

SANPAOLO IMI S.p.A.

First half report 1999

SANPAOLO IMI

Società per Azioni

Registered office: Piazza San Carlo 156, Turin

Secondary registered office: Viale dell'Arte 25, Rome

Turin Company Register No. 4382/91

Parent Bank of the SANPAOLO IMI Banking Group

Member of the Interbank Deposit Guarantee Fund

Board of Directors

Luigi Arcuti (*)	Chairman
Luigi Maranzana (*)	Managing Director
Rainer Stefano Masera (*)	Managing Director
Carlo Albani Castelbarco Visconti	Director
Emilio Botín	Director
Giuseppe Fontana	Director
Gabriele Galateri di Genola e Suniglia (*)	Director
Juan Rodriguez Inciarte (*)	Director
Virgilio Marrone	Director
Mario Masini	Director
Iti Mihalich (*)	Director
Emilio Ottolenghi	Director
Stefano Preda (*)	Director
Enrico Salza (*)	Director
Antonio Selavi (*)	Director
Alessandro Vercelli	Director
Remi François Vermeiren	Director

(*) Member of the Executive Committee

Board of Statutory Auditors

Mario Paolillo	Chairman
Aureliano Benedetti	Auditor
Maurizio Dallochio	Auditor
Angelo Miglietta	Auditor
Ruggero Ragazzoni	Auditor

General Management

Luigi Maranzana	General Manager
Rainer Stefano Masera	General Manager
Enrico Fioravanti	Deputy General Manager Legal & Corporate Affairs
Piero Gavazzi	Deputy General Manager Personal Financial Services
Amadio Lazzarini	Deputy General Manager Operations
Bruno Picca	Deputy General Manager Accounting & Planning
Vittorio Serafino	Deputy General Manager Commercial Banking

Independent Auditors

Arthur Andersen S.p.A.

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LETTER TO SHAREHOLDERS

Shareholders,

The decline in banking stocks during the first half of 1999 was particularly evident in the case of SANPAOLO IMI shares.

As the banking industry seeks new balance during this phase of transition, the SANPAOLO IMI Group has continued to apply the strategies defined during the second half of last year. These involve:

- limiting activities exposed to risks that are not adequately remunerated;
- expanding the asset management business, with a view to consolidating market share;
- keeping costs down on an ongoing basis;
- significantly improving loan quality to avoid the effect of high provisions on the statement of income.

Aware of the need to face new competitive challenges, SANPAOLO IMI also launched a number of major development projects during the period. Some of these have been put aside, while others have been completed or are close to completion. Specifically, action has been taken to spin-off a large portion of the Bank's real estate portfolio; plans have been made to form a merchant bank which, in terms of capitalization, will be one of the largest in Italy; the elevation to company status of the business of lending to public entities has begun; and a number of major strategic alliances have been consolidated in the international sphere.

SANPAOLO IMI understands the need for further growth, in terms of both scale and the volume of operations. This will be essential if the Group is to respond effectively to the global competition that will characterize the European banking markets in the decade to come. Accordingly, in September, SANPAOLO IMI and INA began to look into ways of joining forces.

The results for the first half reflect the strategies adopted by the Group. In particular, the rise in service commissions, the decrease in administrative costs and, above all, the significant drop in loan writedowns (given the improved quality of assets) offset the reduction in net interest income and profits on financial transactions. Overall, consolidated income before extraordinary items was 1,401 billion lire, up 1.2% with respect to the pro forma results for the first half of 1998.

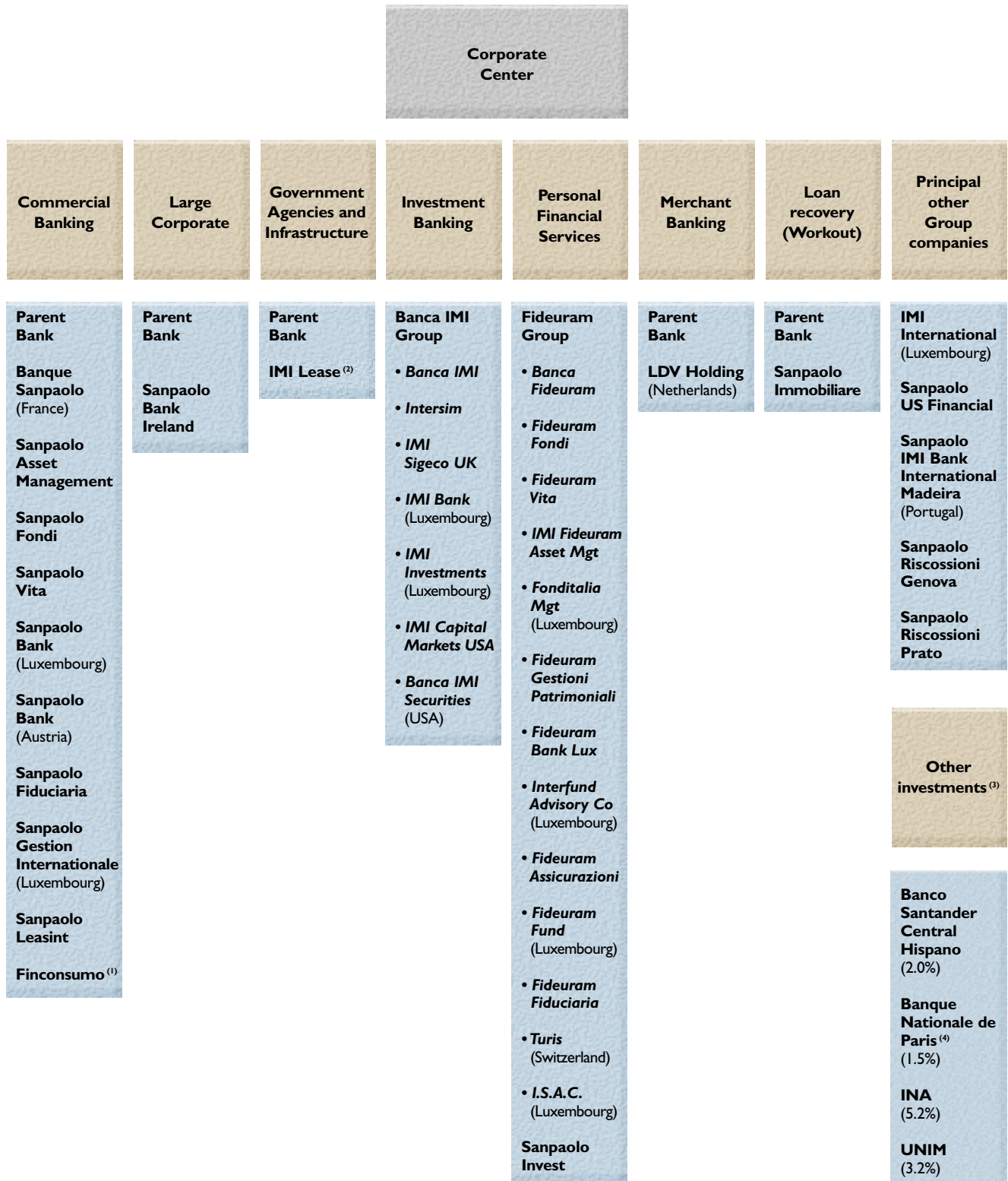
Net extraordinary income of 582 billion lire was particularly substantial, due to the sale of a 20% stake in Crediop to the Franco-Belgian Dexia Group and the acceptance of Olivetti's public offer to acquire shares in Telecom Italia. Consolidated net income therefore totaled 1,171 billion lire, 34.6% higher than in the first half of last year. Earnings per share have risen to 835 lire, from 621 lire in the comparative period, while the annualized return on equity (ROE) has risen to 14.1%, from 10.7% in the first half of 1998 and 11.3% for the full year.

