	(41.8)	(35.5)	17.7%
Net income for the year	33.4	32.8	1.8%
Economic and financial ratios			
Net income for the year/total assets (ROA)	1.4%	9.9%	
Net income for the year/shareholders' equity (ROE)	56.2%	66.0%	
Other information			
Volumes of transactions			
Dealing on own account	36,531.0	31,458.4	16.1%
Dealing on behalf of third parties	175,708.7	179,244.2	(2.0%)
Placement	273.9	656.9	(58.3%)
Market shares			
Dealing: floating-rate instruments	8.2%	5.7%	–
Dealing: fixed-rate instruments	7.7%	5.0%	–

Volumes traded on the Italian Stock Exchange - the most important area in which the Company operates - significantly increased, from 420 billion euro in 1998 to over 1,000 in 1999. The Company took full advantage from the increase in volumes, also as a consequence of the merger with Intercassa Sim, and ranked first among Sims (security houses that carry out trading activities) with a market share in excess of 8% (7.5% in 1998, including Intercassa Sim).
The continuos reduction in unit commission, which did not affect the statement of income since its effect was offset by the increase in volumes traded, led the Company to accelerate the initiatives aimed at diversifying its activities.
The analyst team was strengthened and the sales force targeted to investors (particularly foreign investors which seek an extensive range of qualified services and are less interested in the cost of transactions) was widened.
The Company significantly developed its activities on the primary market: it took part in the most important privatisations on behalf of Gruppo Intesa and directly originated certain IPOs and increases in capital.

Even though dealing on behalf of customers, particularly institutional investors, still remained the Company's core business, the dealing on own account and arbitrage were further developed.
To date, revenues from these last activities represent an approximately 15.6% portion of total revenues for the Company.

A survey of the balance sheet data shows an increase in securities portfolio and in options with respect to 1998, which is related to these activities. Furthermore, total assets presented a noteworthy rise also as a result of securities lending transactions carried out with customers.
The Company closed 1999 with a net income of 33.37 million euro compared to 32.75 million euro registered the previous year, thus repeating the excellent result recorded in 1998 and showing a ROE in excess of 56%.
1999 was very important for Caboto Sim, not only for the economic results achieved, but particularly because the Company was significantly strengthened and certain important projects commenced implementation.
The rise in administrative costs was attributable mainly to the increase in personnel expenses, which also included the variable component bound to results.
For the year 2000, the Company forecasted a further significant strengthening of the structure, investments in information technology and marketing, aimed at improving its positioning and confirming its capability of generating important revenue flows.
The Company, together with Banca Intesa, is developing an important project both in the trading on-line and in the distribution of financial services via the Internet areas, which will enable the Group to reach a forefront position also in this sector.

Caboto Securities

The financial statements as at 31st December 1999 closed with a net income for the year amounting to 1,114,084 GBP with respect to 89,047 GBP in 1998.
The Company operates in securities trading with futures and options listed on the most important European and international official markets (Liffe, Eurex, CBO, CME, MATIF, etc.).
Following the introduction of the Single Currency, the dominance of the Bund Future on the BTP Future, consolidated EUREX's position as Europe's reference market. The Company traded on this market a 85% portion of its volumes.
In 1999 important investments in information technology were carried out in order to implement a remote screen system for customers' trading activities.
Even though trading with futures and options will remain its main activity, the Company will include in its structure a Sale and Distribution and Bonds Syndication area, as part of Caboto group's international growth project.

Caboto USA

In the United States, the Company acts as a broker-dealer and promotes Caboto group's activities among the institutional investors.
In its first year of operations, the Company closed 1999 with a loss amounting to 167,235 US$.

Cariplo Ireland

(in millions of euro)

	1999	1998	Change
Balance sheet			
Loans to banks	629.7	1,228.8	(48.8%)
Loans to financial institutions	83.5	5.2	–
Securities portfolio	1,153.6	1,118.5	3.1%
Total assets	1,894.7	2,374.1	(20.2%)
Due to banks	1,619.1	2,103.0	(23.0%)
Shareholders' equity (1)	103.3	103.3	–
Statement of income			
Profits (Losses) on financial transactions and commissions	1.6	0.9	70.6%
Interest margin	6.7	2.3	187.4%
Administrative costs	0.5	0.2	192.9%
Net income for the year	7.0	2.8	152.3%
Economic and financial ratios			
Net income for the year/total assets (ROA)	0.4%	0.1%	
Net income for the year/shareholders' equity (ROE)	6.8%	2.7%	
Other information			
Volumes of transactions			
Dealing on own account	125	41.3	–

(1) Excluding net income for the year and provisions to the reserve for general financial risks.

At 1999 year-end, Cariplo Ireland, which operates in the International Financial Services Centre, Dublin, showed total assets of 1,894.7 million euro, with a 20.2% reduction compared to the previous year; these figures reflect a contraction in loans to companies belonging to Gruppo Intesa which stemmed from a reduction in repurchase agreements transactions.
Following certain sales carried out in 1999, the investments in Italian Government securities decreased by 125 million euro compared to as at 31st December 1998 and totalled 803.8 million euro (nominal value), whereas investments in companies and other financial institutions (fixed- and floating-rate securities, lending) rose by 230.4 million euro summing up to 295.7 million euro (nominal value).
As at 31st December 1999, total assets included a 60.8% portion of securities portfolio, a 33.2% portion of loans to companies belonging to the Group and a 5% portion of other assets.
The subsidiary's operations are financed by the Parent Company's capital as well as by intergroup loans, that is funding generated by repurchase agreements, on Italian Government securities, carried out with companies belonging to Gruppo Intesa.

Income before taxation amounted to 7.81 million euro (3.09 million euro in 1998), whereas net income for the year totalled 7.03 million lire.
Net income for the year exceeded by 11.5% budget forecasts as a result of the growth in the interest margin and the increase in revenues from dealing activities.
On 28th December 1999, Cariplo's stake in the Company's share capital (99.99% of the issued capital) was transferred to Banca Intesa; therefore the Company became one Banca Intesa's direct subsidiary.