The Group in figures

	6/30/1999		6/30/1998	12/31/1998	12/31/1998	Change 6/99-6/98 (%)
	Euro/mil	L/bln	pro forma L/bln	pro forma L/bln	L/bln	
CONSOLIDATED STATEMENT OF INCOME						
Net interest income	1,032	2,000	2,434	4,693	5,134	-17.8
Net commissions and other dealing revenues	965	1,869	1,684	3,374	3,365	+11.0
Administrative costs	-1,211	-2,344	-2,397	-4,774	-4,832	-2.2
Provisions and net adjustments to loans and financial investments	-227	-439	-866	-1,352	-1,401	-49.3
Income before extraordinary items	723	1,401	1,385	2,663	2,868	+1.2
Extraordinary income	301	582	41	232	308	n.s.
Group net income	605	1,171	870	1,760	1,760	+34.6
CONSOLIDATED BALANCE SHEET						
Total assets	138,731	268,621	304,809	274,030	306,490	-11.9
Loans to customers	71,963	139,340	148,289	141,286	168,241	-6.0
Securities	25,353	49,089	56,204	46,288	49,816	-12.7
Equity investments	2,350	4,551	2,923	3,238	2,559	+55.7
Customer deposits and securities issued	81,521	157,846	169,644	163,614	188,590	-7.0
Subordinated liabilities	1,346	2,606	2,948	2,675	2,925	-11.6
Shareholders' equity attributable to the Group	8,626	16,704	16,522	16,784	16,784	+1.1
FINANCIAL ASSETS OF CUSTOMERS						
Total customer assets	242,094	468,757	435,929	452,732	467,130	+7.5
- Direct deposits	81,521	157,846	169,644	163,614	188,590	-7.0
- Indirect deposits	160,573	310,911	266,284	289,118	278,540	+16.8
- Asset administration	62,519	121,053	120,884	127,212	117,232	+0.1
- Asset management	98,054	189,858	145,400	161,906	161,308	+30.6
- Mutual funds	70,083	135,699	102,822	115,038	114,935	+32.0
- Portfolio management	18,794	36,390	30,536	32,018	31,523	+19.2
- Life assurance	9,177	17,769	12,041	14,850	14,850	+47.6
PROFITABILITY RATIOS (%)						
Annualized ROE (Net income / Shareholders' equity, excluding current-period net income)		14.1	10.7	11.3	11.3	
Cost / Income ratio		57.0	52.4	55.5	54.3	
Net commissions / Administrative costs		79.7	70.3	70.7	69.6	
LENDING RISK RATIOS (%)						
Net non-performing loans / Total customer loans		2.6	3.3	2.7	2.3	
Net problem and rescheduled loans / Total customer loans		2.0	2.1	2.2	1.9	
CAPITAL ADEQUACY RATIOS (%)						
Tier I capital / Weighted assets		9.7	n.a.	n.a.	9.7	
Total capital / Weighted assets		10.6	n.a.	n.a.	11.1	
SANPAOLO IMI SHARES						
Number of shares (millions)		1,402	1,402	1,402	1,402	-
Price (euro; lire)						
- Average	14.472	28,022	23,691	24,796	24,796	+18.3
- Low	12.707	24,604	17,272	17,272	17,272	+42.5
- High	16.520	31,987	29,935	32,123	32,123	+6.9
Earnings per share (euro; lire)	0.431	835	621	1,256	1,256	+34.6
Dividend per share (euro; lire)	-	-	-	900	900	-
Ordinary dividend / Average annualized share price (%)	-	-	-	3.6	3.6	-
Shareholders' equity per share (euro; lire)	6.153	11,914	11,785	11,971	11,971	+1.1
ORGANIZATION (numbers)						
Workforce		24,224	24,721	24,299	24,527	-2.0
Domestic branches		1,351	1,342	1,346	1,346	+0.7
Foreign branches and representative offices		76	75	75	75	+1.3
Financial planners		4,667	4,200	4,497	4,497	+11.1

The pro forma information as of 6/30/1998 and 12/31/1998 is consistent with that as of 6/30/1999; it was prepared using the criteria described in the explanatory notes.

Group structure



⁽¹⁾ Jointly controlled by Banco Santander Central Hispano SA

⁽²⁾ The transfer to IMI Lease of the Parent Bank's "Government Agencies and Infrastructure" business area is under review

⁽³⁾ Equity investments and shares held by the Group at the end of August

⁽⁴⁾ The forthcoming merger of BNP and Paribas will dilute this holding to 0.89%.

**FIRST HALF CONSOLIDATED
FINANCIAL STATEMENTS**

Reclassified consolidated statement of income

	1st half 1999		1st half 1998	1998	1998	% Change 1st half 99/98
	(Euro/mln)	(L/bln)	pro forma (L/bln)	pro forma (L/bln)	(L/bln)	
NET INTEREST INCOME	1,032	2,000	2,434	4,693	5,134	-17.8
Net commissions and other dealing revenues	965	1,869	1,684	3,374	3,365	+11.0
Profits (losses) on financial transactions and investment income	144	277	458	612	628	-39.5
Profits of companies carried at equity and dividends on equity interests	69	133	157	336	209	-15.3
NET INTEREST AND OTHER BANKING INCOME	2,210	4,279	4,733	9,015	9,336	-9.6
Administrative costs	-1,211	-2,344	-2,397	-4,774	-4,832	-2.2
- payroll	-765	-1,480	-1,485	-2,954	-2,988	-0.3
- other administrative costs	-363	-703	-736	-1,489	-1,511	-4.5
- indirect taxes and similar dues	-83	-161	-176	-331	-333	-8.5
Other operating income, net	85	164	187	358	359	-12.3
Adjustments to tangible and intangible fixed assets	-134	-259	-272	-584	-594	-4.8
OPERATING INCOME	950	1,840	2,251	4,015	4,269	-18.3
Provisions for risks and charges	-31	-60	-58	-194	-242	+3.4
Adjustments to loans and provisions for guarantees and commitments	-170	-329	-737	-1,029	-1,029	-55.4
Writedowns of financial fixed assets, net	-26	-50	-71	-129	-130	-29.6
INCOME BEFORE EXTRAORDINARY ITEMS	723	1,401	1,385	2,663	2,868	+1.2
Net extraordinary income	301	582	41	232	308	n.s.
INCOME BEFORE TAXES	1,024	1,983	1,426	2,895	3,176	+39.1
Income taxes	-398	-771	-507	-1,035	-1,220	+52.1
Change in reserve for general banking risks	-	-	-7	-16	-16	n.s.
Net income attributable to minority interests	-21	-41	-42	-84	-180	-2.4
NET INCOME ATTRIBUTABLE TO THE GROUP	605	1,171	870	1,760	1,760	+34.6

The pro forma information for the first half of 1998 and the full year is consistent with that for the first half of 1999; it was prepared using the criteria described in the explanatory notes.

Quarterly analysis of consolidated statement of income

billions of lire

	1999		1998			
	2nd qtr 1999	1st qtr 1999 pro forma	IVth qtr 1998 pro forma	IIIrd qtr 1998 pro forma	2nd qtr 1998 pro forma	Ist qtr 1998 pro forma
NET INTEREST INCOME	1,009	991	1,130	1,129	1,226	1,208
Net commissions and other dealing revenues	951	918	862	828	905	779
Profits (losses) on financial transactions and investment income	101	176	78	76	184	274
Profits of companies carried at equity and dividends on equity interests	68	65	89	90	88	69
NET INTEREST AND OTHER BANKING INCOME	2,129	2,150	2,159	2,123	2,403	2,330
Administrative costs	-1,194	-1,150	-1,191	-1,186	-1,225	-1,172
- payroll	-747	-733	-734	-735	-740	-745
- other administrative costs	-365	-338	-379	-374	-393	-343
- indirect taxes and similar dues	-82	-79	-78	-77	-92	-84
Other operating income, net	83	81	88	83	97	90
Adjustments to tangible and intangible fixed assets	-124	-135	-170	-142	-140	-132
OPERATING INCOME	894	946	886	878	1,135	1,116
Adjustments to loans and provisions for risks and charges, net	-188	-201	-181	-247	-418	-377
Writedowns of financial fixed assets, net	-50	-	-58	-	-21	-50
INCOME BEFORE EXTRAORDINARY ITEMS	656	745	647	631	696	689
Net extraordinary income	574	8	179	12	27	14
INCOME BEFORE TAXES	1,230	753	826	643	723	703
Income taxes	-480	-291	-311	-217	-265	-242
Change in reserve for general banking risks	-	-	-2	-7	-5	-2
Net income attributable to minority interests	-21	-20	-15	-27	-16	-26
NET INCOME ATTRIBUTABLE TO THE GROUP	729	442	498	392	437	433

The pro forma quarterly statements of income are consistent with that for the first half of 1999; they were prepared using the criteria described in the explanatory notes.