Asset management

This activity is carried out by Intesa Asset Management SGR and Caboto International, as well as by two fiduciary companies: Intesa Fiduciaria Sim and Italfid.

Intesa Asset Management SGR

(in billions of lire)

	1999	1998	Change
Balance sheet			
Securities portfolio	305	332	(8.0%)
Total assets	766	660	16.1%
Shareholders’ equity [(1)]	211	171	23.2%
Statement of income			
Commission income	1,566	1,148	36.4%
Commission expense	1,250	844	48.1%
Net income for the year	111	136	(18.5%)
Economic and financial ratios			
Net income for the year/total assets (ROA)	14.4%	20.6%	
Net income for the year/shareholders’ equity (ROE)	52.4%	79.2%	
Other information			
Volumes of transactions			
Assets under management	158,723	121,958	30.1%
Net funding	24,362	58,010	(58.0%)
Funds managed *(number)*	70	65	7.7%
Market share			
Assets under management	14.4%	13.8%	–

[(1)] *Excluding net income for the year and provisions to the reserve for general financial risks.*

Intesa Asset Management SGR was established in 1999 from the merger of La Centrale Fondi and Caboto Gestioni Sim into Fondigest; the latter’s corporate name was changed to Intesa Asset Management SGR SpA and came into effect as of 1st January 1999. On 31st December 1999 Po Investimenti was also merged: the merger came into civil effects at the same date and with accounting and fiscal effects as of 1st January 1999. The merger of Po Investimenti is related to Parent Company strategies referring to the merger of those companies operating in the same economic segment, in order to attain synergies and economies of scale.
In 1999, Intesa Asset Management SGR experienced a phase of growth. With regard to Sicav/funds, which represented the Company’s core business, net funding for the year amounted to 24,362 billion lire. Managed funds totalled 158,723 billion lire, of which 149,702 billion lire are Mutual Funds, 1,358 billion lire are GPF (individual portfolio schemes invested in funds), 4,881 billion lire are GPM (individual portfolio schemes), 2,621 billion lire are Private Banking and 161 billion lire are Pension Funds.

The Company’s evolution was in line with that of the system’s. At year-end, the market share for the Sicav/funds segment equalled 14.37%, corresponding to the second place in the SGR companies’ ranking. At the beginning of the year, the market share for portfolio management, calculated only for the funds established under Italian law, equalled 13.83%. Intesa Asset Management SGR, besides being at the top of the national ranking, was ranked fifth in Europe in terms of assets under management.
During 1999, the strategy which entails the widening of the product range was pursued by the start up of the placement of four new funds.
As part of the development of institutional clients, the multicompartment mutual fund Geo was established; the latter is dedicated to Foundations, for which Intesa Asset Management SGR does not act as manager, but as the promoter and advisor. This positioning turned out to be rewarding since net funding collected by the Geo fund corresponded to an approximately 23% portion of Intesa Asset Management SGR’s total funding for the year.

At the end of 1999, the number of managed mutual funds amounted to 69, excluding the multicompartment fund Geo.

With regard to Portfolio Management, the new GPM and GPF were introduced in 1999, which have a wider selection of available management schemes, and the GPF International, which entailed the investment of a portion of managed funds in Sicavs managed by foreign managers, thus offering a diversification not only in the product, but also in the managing style. As at 31st December 1999, portfolio management amounted to 33,337 billion lire with regard to the GPF (of which 1,358 billion lire were Sicav/funds managed by third parties) and to 5,550 billion lire for the GPM (of which 69 billion lire were mutual funds).
New lines were developed in the Company's Private Banking, with 15 risk/yield profiles and the possibility to choose, inside the portfolio, between various sets of instruments. Lastly, in the last part of the year the management of Cariplo's Private Banking was acquired.
As at 31st December 1999, portfolio management amounted to 4,257 billion lire (of which 1,636 billion lire of mutual funds).
Five new multicompartment open pension funds were launched: Carinord-Previdenza, Previmaster, Giustiniano, Centrale Previdenza Attiva and Unione.
As at 31st December 1999 assets under management amounted to 161 billion lire.
1999 funding focused on equity and short-term fixed-income funds. The most significant portion of assets under management is attributable to medium- long-term fixed-income funds, short-term fixed-income funds and equity funds.

Also in 1999, Intesa Asset Management SGR achieved an excellent economic result.
The differential between commission income and expense amounted to 316.3 billion lire and income, gross of income taxes, equalled 196.2 billion lire.
Net income amounted to 110.7 billion lire.
In 1999, the integration of the companies absorbed by Intesa Asset Management implied a particular effort, both in terms of organisation and in terms of information technology which was necessary to manage the new and more complex organisation. The year 1999 led to significantly IT investments which will also continue in the whole of the year 2000.
Investments for hardware and software were in excess of 21 billion lire.

Caboto (International)

The Company closed 1999 with a net income of 1.4 million CHF compared to 605,000 CHF in 1998.
1999 was characterised by a 167 million CHF increase in managed funds corresponding to a 59.2% growth rate, with respect to the forecasted 25%. The Company closed the year with managed funds amounting approximately to 449 million CHF.
The growth in managed funds and the increase in the number of relationships led to a significant rise in the flow of net commission and required an appropriate strengthening in the structure and an improvement in the information systems used.
At the end of 1999 the Company's staff was made up of 13 resources.

Intesa Fiduciaria Sim

Intesa Fiduciaria Sim, a company which operates in dynamic portfolio management, succeeded in maintaining growth in assets under management - placed via the traditional sale network - in spite of a worldwide scenario of flattened interest rates on the low end of the yield curve and the severe tensions in the bond markets, which led to an intensification of the trend which had driven investors to increase the percentage of shares in their portfolios.

The Company closed 1999 with 4,964.1 billion lire in assets under management, with respect to 3,699.2 billion lire as at 31st December 1998, with a 34.2% increase.
The 1,264.9 billion lire increase was reached through the contribution of 914.9 billion lire of new funding and 350 billion lire of increase in the value of the portfolio.
Commission income and commission expense increased by 33.3% and 26.4% respectively; these increases are related to the significant rise in portfolio management in 1999 compared to that as at 31st December 1998.
Net income for the year amounted to 4.9 billion lire, with a 2.9 billion lire increase with respect to 1998 (+ 145%).