Reclassified consolidated balance sheet

ASSETS	6/30/1999		6/30/1998	12/31/1998	12/31/1998	% Change 6/99-6/98
	(Euro/mil)	(L/bln)	pro forma (L/bln)	pro forma (L/bln)	(L/bln)	
Cash and deposits with central banks and post offices	431	835	637	815	815	+31.1
Loans	91,968	178,075	205,896	184,770	212,954	-13.5
- due from banks	20,005	38,735	57,607	43,484	44,713	-32.8
- loans to customers	71,963	139,340	148,289	141,286	168,241	-6.0
Dealing securities	23,665	45,821	51,332	41,756	45,280	-10.7
Fixed assets	5,780	11,192	11,590	11,454	10,911	-3.4
- investment securities	1,687	3,268	4,872	4,532	4,536	-32.9
- equity investments	2,351	4,551	2,923	3,238	2,559	+55.7
- intangible fixed assets	267	517	498	574	585	+3.8
- tangible fixed assets	1,475	2,856	3,297	3,110	3,231	-13.4
Differences arising on consolidation and on application of the equity method	45	87	249	113	113	-65.1
Other assets	16,842	32,611	35,105	35,122	36,417	-7.1
Total assets	138,731	268,621	304,809	274,030	306,490	-11.9

LIABILITIES AND SHAREHOLDERS' EQUITY	6/30/1999		6/30/1998	12/31/1998	12/31/1998	% Change 6/99-6/98
	(Euro/mil)	(L/bln)	pro forma (L/bln)	pro forma (L/bln)	(L/bln)	
Payables	107,200	207,568	241,261	212,293	242,346	-14.0
- due to banks	25,679	49,722	71,617	48,679	53,756	-30.6
- due to customers and securities issued	81,521	157,846	169,644	163,614	188,590	-7.0
Provisions:	1,600	3,099	2,745	4,005	4,338	+12.9
- for taxation	726	1,407	1,197	2,280	2,556	+17.5
- for termination indemnities	434	840	828	835	844	+1.4
- for risks and charges	375	727	607	762	810	+19.8
- for pensions and similar commitments	65	125	113	128	128	+10.6
Other liabilities	19,789	38,314	40,961	37,993	39,335	-6.5
Subordinated liabilities	1,346	2,606	2,948	2,675	2,925	-11.6
Minority interests	170	330	372	280	762	-11.3
Shareholders' equity	8,626	16,704	16,522	16,784	16,784	+1.1
- capital	4,345	8,413	8,413	8,413	8,413	-
- reserves	3,676	7,120	7,239	6,611	6,611	-1.6
- net income for the period	605	1,171	870	1,760	1,760	+34.6
Total liabilities and shareholders' equity	138,731	268,621	304,809	274,030	306,490	-11.9

GUARANTEES AND COMMITMENTS	6/30/1999		6/30/1998	12/31/1998	12/31/1998	% Change 6/99 - 6/98
	(Euro/mil)	(L/bln)	pro-forma (L/bln)	pro-forma (L/bln)	(L/bln)	
Guarantees given	12,134	23,494	24,191	22,199	21,344	-2.9
Commitments	24,996	48,399	54,386	35,540	38,695	-11.0

The pro forma information as of 6/30/1998 and 12/31/1998 is consistent with that as of 6/30/1999; it was prepared using the criteria described in the explanatory notes.

Report on operations

Economic background

The international economy

The expansion of the United States economy, for the ninth year in a row, continued during the first six months of 1999. Prolonged growth raised concerns that consumer prices may rise, especially given the increased cost of crude oil and other raw materials, and demands for higher wages from certain industrial districts. These fears translated into a significant rise in the slope of the yield curve, following an increase in the rates on long-term bonds from March. To cool down the economy and head off fears of inflation, the Federal Reserve raised short-term rates twice, in late June and on August 24, by a quarter of a point each time.

The trend was different in Euroland. GDP figures for the first quarter allayed fears of a recession, but even the most recent indicators available - a slight dip in the use of production capacity, the stabilization but not turnaround of industrial output, and the contrasting trends in consumer and business confidence - do not suggest that the recovery will strengthen during the last part of the year.

In an effort to stimulate the economy, at its meeting on April 8 the Governors of the ECB cut its lending rate from 3% to 2.5%. This move and, above all, the differing economic conditions between the U.S. and Europe were responsible for the euro's steady decline against the dollar.

Despite the slowdown in the real economy, euro-zone interest rates also headed upward. The first to move was the long-term component which, starting in early May, was partly conditioned by pressure from the U.S. bond market. Since the end of May the increase has spread to all money market maturities.

The Italian economy

The first half was characterized by modest growth and, as in the rest of Europe, Italian economic indicators are discordant about the possibilities for an upturn during the second six months. The harmonized consumer price index also reflects a slight increase in inflation since the start of the year, due primarily to the price rises for oil and other commodities.

The phenomena linked to the introduction of the euro have continued to influence the financial markets, much as they did last year.

Firstly, private-sector investors have continued to move away from the direct ownership of government securities and into asset management and pension funds. Although no more intense than in the past, this process has highlighted certain preferences: focus on the equity market and demand for comprehensive asset allocation packages.

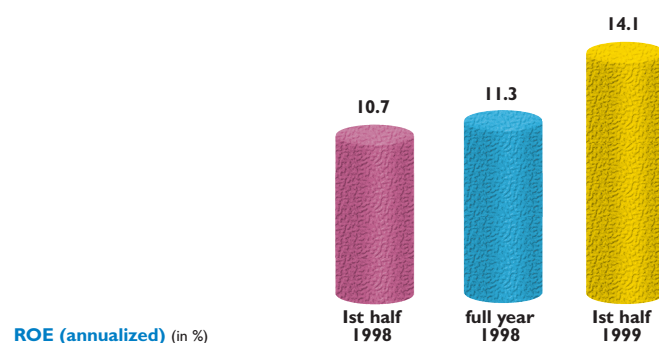
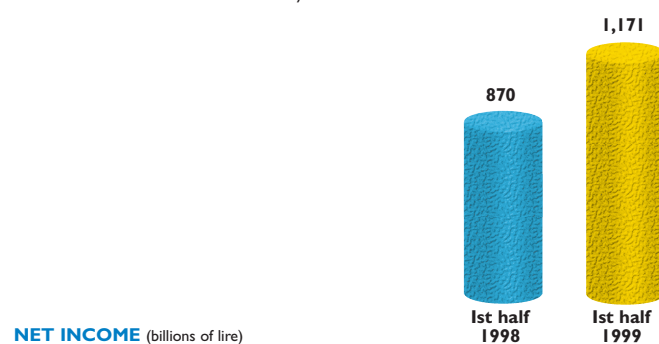
Secondly, lending rates have been sharply curtailed with respect to the first half of 1998. The average rate on loans fell by about 250 basis points between June 1998 and June 1999, from 7.9% to 5.4%, accelerating a decline that has extended over the past 40 months. For long-term loans to businesses, the average interest rate dropped from 6.2% to 4.1% over the 12-month period. Moreover, lending rates became more responsive to changes in market yields, because of heightened competition. The highly competitive nature of lending and the inability to squeeze funding rates below a certain level have caused the spread to narrow by about one point.

Lastly, with regard to alliances and mergers, the introduction of the euro has stimulated the process of redefining control over the banking industry in Italy and the rest of Europe. In Italy, both small to midsize banks and larger institutions have been involved in the concentration of the industry. This process is likely to continue, probably in waves, and should spread to cross-border operations as well.

The SANPAOLO IMI Group's results for the first half of 1999

Overview of Group results

Consolidated net income for the first half of the year was 1,171 billion lire, an increase of 34.6% on the pro forma result for the first half of 1998 (reconstructed on a comparative basis, as described in the notes). Earnings per share have risen to 835 lire, from 621 lire in the comparative period of 1998. Annualized ROE, which relates net income for the period to average shareholders' equity (excluding such net income), amounted to 14.1% compared with 10.7% for the first half of 1998 and 11.3% for the full year:



Strategies and objectives

During the first half of the year, the Group worked on creating shareholder value by pursuing a target ROE of more than 15% from the year 2000. This has involved implementing the strategies formulated at the end of last year, which are designed to increase revenues (especially from asset management), reduce costs, improve the quality of lending and limit activities exposed to risks that are not adequately remunerated.

Efforts to increase revenues have focused on the development of customer services. This strategy has two aims: to offset the structural decline in margins from traditional lending activities, and to reduce the overall level of risk.

The Group has worked especially hard on the asset management business, in order to consolidate SANPAOLO IMI's substantial market share in a sector characterized by growing competition, and at a time when customers are radically reviewing their investment strategies. Measures regarding both products and the distribution network have ensured rising commissions by raising the value of assets administered by the Group on behalf of its customers.

The goal of increasing commission income has also led to the development of new commercial services for households and businesses, which have been appropriately segmented. In the financial brokerage area, action has also been taken to increase income from consulting services.

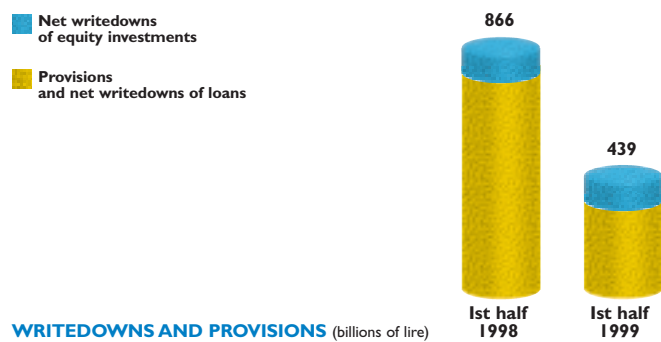
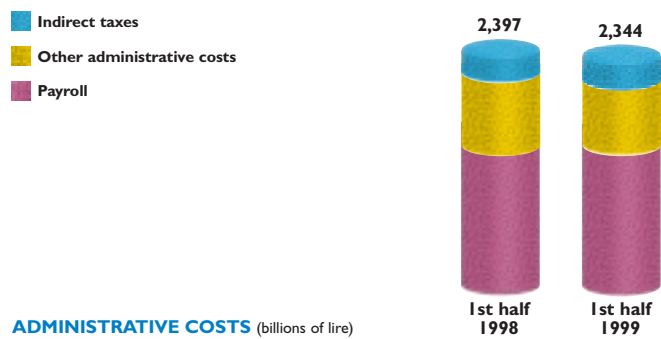
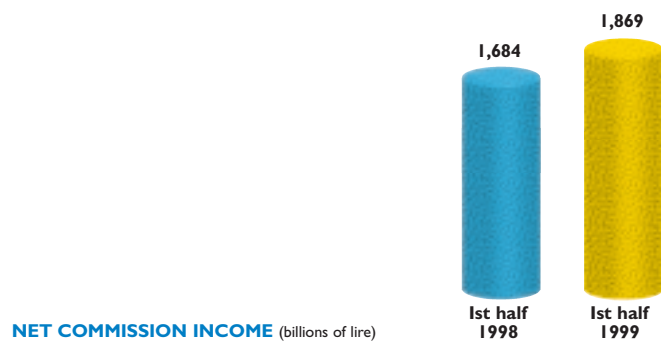
As for cost containment, further rationalization during the period has helped to reduce the Group's payroll costs and overheads. This was possible despite continued investment in expanding sectors including, in particular, the distribution of asset management products.

Lastly, the Group has focused on the management of credit and market risks with a view to balancing risk and yield. Activities exposed to risks that are not adequately remunerated have been cut back; the loan selection process has been improved, in part by adopting new procedures for the classification of customers, and efforts to recover non-performing loans have been intensified.

Results for the half-year

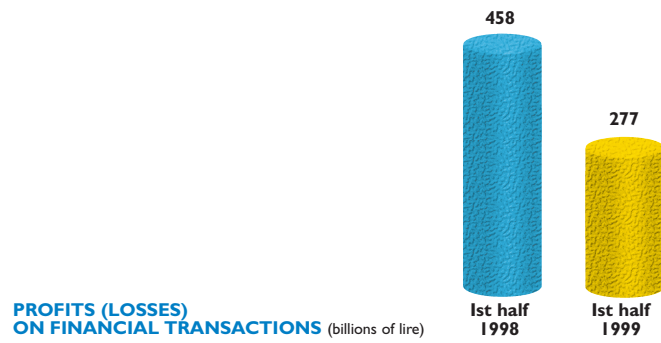
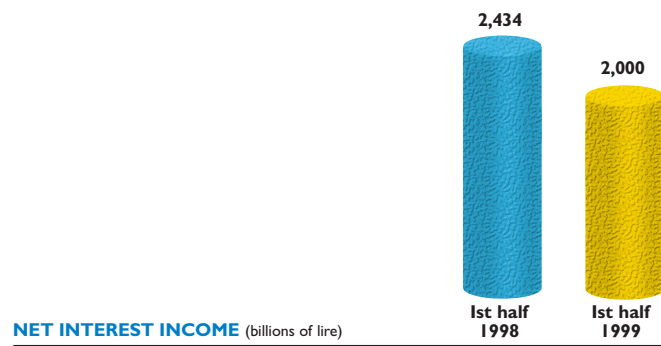
Results were consistent with the Group's strategies. During the period, there was:

- an 11% increase in net commission income on services, due mainly to the higher volume of assets managed on behalf of customers;
- a decrease of 2.2% in operating expenses, due to the effects of rationalization;
- a 50% drop in provisions and net writedowns of loans, as a result of the general improvement in the risk profile of assets.



These contributions offset the decline in net interest income (-17.8%) and profits on financial transactions (-39.5%), which were caused by the steep interest rate cuts during the second half of 1998, as well as by the slimming of margins and, in general, the changes in market conditions.

As a consequence, although market conditions were more difficult than during the first half of 1998, the SANPAOLO IMI Group managed to improve income before extraordinary items by 1.2% to 1,401 billion lire.



Net income benefited considerably from a rise in extraordinary income to 582 billion lire, following the sale of a 20% stake in Crediop to the Franco-Belgian Dexia Group and the sale of a 0.75% interest in Telecom Italia, following acceptance of the public offer by Olivetti.

Business areas

The Group is organized into business areas. The new structure, designed in response to the changed competitive conditions, was adopted at the end of last year on completion of the merger between San Paolo and IMI.

The profitability of each area has been determined in terms of RORAC (Return on Risk Adjusted Capital), i.e. the ratio between income generated by the area and its average economic capital during the period. The latter is quantified with reference to the specific degree of risk using statistical criteria such as V.a.R. (Value at Risk). The way income and capital are calculated for each area is still subject to change, partly in relation to the possible redefinition of certain operating parameters.

The trends described at Group level are confirmed by a look at the first-half results for the various business areas:

- the Commercial Banking Area, which does business with households and small to medium-sized companies through the Parent Bank's branch network in Italy, compensated for the reduction in net interest income with commissions deriving from the growth in asset management, lower costs and significantly reduced provisions and loan writedowns. The area earned net income of 479 billion lire, representing roughly two thirds of consolidated income before extraordinary items; annualized profitability was 19.1%;
- the Large Corporate Area handles transactions with sizeable Italian and foreign firms. This market is characterized by the high level of liquidity deriving from substantial self-financing generated over the past few years, as well as by the intensified offering advanced transaction services by international competitors. Although competition was high, the area achieved net income of 58 billion lire and annualized profitability of 8%;
- The Government Agencies and Infrastructure Area, which no longer includes Crediop following the sale of the Group's controlling interest, reported net income of 38 billion lire and annualized profitability of 17.5%. Contributing factors were the consolidation of lending volume, the defense of margins and the low capital requirement;
- The Personal Financial Services Area, which consists of a network of 4,667 financial planners working for the Fideuram Group and Sanpaolo Invest, benefited from an increase in the volume of assets managed on behalf of customers, Net income was substantial, 134 billion lire, and annualized profitability exceeded 27%, despite significant investment which will not be reflected in results until next year;
- The Investment Banking Area reports to Banca IMI and will soon be responsible for all activities previously handled by the San Paolo Group's financial brokerage department. Net income was 71 billion lire, with annualized profitability of close to 20%;
- The Merchant Banking Area earned net income of 51 billion lire. Annualized profitability of 14% excludes the effect of unrealized capital gains not recognized in the valuation of the investment portfolio.

Rationalization and development activities

The Group is completed by the Corporate Center which provides technical/organizational support and treasury services, recovers loans and manages the Group's minority holdings. A multispecialist Group divided into business areas, often organized in corporate form, requires an efficient, well-run corporate center to coordinate activities and direct activities. To that end, the Center was given additional planning, control and risk management responsibilities during the period.

The Group embarked on various rationalization and development programs during the period.