Italfid - Italiana Fiduciaria

Data as at 31st December 1999 showed an increase in Company's activity also attributable to new business deriving from the Group's enlargement. As at 31st December 1999, income from fiduciary services given, net of services such as recovery of expenses to be charged to third parties, totalled 1,641 million lire, with a 37.5% growth rate compared to the corresponding figure the previous year.
Assets under management as at 31st December 1999, amounted to 637.4 billion lire (nominal value). Net income for the year totalled 242 million lire (+ 154.5% compared to the previous year).

Specialised business units

It is the most diversified area, since it includes the following companies which operate in different segments of the financial services to customers market:

- Intesa Leasing and Fiscambi-Locazioni Finanziarie which offer leasing services;
- Mediofactoring which provides factoring services;
- Agos Itafinco which operates in the consumer credit market;
- Intesa Italia Sim, which is the “door-to-door” sale network for distributing Group financial products;
- Setefi which operates in the credit card and payment system market;
- Carivita, the Group’s life bancassurance company.

Leasing

Intesa Leasing - Fiscambi-Locazioni Finanziarie

(in billions of lire)

	1999	1998	Change
Balance sheet			
Leased assets	5,233.0	4,572.0	14.5%
Total assets	6,423.1	5,305.0	21.1%
Due to banks	4,875.1	4,249.0	14.7%
Shareholders’ equity [(1)]	265.9	262.0	1.5%
Statement of income			
Lease income	2,135.1	1,870.0	14.2%
Contribution margin	130.6	130.0	0.5%
Administrative costs	67.2	56.0	20.0%
Net income for the year	49.4	37.0	33.5%
Economic and financial ratios			
Administrative costs/contribution margin	51.5%	43.3%	
Net income for the year/total assets (ROA)	0.8%	0.7%	
Net income for the year/average shareholders’ equity (ROE)	18.6%	14.3%	
Other information			
New contracts (*value*)	3,263	2,267	43.9%
New contracts (*number*)	19,124	20,289	(5.7%)
Implicit loans to customers	5,251	4,464	17.6%

[(1)] *Excluding net income for the year and provisions to the reserve for general financial risks.*

In 1999 the integration between Intesa Leasing and the spin-off of Fiscambi-Locazioni Finanziarie was carried out. For this reason, and since it is difficult to identify the values as at 31st December 1998 and as at 31st December 1999 relative to the portion which arose after the Fiscambi-Locazioni Finanziarie’s spin-off, it was deemed more useful to consider the sum of the values reported by the two Companies.
Furthermore, figures include the value referring to Po Leasing, which was merged during 1999.

1999 registered a positive trend both in terms of statement of income results and in terms of commercial results and was characterised by the integration of the leasing companies belonging to Gruppo Intesa.
In a macroeconomic scenario of economic recovery with increasing production activities and therefore higher demand for leasing, especially in the real estate sector, the Company’s commercial development was satisfactory. In 1999 19,214 contracts were stipulated, corresponding to an amount of 3,263 billion lire, with a 43.9% growth rate compared to the sum of 1998 results achieved by the three Companies.
Ad hoc leasing continues to be the Company’s strong point and showed a considerable growth rate. Real estate rose by 27.3%, thus increasing its incidence within the portfolio reflecting the sector’s trend.

The number of car leasing contracts decreased following the elimination of direct channels for the distribution of low-value leases on cars; the significant drop in single car leasing contracts (– 17.2% in value terms) was offset by the development of leasing contracts on industrial and commercial vehicles (+ 23.3%).

The following are the most significant data registered in 1999.
Leased assets amounted to 5,233 billion lire (+ 14.5% in 1998).
Total assets summed up to 6,423 billion lire compared to 5,305 in 1998 (+ 21.1%).
It is mostly made up of leased assets and loans to customers which, net of relative adjustments, totalled 69.6 billion lire with a 16% growth rate compared to the previous year.
Due to banks corresponded to 4,875 billion lire with a 14.7% growth rate with respect to 1998.
Shareholders’ equity, which amounted to 266 billion lire, increased by 3.8 billion lire (+ 1.4%).
Lease income totalled 2,135 billion lire compared to 1,870 in 1998 (+ 14.17%).
The contribution margin summed up to 130.6 billion lire, unchanged compared to the previous year.
Administrative costs to contribution margin ratio totalled 51.4% with respect to 43.3% in 1998.
Net income for the year amounted to 49.4 billion lire with a 33.5% growth rate compared to the previous year.
ROE totalled 18.6% compared to 14.3% in 1998.

Factoring

Mediofactoring

(in billions of lire)

	1999	1998	Change
Balance sheet			
Loans for factoring activities	9,645	7,097	35.9%
Total assets	9,716	7,153	35.8%
Due to banks	5,599	3,825	46.4%
Due from factoring activities	3,235	2,531	27.8%
Shareholders’ equity [1]	218	215	1.0%
Statement of income			
Interest and commissions from factoring activities	322	350	(7.9%)
Contribution margin	147	147	–
Administrative costs	66	67	(0.6%)
Net income for the year	47	39	20.2%
Economic and financial ratios			
Administrative costs/contribution margin	45.0%	45.3%	
Net income for the year/total assets (ROA) [2]	0.6%	0.5%	
Net income for the year/shareholders’ equity (ROE) [2]	27.5%	18.2%	
Other information			
Turnover	32,897	25,064	31.3%

[1] Excluding net income for the year and the change in the reserve for general financial risks.
[2] The change to the reserve for general financial risks was added to net income for the year.