The first was the definition of a real estate spin-off covering all properties not used for banking purposes, together with certain operating assets. The project, whose purpose is to separate real estate activities from the Group's core business of banking and finance, was approved at the shareholders' meeting held in July and will be implemented by the end of the year. This operation will reduce consolidated shareholders' equity by 1,357 billion lire.

The Group and N.H.S., a subsidiary of Compagnia di San Paolo, have agreed to form a company dedicated to merchant banking. This company, now controlled by the Group following conferral of its related business division in September, will be one of the principal operators in the market with equity capital of more than 1,400 billion lire.

Work has also begun to elevate to incorporated status the activities carried out by the Government Agencies and Infrastructure Area.

The international alliance with Banco Santander Central Hispano was strengthened by raising the Group's investment to 2% at the end of August. The holding in INA has also been increased to 5.2% and a 1.5% stake in Banque Nationale de Paris has been acquired.

The SANPAOLO IMI Group understands and believes in the need for further growth, in terms of both scale and the volume of operations, in order to respond effectively to the global competition that will characterize the European banking market in the next few years.

Statement of income

Net interest income

The major reduction in interest rates throughout 1998 and the early months of 1999 caused the Group's net interest income to fall by 17.8% over the 12-month period, to 2,000 billion lire.

	1st half 1999 (L/bln)	1st half 1998 pro forma (L/bln)	1998 pro forma (L/bln)	% Change 6/99 – 6/98
Interest income and similar revenues	5,891	9,009	16,734	-34.6
Interest expense and similar charges	-3,891	-6,575	-12,041	-40.8
Net interest income	2,000	2,434	4,693	-17.8

The change in market conditions caused by the introduction of the single European currency resulted in a sharp fall in yields between June 1998 and June 1999. In particular, the average three-month interbank rate decreased from 5.6% in the last half of 1998 to 2.9% in the first half of this year.

The primary effect of the rate reduction was to lower the yield on the Group's free capital, defined as the excess of interest-earning assets over interest-bearing liabilities.

Lower market rates also caused the spread between borrowing and lending rates to narrow (by an average of 95 basis points on lira transactions entered into by the Parent Bank's branches in Italy), since the rates applied on customer loans fell rather more than those on deposits. Rates on loans were affected by the aggressive lending policies adopted throughout the industry, which increased the responsiveness of lending rates to reductions in market yields. By contrast, funding rates were affected by the difficulty of lowering the remuneration of demand deposits any further, which made it impossible to pass on in full the effect of the drop in market yields.

The tendency to reduce lending to customers, given Group policy to respect a certain risk/yield profile, did not allow SANPAOLO IMI to compensate for the effect of lower rates and spreads on net interest income by raising the volume of lending.

Since there is greater uniformity between the market rates effective during the second half of 1998 and those forecast for the rest of this year, the decline in net interest income should be partially reabsorbed during the course of 1999.

Net interest and other banking income

The situation was better for net interest and other banking income which, following the rise in commissions, totaled 4,279 billion lire, down just 9.6% with respect to the first half of 1998.

	1st half 1999 (L/bln)	1st half 1998 pro forma (L/bln)	1998 pro forma (L/bln)	% Change 6/99 – 6/98
Net interest income	2,000	2,434	4,693	-17.8
Net commissions and other dealing revenues	1,869	1,684	3,374	+11.0
- <i>Management, dealing and consultancy services</i>	1,363	1,146	2,359	+18.9
- <i>Loans and guarantees</i>	165	171	330	-3.5
- <i>Collection and payment services</i>	115	121	244	-5.0
- <i>Deposits and current accounts</i>	178	178	357	-
- <i>Other banking services</i>	48	68	84	-29.4
Profits (losses) on financial transactions and dividends on shares	277	458	612	-39.5
Profits from companies carried at equity and dividends on equity investments	133	157	336	-15.3
Net interest and other banking income	4,279	4,733	9,015	-9.6

Net commissions and other dealing revenues amounted to 1,870 billion lire, an increase of 11%.

Commissions from asset management, dealing and consultancy services were up 18.9%, following considerable growth in the volume of mutual funds, asset management and insurance policies sold to customers, and the increased importance of equity funds and investments with high value added (such as asset allocation funds and unit-linked and index-linked policies). The relative contribution made by commissions on non-Italian funds also increased, as investors sought international diversification in their portfolios.

This rise in commissions further improved the ratio of commissions to payroll costs, which has climbed from 113% in the first half of 1998 to 126% now, as well as the ratio of commissions to total administrative expenses, which has risen from 70% to 80%.

On the other hand, changed in market conditions and the Group's careful focus on risk profiles resulted in a substantial decrease in profits on financial transactions, which fell 39.5% to 277 billion lire. The decline in security and derivative transactions by foreign branches was especially significant in this regard, as was the fall in the volume of forex transactions following the introduction of the single European currency.

Operating income

Operating income amounted to 1,840 billion lire, down 18.3% with respect to the first half of 1998.

	1st half 1999 (L/bln)	1st half 1998 pro forma (L/bln)	1998 pro forma (L/bln)	% Change 6/99 – 6/98
Net interest and other banking income	4,279	4,733	9,015	-9.6
Administrative costs	-2,344	-2,397	-4,774	-2.2
- payroll	-1,480	-1,485	-2,954	-0.3
- other administrative costs	-703	-736	-1,489	-4.5
- indirect duties and taxes	-161	-176	-331	-8.5
Other operating income, net	164	187	358	-12.3
Adjustments to tangible fixed assets	-119	-138	-284	-13.8
Adjustments to intangible fixed assets	-140	-134	-300	+4.5
Operating income	1,840	2,251	4,015	-18.3

The cost containment program continued during the period and administrative expenses fell 2.2% to 2,344 billion lire.

Specifically, payroll costs decreased by 0.3%. The Parent Bank reduced its workforce from 20,943 to 20,280 employees over the 12-month period, thus cutting payroll costs by 2.1%. This more than compensated for the increase in employment at certain subsidiaries including, most notably, the Group's asset management companies, which are in the midst of development programs. Payroll costs were higher during the second quarter than during the first three months of the year, because of performance bonuses paid out by subsidiaries at the end of June.

Other administrative costs also decreased by 4.5%.

The drop in revenues caused a temporary break in the downward trend of the cost to income ratio, which has risen to 57% from 52.4% in the first half of 1998. Nevertheless, the Group still intends to lower the ratio to less than 50% by 2001.

Income before extraordinary items

The sharp reduction in provisions and writedowns, due to the improved quality of assets, raised income before extraordinary items to 1,401 billion lire (+1.2% with respect to the first half of 1998).

	1st half 1999 (L/bln)	1st half 1998 pro forma (L/bln)	1998 pro forma (L/bln)	% Change 6/99 – 6/98
Operating income	1,840	2,251	4,015	-18.3
Provisions for risks and charges	-60	-58	-194	+3.4
Adjustments to loans and provisions for guarantees and commitments, net	-329	-737	-1,029	-55.4
- net writedowns and losses	-522	-874	-1,312	-40.3
- writebacks following collections	193	137	283	+40.9
Adjustments to financial fixed assets, net	-50	-71	-129	-29.6
- net writedowns of equity investments	-18	-20	-78	-10.0
- net writedowns of investment securities	-32	-51	-51	-37.3
Income before extraordinary items	1,401	1,385	2,663	+1.2

The combined total of provisions and net writedowns against loans and financial fixed assets has decreased by about 50% to 439 billion lire. This follows a reduction in the level of loans that have become doubtful and a corresponding contraction, since the start of the year, of 8% in net non-performing loans, 10% in problem and rescheduled loans net, and 8.3% in net unsecured loans to residents of countries at risk. In addition, collections on many doubtful loans exceeded their net carrying values, as a result of writedowns in previous years: writebacks of principal and interest totaled 193 billion lire.

Adjustments included 134 billion lire in writedowns against unsecured loans and investment securities relating to customers in the Russian Federation, the coverage of which was raised from 60 to 90% of nominal value given the continuing state of crisis there. Following this writedown, the net book value of the Group's exposure to Russia has fallen to 45 billion lire.

Net income

The significant contribution made by extraordinary items raised net income to 1,171 billion lire, up 34.6% with respect to the first half of 1998.