In 1999, Mediofactoring took over Po Factoring SpA, continuing the process aimed at rationalising its presence inside the Group; comparisons with the previous year are carried out on a consistent basis.
In 1999, Mediofactoring further developed its activities thus acquiring new market shares and consolidating its leadership on the Italian banking factoring market, with a market share of approximately 32%.
Due from factoring activities increased by 35.9% compared to as at 31st December 1998. Thanks to the significant increase in volumes, turnover rose by 31.3% and Mediofactoring offset the progressive decrease in the unit margins which was mainly due to the reduction in the financial spreads. This result was achieved also through a progressively increasing efficiency in operating activities: thanks to this efficiency, structure costs were contained, in spite of the significant rise in turnover, and the cost/income ratio amounted to 36%, with

an improvement by almost two percentage points, even if overall contribution margin remained unchanged.

With regard to the statement of income, net income totalled 47 billion lire, with a 20% growth rate compared to the same item registered in 1998.
Furthermore, during 1999, Mediofactoring extended its direct activities in the other Countries belonging to the European Union, by commencing new relationships in Spain, Germany, Belgium and enlarging those already existing in the same Countries and in the United Kingdom.

Consumer credit

Agos Itafinco

In 1999, Agos Itafinco - the Company controlled by Crédit Agricole, of which Banca Intesa holds a 30% stake - further accelerated the already noteworthy growth trend.
At the end of 1999, 2,181.1 billion lire were disbursed, with a 53.3% increase with respect to 1998. More specifically, in only two years after the merger carried out in 1997, the Company more than doubled the volumes of funding. As in 1998, also in 1999 Agos Itafinco developed at an almost double growth rate compared to that registered by the market. Even if there is no official year-end figure available, market share in 1999 is expected to total approximately 6.1% compared to 5.3% in 1998.
The development of commercial operations positively affected all sectors in which Agos Itafinco operates. This success derived from the application of a planned commercial action, which considered clients' different needs and which benefited from the more extensive commercial network.
Furthermore, in 1999 the Company continued its efforts aimed at creating new products and updated the organisational structure in order to improve both service quality and efficiency.
It must also be noted that in the last months of 1999, Agos Itafinco accomplished the first television advertising campaign aimed at supporting mass distribution of the card Attiva Mastercard.

At the end of 1999, the Company's net income equalled 18,581 million lire compared to 9,916 million lire achieved in 1998 with a 87.4% increase. Compared to 1997, that is in only two years, the Company's net income more than quadrupled.
The continuous attention paid to cost containment led to a cost/income ratio in line with that registered the previous year.
The overall cost of Company risk, calculated as the algebraic sum of adjustments to loans and write-offs, registered only a 14.8% growth rate with respect to the previous year, compared to a 48.2% increase in net loans to customers, which confirmed that the increase in volumes was accompanied by a further enhancement of customer selection capability.
The continuous improvement in the loan quality was also reflected by the doubtful loans to lending ratio, which was calculated on the basis of "BAFI" method; the ratio, which in 1998 had already registered a reduction compared to 1997 (from 3.37% to 2.51%), amounted to 2.03% as at 31st December 1999.

Distribution of financial products

Intesa Italia Sim

(in billions of lire)

	1999	1998	Change
Balance sheet			
Securities portfolio	39.4	24.2	62.8%
Total assets	108.4	73.5	47.5%
Shareholders' equity (1)	14.0	13.2	6.1%
Statement of income			
Commission income	162.7	119.7	35.9%
Commission expense	103.6	83.7	23.8%
Net income for the year	21.9	5.8	277.6%
Economic and financial ratios			
Net income for the year/total assets (ROA)	20.2%	7.9%	
Net income for the year/average shareholders' equity (ROE)	156.4%	43.9%	
Other information			
Volumes traded	6,478	5,572	16.3%
Personal financial consultants (number)	1,186	1,009	17.5%

(1) *Excluding net income for the year and provisions to reserve on general financial risks.*

1999 results were the best ever achieved in thirteen years of operations.
As at 31st December 1999 the sale network reached 1,186 units and volumes traded equalled 6,478 billion lire, with a 16.3% growth rate compared to 1998. Net funding recorded a noteworthy increase (1,359 billion lire) and led assets under management as at 31st December 1999 to reach a total value of 7,973.8 billion lire with a 44% rise with respect to as at 31st December 1998. Breakdown of volumes traded confirms the considerable importance of portfolio management (Mutual funds and Individual portfolio management schemes) which amounted to 4,810.8 billion lire, and represented 74.3% of assets placed. In 1999, commission income registered a 36% increase whereas net income for the year, which amounted to 21.9 billion lire, showed a decided improvement (+ 277.6%) with respect to the previous year.
These brilliant results are attributable both to the development of the sale network and to the Company's increased effectiveness in placement. Furthermore in the first few months of 1999, the Company's new organisation started being developed. It entails creating tailored personal financial consultants groups specialised in operating alongside the single Group commercial banks based on Gruppo Intesa's composite structure.

Payment systems

Setefi

Following the definition of Group strategies in payment system services, Setefi is the Gruppo Intesa company responsible for the management of payment cards and payment systems through POS installed by Group companies.
The number of Moneta cards managed increased from 962,000 units as at 31st December 1998 to over 1.3 million cards as at 31st December 1999, corresponding to a 35% growth rate. Transactions carried out with Moneta cards recorded a 29% growth rate, from approximately 14.5 million in 1998 to over 18.6 million in 1999. Value of such transactions recorded a 31% rise, from 2,151 billion lire as at 31st December 1998 to 2,824 billion lire as at 31st December 1999.
The number of POS machines installed equalled 37,247, with an almost 35% growth rate compared to the previous year, with over 50 million transactions managed (+ 41%) and a 37% growth rate in the value transacted which reached 8,258 billion lire (6,020 billion lire in 1998).

With regard to economic results, commission income and other operating revenues increased by 53% up from 87 billion lire to133 billion lire. In particular, commissions from retailers recorded a 68% growth rate and revenues for POS rentals increased by 23%.
Commission expense and other operating costs also rose considerably (from 19.8 billion lire to 59.3 billion lire); 47% of commission expense referred to costs sustained in relation to the services provided by the VISA and EC/MC circuits. The growth of such costs is strongly related to the rise in volumes.
Net income for the year is in line with that recorded in 1998, 24.3 billion lire in 1998 and 25.2 billion lire in 1999.
With regard to the Company's expected development, it must be noted that the payment system services sector will become increasingly important in strategic terms, also as a result of new market opportunities in highly innovative sectors such as "e-commerce" and "mobile-commerce".

Life bancassurance

Carivita

In 1999 the life bancassurance market closed with approximately 38,500 billion lire of collected premiums (+ 61%), of which 37,000 billion lire referred to new premiums, corresponding to a 78% growth rate compared to 1998 (1999 estimates - Source Iama).
Commercial results achieved by Carivita are summarised by 2,728 billion lire of collected premiums (+ 14%) and a 15% rise in new premiums, which equalled 2,493 billion lire, compared to 1998. The high market share achieved in the past (10%) therefore decreased to the more "physiological" level (approximately 7%) of distribution networks.
The number of contracts increased by 18% compared to the previous year, with an average premium which was for the first time lower than the market's. This reflected the Company's efforts to favour greater diffusion of insurance products among savers.
Breakdown of new premiums on insurance products targeted to individuals showed the rising importance of index-linked products instead of traditional products. The Company made intense efforts aimed at developing and supplying new index-linked products.
Operations recorded a significant growth rate with 7,925 billion lire of managed reserves compared to 5,229 billion lire as at 31st December 1998 (+ 52%) and over 320,000 customers (60,000 more than in 1998).
Carivita distributes its products via the 1,488 branches of the banks belonging to Gruppo Intesa or banks in which the Group holds significant equity stakes.

Net income for 1999 totalled 21.2 billion lire with a contraction compared to the 24.2 billion lire recorded in 1998 which was mostly attributable to lower financial margins following the reduction in investment returns. The increase in premiums and in technical reserves guaranteed a further reduction in the incidence of fixed costs on both aggregates.
ROE equalled 13.5%.

Tax collection

For the entire tax collection sector 1999 was a year of profound uncertainty which had severe repercussions both with regard to operations and planning of activities to be carried out immediately and in the near future.
The reform of the tax collection sector provided for by the delegated law 337 of 1998, led to the issue of four legislative decrees which defined the general framework of the reform but delegated the most important operative norms (among which the definition of compensation) to ministerial decrees which have not been issued yet.
This uncertainty negatively affected current operations.
In short, the reform will produce the following effects:

- almost complete concentration of tax collection activities via tax payer list, which has thus far registered significant losses;
- loss of economic flows stemming from direct payments;
- elimination of fixed fees per inhabitant ("letter D") which will produce particularly negative effects for licensees which operate in Southern Italy;

- reduction in profits on ICI property tax and TARSU waste disposal tax flows, formerly managed with an exclusive agreement, since local entities have been granted the right to manage such collections directly or to delegate the latter to third parties;
- abolition of the compulsory advance of sums to be collected;
- reimbursement of part of the advances granted to public entities based on the mandatory provisions mentioned above.

After evaluating the guidelines of the reform, in the first half of 1999, Gruppo Intesa set up a specific task force for the purpose of drawing up an Industrial Plan for the sector. Also based on these latest results a holding company, Intesa Riscossione Tributi SpA, with share capital 150 billion lire, has been established. Apart from the equity investments in tax collection companies, it will centralise direction and governance functions of all Group companies operating in this sector. This new structure will realise the possible economies of scale, ensure uniform management and pursue for the widest possible operational and managerial synergies with Group banks.

The following Group companies operated in this sector: Esa.Tri. - Esazione Tributi (which manages five provincial areas in the Lombardia region), E.Tr. - Esazione Tributi (provisional tax collection Agent for the Government, responsible for the Calabria Region and the Salerno province) and S.Es.I.T. Puglia (Bari and Brindisi provincial areas).
With regard to 1999 results, the licensees benefited by the safeguard mechanism provided for in the reform law.
Regulations guarantee that during the transition period forecasted to last until 30th June 2001, companies will receive the average commissions on tax collection activities received in 1997 and 1998. In those years, apart from the fixed fees per inhabitant (“letter D”), results were positively affected by commissions on direct payments (which are now almost completely lost).

Esa.Tri. - Esazione Tributi

The Company closed 1999 with a net income for the year of 25.3 billion lire compared to 29.2 billion lire achieved in 1998.

Net income completely reflects the effects of the above-mentioned safeguard mechanisms.
The Company pursued cost containment with both an incentive-driven exit plan and the rationalisation of the branch network.
As set out in the sector’s industrial plan, the Company began the redefinition of organisational and information technology processes, in order to adjust operations to the law’s new provisions, by planning opportune and necessary investments which should increase tax collection effectiveness.

E.Tr. - Esazione Tributi

The Company closed with a loss of 51.8 billion lire, compared to the loss of 36.3 billion lire generated in 1998.

During 1999 the Company covered the losses generated in previous years and those accrued before 30th September 1999, via the reduction in share capital, with the subsequent increase of the latter to 10 billion lire through the entry of Intesa Riscossione Tributi SpA.
Furthermore, by following provisions contained in the sector’s industrial plan, the Company started the migration process of previous IT platforms to the IT system currently used by Esa.Tri. This intervention led to uniform interventions planned for adjustments related to the Year 2000.
The 7.4 billion lire reduction of “letter D” payments was among the factors that negatively affected profitability in the first half of 1999.

S.Es.I.T. Puglia - Servizio Esazione Imposte e Tributi

The Company closed 1999 almost at break even (with a loss of 166 million lire) compared to a loss amounting to 9.2 billion lire generated in 1998.

Intergroup support services

Gruppo Intesa’s organisational model sets out the existence of autonomous units specialised by role and functions and capable of offering services to all the Group’s business units and thus seize all possible synergies and economies of scale.
Intesa Sistemi e Servizi, Intesa Gestione Crediti, Caridata, Intesa Formazione and Intesa Formazione Sud are five of the Group’s specialised units.