	1st half 1999 (L/bln)	1st half 1998 pro forma (L/bln)	1998 pro forma (L/bln)	% Change 6/99 – 6/98
Income before extraordinary items	1,401	1,385	2,663	+1.2
Extraordinary income	582	41	232	n.s.
Income before income taxes	1,983	1,426	2,895	+39.1
Income taxes	-771	-507	-1,035	+52.1
Change in reserve for general banking risks	-	-7	-16	n.s.
Income attributable to minority shareholders	-41	-42	-84	-2.4
Net income	1,171	870	1,760	+34.6

Net extraordinary income totaled 582 billion lire. As mentioned earlier, the sale of a 20% stake in Crediop generated a capital gain of 181 billion lire, while acceptance of Olivetti's public offer to acquire shares in Telecom Italia resulted in a capital gain of 417 billion lire.

Operating volumes and organization

Deposits

The strategic importance placed by the Group on the management of customers' financial assets was reflected in further growth during the period. Customer assets now amount to 468,757 billion lire, an increase of 16,025 billion lire during the first six months and up 7.5% with respect to June 30, 1998.

The increase in customer assets relates entirely to professional asset management products, on which the Group has focused in order to satisfy changing customer requirements. Mutual funds, portfolio management schemes and life assurance policies sold by the Group's branches and financial planners totaled almost 190,000 billion lire at the end of June, following net inflows of 27,952 billion lire over the six-month period and a rise of 30.6% since June 1998. Asset management products now exceed 40% of all financial assets of customers, compared with 36% as of December 1998 and 33% as of June 1998.

	6/30/1999		6/30/1998 pro forma		12/31/1998 pro forma		% Change 6/99 – 6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Direct customer deposits	157,846	33.7	169,644	38.9	163,614	36.1	-7.0
- customer deposits	88,241	18.9	85,976	19.7	87,377	19.3	+2.6
- securities issued	69,605	14.8	83,668	19.2	76,237	16.8	-16.8
Indirect managed deposits	310,911	66.3	266,284	61.1	289,118	63.9	+16.8
- managed savings	189,858	40.5	145,400	33.4	161,906	35.8	+30.6
- administered savings	121,053	25.8	120,884	27.7	127,212	28.1	+0.1
Financial assets of customers	468,757	100.0	435,928	100.0	452,732	100.0	+7.5

Direct deposits

The shift in customer's financial assets towards professional asset management schemes affected the traditional forms of direct deposit, which fell by 5,768 billion lire during the period, to 157,846 billion lire, and by 7% over the 12-month period.

	6/30/1999		6/30/1998 pro forma		12/31/1998 pro forma		% Change 6/99 – 6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Current accounts and savings deposits	62,788	39.8	60,101	35.4	58,045	35.5	+4.5
Certificates of deposit	17,278	10.9	26,738	15.8	22,771	13.9	-35.4
Bonds	47,224	29.9	51,360	30.3	50,144	30.6	-8.1
Commercial paper	4,264	2.7	4,811	2.8	2,701	1.7	-11.4
Repurchase agreements	12,115	7.7	16,047	9.5	17,162	10.5	-24.5
Other	14,177	9.0	10,587	6.2	12,791	7.8	+33.9
Direct customer deposits	157,846	100.0	169,644	100.0	163,614	100.0	-7.0

The decrease in direct deposits mainly affected repurchase agreements and certificates of deposit, which have continued to decline in favor of asset management. Bonds fell to a lesser degree, while there was an increase in current accounts and savings deposits, which represent the type of funding with the highest value.

The decline in direct deposits was most evident at the foreign branches of the Parent Bank, where lending and funding are very strongly interlinked. The 12-month decrease in funding at those branches was nearly 35%, with a reduction during the first half of 1999 of 5,914 billion lire. The decrease in Italy was less severe, amounting to 12% on an annual basis, thus reducing the Group's share of this market to 7.7%.

	6/30/1999		6/30/1998 pro forma		12/31/1998 pro forma		% Change 6/99 – 6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Demand deposits	68,178	43.2	61,398	36.2	56,889	34.8	11.0
Due within 12 months	38,385	24.3	54,834	32.3	50,658	31.0	-30.0
Due beyond 12 months	51,283	32.5	53,413	31.5	56,067	34.2	-4.0
- fixed rate	29,320	18.6	28,722	16.9	26,133	15.9	2.1
- floating rate	21,963	13.9	24,691	14.6	29,934	18.3	-11.0
Deposits from residents in Italy	115,771	73.3	128,629	75.8	127,907	78.2	-10.0
Deposits from residents of other EU countries	31,872	20.2	27,466	16.2	25,937	15.8	16.0
Deposits from residents of other countries	10,203	6.5	13,550	8.0	9,770	6.0	-24.7

Managed and administered savings

The growth in managed savings has involved every form of customer investment. During the first six months of the year, mutual funds gained 20,661 billion lire, asset management products, 4,372 billion lire, and life assurance policies, 2,919 billion lire.

	6/30/1999		6/30/1998 pro forma		12/31/1998 pro forma		% Change 6/99 – 6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Managed savings	189,858	61.1	145,400	54.6	161,906	56.0	+30.6
- mutual funds	135,699	43.7	102,822	38.6	115,038	39.8	+32.0
- in administration	36,390	11.7	30,536	11.5	32,018	11.1	+19.2
- life assurance	17,769	5.7	12,041	4.5	14,850	5.1	+47.6
Administered savings	121,053	38.9	120,884	45.4	127,212	44.0	+0.1
Indirect customer deposits	310,911	100.0	266,284	100.0	289,118	100.0	+16.8

Assets managed by the Group's mutual funds exceeded 135,000 billion lire at the end of June, and totaled 162,000 billion lire including the asset management and life insurance policies invested in the funds. Equity and balanced funds represented about 36% of the total.

The Group has retained leadership of the Italian mutual funds market, with a share of 16.6% at the end of June. The inevitable decline in share due to heightened competition was kept under control, despite an increase in the volume of direct and indirect deposits that have been converted into managed assets by operators that entered the market after SANPAOLO IMI.

Asset management has exceeded 36,000 billion lire. The expansion was fostered by the growing popularity of products that invest in mutual funds, which now account for more than two thirds of the total.

Assurance policies total more than 17,700 billion lire, due in part to the success of index-linked and unit-linked policies with a substantial savings element. These figures are truly impressive: SANPAOLO IMI is the banking sector's leader in the field of life assurance and third overall, behind Italy's largest insurance groups. In terms of premiums, the Group achieved a 9.5% share of the market in the first quarter of 1999. This sector is already growing at double the rate of mutual funds and, over the next few years, will sustain the development of the managed savings business.

Lastly, the Group began to operate in open-end pension funds during the year, with two multi-sector products. These are sold via the Parent Bank's branch network, by the financial planners of Sanpaolo Invest and by Banca Fideuram. The field of closed-end funds will be handled by SANPAOLO IMI Institutional Asset Management. At the end of June, the pension funds managed had assets of about 4,000 billion lire, which were invested in various financial instruments, including the Group's mutual funds.

Loans to customers

The limitation of activities exposed to risks that are not adequately remunerated has resulted in a drop in net loans to customers, which totaled 139,340 billion lire at the end of June (down 1,946 billion lire during the period and 6% lower over 12 months).

	6/30/1999		6/30/1998 pro forma		12/31/1998 pro forma		% Change 6/99 – 6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Short-term loans	52,438	37.6	58,257	39.0	53,454	37.8	-10.0
Medium and long-term loans	83,333	59.8	86,333	57.8	83,951	59.4	-3.5
Non-performing loans	3,569	2.6	4,855	3.2	3,881	2.8	-26.5
Less: IMI provisions and reserves	-	-	-1,156	-	-	-	-
Customer loan portfolio	139,340	100.0	148,289	100.0	141,286	100.0	-6.0

Most of the drop related to short-term loans, which decreased by 1,016 billion lire during the six-month period and 10% since June 1998. The reduction primarily concerned loans of a financial nature, due to the cut-back in lending by the Parent Bank's foreign branches, whose loans fell by more than 1,500 billion lire over the first six months of the year.

Medium- and long-term loans were more stable, falling by a more limited 618 billion lire since the start of the year and by 3.5% with respect to June 1998. The decrease in loans to medium-sized and large firms was offset by an upturn in financing to small companies and households, especially with regard to home mortgage loans (a traditional strong point for the Bank) and personal loans.

Because of the drop in loans, the Group's share of the domestic market eased to 8.7%.