Intesa Sistemi e Servizi

The Company was established on 18th November 1998 as a consortium company, with a share capital of 5 billion lire. It started operations at the beginning of 1999. Intesa Sistemi e Servizi manages operational processes, information and telecommunication services, logistics, purchases, the call centre and all infrastructural services and provides assistance in these sectors, in the interest of the consortium companies and, more in general, of Gruppo Intesa’s companies. It pursues the widest-possible cost synergies and optimises the quality of services provided.
The consortium structure was deemed to be the most effective in pursuing the corporate purpose also with regard to the initial management of dedicated human resources.
In order to guarantee widest costs synergies, as part of a gradual passage of the IT systems of each individual Group company to one information system for the entire Group, Cariplo’s and Ambroveneto’s Extraordinary Shareholders’ Meetings held on 25th May 1999 resolved upon the contribution of the hardware, software and the telecommunication equipment which made up their IT system to Intesa Sistemi e Servizi, for a total value of approximately 395 billion lire, financed by bank loans amounting to approximately 350 billion lire and by the increase in capital which equalled 45 billion lire, carried out by Banca Intesa, sole shareholder of the de-merged banks. Therefore, as at 31st December 1999, Intesa Sistemi e Servizi’s share capital totalled 50 billion lire; a further increase up to 95 billion lire was subscribed and paid up on 29th February 2000.

After the approval of Law 133 of 13th May 1999, income from auxiliary services offered by Group companies, or by consortiums made up of banks, to Group companies or banks in the consortium have become VAT exempt.
This provision is of fundamental importance for federal groups such as Gruppo Intesa in which banks, product companies and service companies coexist. It will allow Intesa Sistemi e Servizi to acquire personnel and technological structures directly, so that it will be able to carry out its typical service company function for the entire banking Group.
As at 31st December 1999, net income for the period totalled 584 million lire.

Intesa Gestione Crediti

As described above, the Group’s industrial plan entails that all non-performing loans belonging to Group companies will be sold pro soluto (without recouse) to or managed by Intesa Gestione Crediti.
In its first year of operations, the Company purchased the following loan portfolios:

Seller	Date of sale	Value of purchased loan portfolio
Carical	23rd March 1999	1,726,368,032
Carime	21st May 1999	77,381,478,827
Ambroveneto	30th June 1999	1,035,942,761,992
Cariplo	30th June 1999	685,373,901,984
Cassa di Risparmio di Rieti	16th December 1999	103,315,610,881
Cassa di Risparmio di Viterbo	16th December 1999	218,334,303,369

Apart from the loan sales mentioned above, Ambroveneto and Cariplo carried out a de-merger in favour of Intesa Gestione Crediti. In particular:

- Ambroveneto sold loans indicated above and spun off a further 186 billion lire of overdue interest on non-performing loans, related to an allowance of the same amount. Due from banks of 227.5 billion lire and a corresponding amount of shareholders' equity were transferred as part of the same transaction;
- Cariplo sold the loans indicated above and spun off a further 69 billion lire of overdue interest on non-performing loans, related to an allowance of the same amount. Again, due from banks of 227.5 billion lire and a corresponding amount of shareholders' equity were transferred.

Consequently, following the spin-offs, the Company's share capital increased from 150 billion lire to 500 billion lire.

In its first year of full operations, Intesa Gestione Crediti carried out an intense activity and recovered almost 245 billion lire and extinguished 1,740 positions.
The Company closed 1999 with a net income for the year of 119 million lire, after adjustments to loans of 55 billion lire and write-backs of 5 billion lire.

Caridata

In 1999, Caridata achieved very satisfactory results both in balance sheet and economic terms, both with regard to the development of operations and its competencies.
The Company has had to rapidly adjust its organisation and operational processes after the establishment of Intesa Sistemi e Servizi, the Group consortium company responsible for managing in a centralised fashion IT, logistics and purchasing services for all Group companies.
In spite of this, the Company continued to expand and outperformed both its qualitative and quantitative objectives. Revenues recorded a 16.9% growth rate and reached 72.5 billion lire.

The Company showed a sound financial equilibrium. Net working capital as at 31st December 1999 equalled approximately 6.23 billion lire and a liquidity ratio of 1.2. Also the coverage of tangible assets totalled 1.3 higher than the previous year mostly as a result of the substantial growth in shareholders' equity following the allocation of net income as at 31st December 1999.

Income before taxation totalled 6.6 billion lire and showed a 129.9% growth rate compared to the previous year, mostly due to the rise in volumes (+ 16.9% compared to the previous year), which was also positively affected by activities related to the Euro and the Year 2000, greater productivity obtained via the simplification of internal organisational processes, higher use of extra-time, lower use of holidays, flexibility of external services and containment of general and structure costs which did not grow proportionally to the rise in revenues.
Furthermore, net income for the year equalled 2.9 billion lire with a 347.4% growth rate with respect to the previous year.

Intesa Formazione

In 1999, the Company's activity focused on the completion and consolidation of training initiatives for the Group which started last year and were relative to the staff re-organisation currently under way in each company.
Most of the courses focused on the following sectors: the first, professional re-conversion programmes; the second, relative to specific projects aimed at reaching specific objectives essentially in the operative, credit and commercial areas; the third, aimed at realising "transversal" programmes for the diffusion of the Group's best practices in the Personnel, Organisation and Auditing areas.
Efforts in training Group personnel referred to approximately 74,000 man days, 2,776 courses and approximately 43,000 participants. Furthermore, approximately

25,000 man days of distance training were provided, thus confirming the growing importance of this activity.
1999 closed with a net income for the year of 114 million lire, substantially in line with forecast.

Intesa Formazione Sud

The Company became part of Gruppo Intesa as of August 1999, following the transformation of Ceii Sistema Scrl into Intesa Formazione Sud Scpa, after the de-merger of all of its ordinary operations in favour of the new company Sistema Bic Basilicata Scpa.
The Company is responsible for training personnel of Group companies located in Central and Southern Italy.
Activities in the last five months of 1999 concentrated on training programmes in management, commercial and technical and professional areas with specific projects tailor-made to the requirements of the single brands, on identification of needs for the realisation of professional re-conversion plans and on analysing the opportunities offered by the European Union for the promotion and realisation of training courses financed by public, national, regional and international organisations.
The Company provided approximately 4,450 man days with approximately 3,000 participants.
In 1999, net income for the year amounted to 20 million lire.

Significant subsequent events

At the beginning of March, Banca Intesa reached an agreement with IBM and Telecom Italia-Tin.it to favour the diffusion among its customers of “new economy” instruments.
The agreement - the first in Italy which involves the largest Bank and the most important ISP to the world’s information technology and Internet solutions leader - sets forth that, starting from April 2000, the clients of Gruppo Intesa banks may turn to their bank for an integrated, user-friendly package and a last generation computer.
Apart from the leasing of the latest, multimedia IBM hardware, this package includes an installation and guarantee service, the activation of the Internet connection “Premium” provided by Tin.it, and a “help desk” assistance service.
With this initiative Banca Intesa intends favouring the development of the use of “home banking” services via the Internet and thus consolidate its leadership position in “remote banking” activities, which already boasts over 500,000 users.

Forecast for 2000

In 2000, the recovery of internal demand in the Euro area should continue to improve and the GNP growth rare should almost reach 3%.
Inflation risks connected to increases in oil and raw materials prices should not be particularly high. The effect of the increase in the price of oil on consumer prices should extinguish its effects in the first quarter, average inflation for the Euro area should be higher than the 2% target indicated by the European Central Bank; the inflationary effects related to the recovery of internal demand should be mitigated by the progressive appreciation of the euro.
Persistent high growth rates for the US economy - though lower than in 1999 - could lead the Federal Reserve to further tighten monetary policy and a similar restrictive move is expected from the European Central Bank; the euro repo rate is forecasted to increase by 50 basis points by the summer.
The expected rises in policy rates - combined with moderate inflation tensions - should contribute to maintain under control the long-term end of the yield curves, which are forecasted to record a moderate rise during the year.

In the Italian case, the gradual improvement of forecasts will enable the Country to get closer to the main GNP growth rates prevailing in the EU. The acceleration in domestic demand should lead the growth rate in GNP to rise to the range from 2.5% to 3% per year and household consumption should rise.
According to forecasts, average inflation for the year should not greatly differ from the 2% limit indicated by the European Central Bank, after the 1.7% average recorded in 1999. Also the situation in the public accounts should remain under control and the weight of net debt of the Public Administration on GNP should decrease from 2.1% contained in forecasts for 1999 to 1.5% in 2000.

Expectation for the banking system refer to a continuation of trends already recorded, especially in the last quarter of 1999.
Due to the improved economic environment, demand for loans should maintain its considerable growth rate, mostly driven by the medium- and long-term component. This should be positively influenced by the demand for mortgages expressed by households and, with regard to companies, the transformation of short-term debt to other types of lending with longer maturities also as a result of lower additional requirements due to the elimination of the allowance for employee termination indemnities. The improved economic situation should also favour companies turning to the capital markets, thus decreasing the incidence of bank loans in favour of corporate banking and corporate finance services.
Direct deposits from resident customers are expected to record a lower growth rate than loans to customers and will therefore require that banks find alternative funding sources such as the interbank market and issues on the euromarket. With regard to breakdown of direct deposits by contract types the gap between the growth in on demand deposits, which should remain high, and the trend recorded by issued bond which is forecasted to decrease further. This tends to increase maturity mismatching between assets and liabilities thus favouring the transformation of maturities carried out by the banking system.

In professional asset management, growth opportunities are forecasted to be related to product innovation. With regard to collective asset management, the launch of so-called “funds of funds” and the development of products incorporated under foreign law by Italian banking and financial groups are expected to generate positive results.
In bancassurance, forecasts remain positive even though they remain deeply affected by policies regarding fiscal incentives and the State’s social security coverage.
Custody and administration of securities on behalf of third parties could be stimulated by the development of trading on line, product which has been greatly pushed by banks.
Bank interest rates are expected to record a moderate growth rate in line with the trend registered by market rates. As already mentioned, with regard to interest on assets, this tendency was clearly already under way in the last quarter of 1999, whereas interest on liabilities are more viscous in recording market rate increases. In terms of average for the year, the spread should remain in line with the level observed in 1999.

Regarding profitability for the entire banking system, interest margin is expected to record a moderate rise attributable to the expansion in average volumes and the stability of the spread. An increase in interest on securities may also be forecasted in connection to the rise in the yield curve. However, higher funding costs abroad should worsen the margin on operations in foreign currencies.
Net interest and other banking income is forecasted to rise considerably thanks to the positive contribution of income from services which will record the increasing contribution of corporate finance, whereas professional asset management will be negatively affected by higher competition which will lead to lower average unit commissions.
With regard to costs, forecasts contain a higher reduction in personnel expenses following the effects of the new labour contract and the rationalisation of production processes implemented by banks in recent years.

2000 is forecasted to be an extremely positive year for Gruppo Intesa.
Average volumes of loans to customers are expected to record an approximately 10% growth rate whereas customer deposits are forecasted to rise by 5%. Both percentages are higher than those forecasted for the entire banking system. The spread should remain virtually unchanged.
Net commissions should increase further, in line with the trend recorded in 1999, whereas financial transactions are expected to generate a positive result.
Net interest and other banking income should also increase, in line with the development reported for other aggregates.
Operating costs - “stand alone” - should remain at the levels recorded last year with a decrease in the cost/income ratio of 6-7 points, whereas provisions for risks and charges and adjustments to loans should considerably decrease.
Extraordinary income and charges, which notably affected the 1999 financial statements, should have a marginal effect in 2000.
The tax burden - which was particularly low in 1999 for the reasons described above - is expected to rise by a few percentage points.
In short, net income for 2000 may record an even considerable growth rate compared to 1999.

Milano, 16th March 2000

The Board of Directors

Report of the Board of Statutory Auditors to the Shareholders' Meeting

Distinguished Shareholders,

in the year which ended as at 31st December 1999 we carried out our institutional activity in compliance with the new charges attributed to the Board of Statutory Auditors acting inside companies whose shares are traded on regulated markets, as provided for by Legislative Decree 58 of 24th February 1998.