	6/30/1999		6/30/1998 pro forma		12/31/1998 pro forma		% Change 6/99 – 6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Loans to households	20,862	15.0	19,299	12.9	18,697	13.2	+8.1
-Loans by Italian branches	20,456	14.7	18,990	12.7	18,690	13.2	+7.7
- current accounts	1,701	1.2	1,654	1.1	1,252	0.9	+2.8
- personal loans	1,573	1.1	1,237	0.8	889	0.6	+27.2
- mortgage loans	16,659	12.0	15,442	10.3	15,671	11.1	+7.9
- other	523	0.4	657	0.4	878	0.6	+20.4
- Loans by foreign branches	406	0.3	309	0.2	7	0.0	+31.4
Loans to family businesses, companies, governments, public bodies and others	118,478	85.0	130,146	87.1	122,589	86.8	-9.0
- Loans by Italian branches	102,191	73.3	109,758	73.4	105,438	74.7	-6.9
- current accounts	16,038	11.5	16,659	11.1	15,942	11.3	-3.7
- repurchase agreements	3,900	2.8	1,885	1.3	4,498	3.2	+106.9
- import/export loans	3,976	2.9	3,914	2.6	2,632	1.9	+1.6
- leasing	2,934	2.1	2,528	1.7	2,576	1.8	+16.1
- mortgage loans	54,728	39.3	68,103	45.6	59,475	42.1	-19.6
- other	20,615	14.7	16,669	11.2	20,315	14.4	+23.7
- Loans by foreign branches	16,287	11.7	20,388	13.6	17,151	12.1	-20.1
Less: IMI provisions and reserves	-	-	-1,156	-	-	-	-
Loans to customers	139,340	100.0	148,289	100.0	141,286	100.0	-6.0

	6/30/1999		6/30/1998 pro forma (*)		12/31/1998 pro forma		% Change 6/99 – 6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Demand loans	26,005	18.7	27,830	18.6	22,100	15.6	-6.6
Due within 12 months	42,486	30.5	43,501	29.1	44,287	31.3	-2.3
Due beyond 12 months	66,699	47.9	72,349	48.4	69,183	49.1	-7.8
- fixed-rate	32,178	23.1	31,240	20.9	29,045	20.6	+3.0
- floating-rate	34,521	24.8	41,109	27.5	40,138	28.5	-16.0
Unspecified maturity	4,150	2.9	5,765	3.9	5,716	4.0	-28.0
Loans to residents of Italy	117,741	84.5	128,554	86.0	121,453	86.0	-8.4
Loans to residents of other EU countries	13,826	9.9	12,535	8.4	13,096	9.2	+10.3
Loans to residents of other countries	7,773	5.6	8,356	5.6	6,737	4.8	-7.0
Loans secured by mortgages	33,366	24.0	32,954	22.1	32,474	23.0	+1.3
Loans secured by pledges and personal guarantees	35,419	25.4	46,085	30.8	40,433	28.6	-23.1
Unsecured loans	70,495	50.6	70,406	47.1	68,379	48.4	+0.1

(*)Loans are stated after reclassifying IMI's provisions and reserves of 1,156 billion lire.

Doubtful loans

There has been a significant reduction in doubtful loans following the steps taken to recover critical positions and a slowdown in the formation of new positions, given the improved quality of the lending portfolio. Non-performing, problem and rescheduled loans and unsecured lending to residents of countries at risk have fallen to 6,797 billion lire after writedowns, a decrease of 660 billion lire during the period.

	6/30/1999		6/30/1998 pro forma (*)		12/31/1998 pro forma		% Change 6/99 – 6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Non-performing loans	3,569	2.56	4,855	3.35	3,881	2.75	-26.5
Problem and rescheduled loans and those being rescheduled	2,841	2.04	3,181	2.13	3,148	2.23	-10.7
Loans subject to country risk - customers	173	0.12	357	0.24	208	0.15	-51.5
Performing loans	132,757	95.28	141,052	94.38	134,049	94.88	-5.9
Less: IMI provisions and reserves	-	-	-1,156	-	-	-	-
Total customer loans, net	139,340	100.00	148,289	100.00	141,286	100.00	-6.0
Non-performing and problem loans – banks	1		4		7		-75.0
Loans subject to country risk - banks	213		259		213		-17.8

Net non-performing loans to customers, 3,569 billion lire at the end of June, have decreased by 312 billion lire since the start of the year. Part of the improvement reflects recoveries of 400 billion lire. As a percentage of total net customer loans, the non-performing component fell from 2.75% to 2.56% over the six-month period. The degree of coverage, including write-offs, has risen from 66.5% to 69.1%.

Problem and rescheduled loans and those being rescheduled total 2,841 billion lire, down 307 billion lire during the first six months of the

year, representing 2.03% of total customer loans, down from 2.23% in December 1998. The degree of coverage, including write-offs, has risen from 32.5% to 34.6%.

Unsecured cash loans to residents of countries at risk have decreased, after writedowns, to 386 billion lire. Of the total, 173 billion lire relates to customers and 213 billion lire to banks. The reduction since the start of the year, 35 billion lire, is explained primarily by the additional writedown of loans to Russia, which increased coverage from 60% to 90%. On the whole, the coverage of loans subject to country risk has risen from 38.7% to 49.8%.

Operation in the financial markets



Operations in the financial markets were geared toward reducing overall risk and increasing the risk-free component.

	6/30/1999		6/30/1998 pro forma		12/31/1998 pro forma		% Change 6/99 – 6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Investment securities	3,268	6.7	4,872	8.7	4,532	9.8	-32.9
Dealing securities	45,821	93.3	51,332	91.3	41,756	90.2	-10.7
Total portfolio	49,089	100.0	56,204	100.0	46,288	100.0	-12.7
Loans to banks	38,735		57,607		43,484		-32.8
Funding from banks	49,722		71,617		48,679		-30.6
Derivatives and forward forex transactions (notional value)	651,848		825,495		640,145		-21.0

Brokerage

Brokerage activities, conducted by Banca IMI and its subsidiaries, have consolidated the Group's leadership of the Italian market and selectively strengthened the positions in foreign markets. Operations were designed to benefit from arbitrage opportunities, while limiting the extent of open positions. The growth of brokerage activities did not significantly change the exposure to financial risks, due in part to the use of hedging derivatives.

	6/30/1999		6/30/1998 pro forma		12/31/1998 pro forma		% Change 6/99 – 6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Debt securities	40,423	82.3	50,718	90.2	43,966	95.0	-20.3
- government stocks	26,247	53.5	36,575	65.1	30,582	66.1	-28.2
- other	14,176	28.8	14,143	25.1	13,384	28.9	+0.2
Equities	8,666	17.7	5,486	9.8	2,326	5.0	+58.0
Sight securities	1,372	3.4	198	0.4	287	0.7	n.s.
Securities maturing within 12 months	12,204	30.2	20,368	40.2	17,754	40.4	-40.1
Securities maturing beyond 12 months	26,847	66.4	30,152	59.4	25,925	58.9	-11.0
- fixed-rate	13,327	33.0	21,034	41.4	15,399	35.0	-36.6
- floating-rate	13,520	33.4	9,118	18.0	10,526	23.9	+48.3
Quoted securities	43,282	88.2	48,219	85.8	39,694	85.7	-10.2
Unquoted securities	5,807	11.8	7,985	14.2	6,598	14.3	-27.3

Capital market and corporate finance activities

The Group has become more active in the domestic market for bond and equity placements; Banca IMI organized and took part in the placement of corporate and bank bonds amounting to around 6,000 billion lire. The Group also completed the first Italian-run loan securitization project to use a Special Purpose Vehicle. Banca IMI served as Global Manager for the Deutsche Telekom placement and lead manager in Italy; was part of the steering group for the Monte dei Paschi placement as well co-sponsor in the transaction; it was Global Coordinator and sponsor of the Mirato transaction and also took part in the public offers of Napoletanagas and Garboli as well as the international placement of Goldman Sachs and Fortune City; Banca IMI also arranged the private placement of 19% of Banca Agricola Mantovana. Consulting in relation to extraordinary finance operations has also increased significantly.

Equity investments

Equity investments rose sharply during the period: at the end of June, the holdings of the SANPAOLO IMI Group in companies not consolidated on a line-by-line basis amounted to 4,551 billion lire, a net increase of 1,313 billion lire since the end of last year.