In particular, we attended the Board of Directors' and the Executive Committee's meetings (15 and 6 respectively); on those occasions we received from Directors the information regarding their activity and the most significant economic, financial and balance sheet transactions carried out by Banca Intesa and by the most important subsidiaries, also under the terms of and for the purposes of Art. 150, par. 1, of the above-mentioned Legislative Decree 58. According to these provisions, we acted as supervisor in order to control that transactions resolved upon and carried out complied with current regulations, the Articles of Association and fair administration principles and did not contrast with resolutions resolved upon by the Shareholders' Meeting.

Furthermore, in the Board of Statutory Auditors' meetings (27) held in 1999 we:

- acknowledged and supervised, for matters for which we are in our mandate, the development of the Group's organisational process which, to date, is based on the "federal" model as described in 1999 Report on operations;
- stimulated meetings with the most important executives of the various divisions to be sure that the initiatives under way are aimed at strengthening the internal control systems apart from pursuing company objectives;
- supervised the adequacy of the accounting and control system as well as its reliability in correctly representing operations by directly obtaining information and through the analysis of the work carried out by the Auditing firm Arthur Andersen SpA, which, during the year, sent us the results of their quarterly controls related to the fact that the company was keeping the accounts regularly and did not highlight any exceptions;
- regularly met the Executive responsible for the Group's internal auditing, in accordance with Art. 150, par. 3, of Legislative Decree 58 of 24th February 1998, who constantly reported to us the results of his control activities;
- verified the conformity with current regulations of the preparation and lay out of the Bank's financial statements and the Group's consolidated financial statements as at 31st December 1999, as well as the accompanying reports on operations, through direct verifications and information requested to the Auditing firm;
- verified that the Directors have supplied sufficient information in the Bank's Report on operations with regard to intergroup relationships and relationships with associated companies.

Concluding our report, we inform You that carrying out our supervisory activity, as described above, no significant event occurred which must be brought to the attention of the Supervisory Authorities or mentioned to this Shareholders' Meeting.

Given all mentioned above, there are no reasons which may prevent You from approving the 1999 financial statements presented to You by the Board of Directors together with the related Report on operations and the proposal for the allocation of net income made by the same Board of Directors.

Milano, 28th March 2000

The Board of Statutory Auditors

ARTHUR ANDERSEN

Report of the Independent Auditors pursuant to Art. 156 of Legislative Decree no. 58 of February 24, 1998
(Translation from the Original Issued in Italian)

Arthur Andersen SpA
Via della Moscova 3
20121 Milano

To the Shareholders of
Banca Intesa S.p.A..

1. We have audited the consolidated financial statements of Banca Intesa S.p.A. (in the following also Bank) and its subsidiaries as of and for the year ended December 31, 1999. These consolidated financial statements are the responsibility of the Bank's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob ") . Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

   The financial statements of certain subsidiaries and associated companies, which represent, respectively, about 42% of consolidated assets and about 45% of the consolidated net interest and other banking income, have been examined by other auditors, who have provided us with their reports. Our opinion, expressed in this report, insofar as it relates to the amounts for those companies included in the consolidated financial statements, is also based on the audits performed by other auditing firms.

   In order to make the consolidated financial statements more comparable, as indicated in the notes to the consolidated financial statements, the Bank has restated the consolidated financial statements of the previous year taking account of the changes in the consolidation area. Such restated consolidated financial statements have not been audited by us. For the opinion on the consolidated financial statements as of December 31, 1998 as originally stated and also attached to the consolidated financial statements, reference should be made to our auditors' report dated March 18, 1999.

3. In our opinion, the consolidated financial statements of Banca Intesa S.p.A. and its subsidiaries as of and for the year ended December 31, 1999, comply with the Italian statutory provisions related to consolidated financial statements; therefore they give a true and fair view of the financial position and results of operations of the Bank and its subsidiaries.

4. For a better understanding of the consolidated financial statements, attention is drawn to the following significant matters, described in more detail in the report on operations and in the notes to the consolidated financial statements:

Sede Legale
Via della Moscova 3 20121 Milano

Reg Imp 297992 Tribunale di Milano
R.E.A. 960046
Cod. Fisc. 02466670581
Partita IVA 09869140153
Capitale Sociale Lire 3.000.000.000 i.v.

Bari Bologna Brescia Firenze
Genova Milano Napoli Padova
Roma Torino Treviso Verona

(a) In compliance with the new Italian accounting principle on income taxes, the Bank and its subsidiaries have modified the accounting treatment thereof, reflecting in the financial statements the effect of prepaid taxes relating to the temporary differences between the book values of assets and liabilities and the corresponding tax values. The effects deriving from the adoption of this new criterion are illustrated in the report on operations and in the notes to the consolidated financial statements.

(b) Intesa Group continued to develop during the year, principally with regard to the integration of the Cassa di Risparmio di Parma e Piacenza Group and the Banca Commerciale Italiana Group, resulting in significant modifications to the Group structure. In addition, in the context of the reorganisation, the Group has conducted extraordinary operations. The information related thereto and the effects thereof on the consolidated financial statements are provided in the report on operations and notes to the consolidated financial statements.

(c) As described in the report on operations, during 1999, important software applications continued to be developed and released at the subsidiary Cariplo. During the start-up phase, in particular, with regard to the procedures for securities and foreign activities, disfunctions occurred in the operational efficiency of the back office and in the alimentation of the general accounting procedures, which have generated pending items. The activities to identify and manage such pending items are still in progress. No significant charges have emerged from the settlement of the pending accounting items examined.

5. In a joint communication issued on April 3, 2000, the Treasury and Finance Ministries communicated the suspension of the tax benefits provided by Law No. 461/1998 and Legislative Decree no. 153/1999 relating to the restructuring of banks. As a result of this communication and in compliance with the requirements of CONSOB communication no. 27052 dated April 7, 2000, the Bank has disclosed in the notes to the consolidated financial statements the effect on the provision for taxes of the tax benefits foreseen by the aforementioned Law and has indicated that such tax benefits have been suspended.

Milan, March 24, 2000 (April 11, 2000, with reference
to the information disclosed in paragraph 5)

Arthur Andersen SpA

Elisabetta Magistretti

Elisabetta Magistretti - Partner