	6/30/1999		6/30/1998 pro forma		12/31/1998 pro forma		% Change 6/99 – 6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Equity investments	4,551	100.0	2,923	100.0	3,238	100.0	+55.7
• carried at equity value	2,086	45.8	1,553	53.1	1,858	57.4	+34.3
• carried at cost	2,465	54.2	1,370	46.9	1,380	42.6	+79.9
- in listed companies	2,135	46.9	1,036	35.4	1,046	32.3	+106.1
- in other companies	330	7.3	334	11.4	334	10.3	-1.2

New investments of strategic importance included:

- an increased interest (from 0.46% to 1.72%) in Banco Santander Central Hispano, with an outlay of 925 billion lire; in July and August this interest was lifted to 2%, raising SANPAOLO IMI's total investment in the Spanish bank during 1999 to 1,149 billion lire;
- an increased interest (from 3% to 3.72%) in INA, with the additional investment of 114 billion lire.

The following are also of note:

- the acquisition of a 9.8% interest in Banca Agricola Mantovana for 399 billion lire, as part of Banca IMI's placement of a 19% stake in BAM;
- subscription to the 267 billion-lire increase in the capital of Beni Stabili, as an initial step in the real estate spin-off that the SANPAOLO IMI Group will complete during the second half of the year (Beni Stabili will receive the spun-off property);
- the acquisition of a 0.23% stake in Banque Nationale de Paris for 78 billion lire; this interest was lifted to 1.5% in July and August, raising the SANPAOLO IMI Group's overall investment in the French bank to 495 billion lire.

Disposals during the period totaled 862 billion lire and generated pre-tax earnings of 617 billion. They included:

- the sale of a 20% stake in Crediop to the Franco-Belgian Dexia Group for 422 billion lire, with a gross capital gain of 181 billion lire. As a result, the Dexia Group has taken control of Crediop with an interest of 60%; the remaining 40%, still held by the SANPAOLO IMI Group, will be sold by the end of 2001 under agreements reached in 1998;
- acceptance of Olivetti's public offer to acquire shares in Telecom Italia, through the sale of a 0.75% stake for 868 billion lire with a gross capital gain of 417 billion lire. As a result of this sale, SANPAOLO IMI received a 0.4% interest in Tecnost, valued at 117 billion lire, Tecnost bonds totaling 222 billion lire and 529 billion lire in cash.

Equity investments in listed, non-group companies carried at cost, which include Banco Santander Central Hispano (1.72%), INA (3.72%), UNIM (2.93%) and BNP (0.23%), had a carrying value of 2,135 billion lire as of June 30. Gross unrealized capital gains totaled 555 billion lire.

**The branch network,
automated facilities
and electronic banking**

The Group has made additions to its sales and distribution units in the fastest-growing sectors, especially those involving the management of customers' savings.

The distribution network was strengthened through the recruitment of 170 new financial planners, raising the total number of specialized asset management consultants to more than 4,600. The increase took place at both Banca Fideuram and Sanpaolo Invest, where the number of planners rose, respectively, from 3,168 to 3,281 and from 1,329 to 1,386.

The Group also began preparatory work on a project to strengthen the domestic banking network. This project, launched at the end of last year, envisages a total of 130 new branch openings in 1999 and 2000. Most of the branches will be small and geared towards householders; they will be located throughout central/southern Italy and in selected towns elsewhere. These openings are part of a strategy to achieve focused internal growth, while continuing to pursue a policy of growth by acquisition.

Progress was also made on work to specialize Italian branches by market segment and to increase their productivity. Action here has focused on improving the way services are presented to customers.

With regard to automated facilities and electronic banking, the Parent Bank recorded more than 31 million transactions via ATM machines during the period, up 10% with respect to the first half of 1998; a total of 6,000 billion lire (+7%) was dispensed via ATMs. The number of transactions via POS machines increased by 15% during the period. There are now more than 61,000 telephone banking contracts, up 15% since the start of the year, and the number of remote banking links with companies exceeds 15,000.

	6/30/1999	6/30/98 pro forma	12/31/1998 pro forma	% change 6/99 – 6/98
Banking branches and area offices	1,415	1,405	1,409	+0.7
• Italy	1,351	1,342	1,346	+0.7
- Parent bank	1,291	1,287	1,289	+0.3
- Banca Fideuram	60	55	57	+9.1
• Abroad	64	63	63	+1.6
- Parent bank	11	11	11	-
- Banque Sanpaolo	52	52	52	-
- Banca IMI	1	-	-	n.s.
Representative offices	12	12	12	-
Financial planners	4,667	4,200	4,497	+11.1
- Banca Fideuram	3,281	2,942	3,168	+11.5
- Sanpaolo Invest	1,386	1,258	1,329	+10.2

Banking branches and area offices

	Parent Bank 6/30/1999	Banca Fideuram 6/30/1999	Total 6/30/1999
Piedmont	353	8	361
Valle d'Aosta	27	-	27
Lombardy	480	14	494
Liguria	75	1	76
Veneto	52	5	57
Trentino Alto Adige	4	-	4
Friuli Venezia Giulia	7	1	8
Emilia Romagna	26	6	32
Tuscany	23	7	30
The Marches	7	2	9
Abruzzo	4	1	5
Umbria	3	1	4
Lazio	76	7	83
Molise	2	-	2
Campania	48	3	51
Apulia	37	1	38
Basilicata	2	-	2
Calabria	5	-	5
Sicily	51	2	53
Sardinia	9	1	10
Total	1,291	60	1,351

Employees

The Group employed 24,224 people at the end of June, a decrease of 75 since the start of the year and 497 at the end of June 1998.

The decrease reflects the Parent Bank's efforts to streamline its central facilities, where the headcount has fallen by 230 since December 31 and 663 since June 30, 1998.

Employment increased during the period by 155 at other Group companies. Many of the new recruits are working in the area of asset management for customers.

In view of the planned territorial expansion, the Parent Bank plans to hire 450 employees under work experience contracts.

	6/30/1999		6/30/1998 pro forma		12/31/1998 pro forma		Change 6/99 - 6/98
		%		%		%	
Period-end headcount	24,224	100.0	24,721	100.0	24,299	100.0	-2.0
- Executives	323	1.3	344	1.4	330	1.4	-6.1
- Managers	4,422	18.3	4,451	18.0	4,359	17.9	-0.7
- Other employees	19,479	80.4	19,926	80.6	19,610	80.7	-2.2
Average headcount	24,262		24,833		24,622		-2.3

Capital and reserves

Shareholders' equity

Shareholders' equity attributable to the Group amounted to 16,704 billion lire as of June 30, 1999. Movements during the period are summarized below:

	<i>billions of lire</i>
Shareholders' equity as of January 1, 1999	16,784
Decreases	
- Dividends	1,262
Increases	
- Exchange gains and other adjustments	11
- Net income for the period	1,171
Shareholders' equity as of June 30, 1999	16,704

As a result of the real estate spin-off, consolidated shareholders' equity will be reduced by 1,357 billion lire.

As of June 30, the Group held 3,436,575 shares in SANPAOLO IMI with a carrying value of 88 billion lire. Trading in own shares was conducted by Banca IMI and its subsidiaries. Details are provided in the explanatory notes.

Regulatory capital and capital adequacy

The SANPAOLO IMI Group meets the solvency requirements set by the Bank of Italy.

	<i>billions of lire</i>
	6/30/1999
Regulatory capital	
Tier 1 capital	15,522
Tier 2 capital	2,256
less: prescribed deductions	-892
Total capital	16,886
Weighted assets	
Lending risk	146,750
Market risk	11,875
Other parameters	850
Total assets	159,475
Capital adequacy ratios	
Tier 1 ratio	9.7%
Total capital ratio	10.6%

Adjusted for the forthcoming reduction in shareholders' equity as a result of the real estate spin-off, the total capital ratio as of June 30, 1999, would have been 9.7% - well above the 8% minimum required by the authorities.

Risk management

Financial risk

The market risk associated with the Group's lending ("banking book") operations was quite low throughout the period. The change in the market value of the Parent Bank's loan portfolio, measured in terms of shift sensitivity (reaction to an upward shift of 25 bp in the interest rate curve), averaged 40 billion lire. The portfolio's Value at Risk (VaR) at the end of June was less than 300 billion lire, being the largest "unexpected" loss in the market value of the portfolio (covered by shareholders' equity) that could have arisen during the following 10 working days, with a confidence limit of 99%. Special care has been taken in the management of medium- and long-term fixed-rate positions in euro, and hedges were put in place to neutralize the effect on the value of the loan portfolio of market rate changes at the end of the period.

The financial risks associated with the Group's trading activities also remained at prudent levels. Banca IMI had an average Value at Risk - calculated over 10 working days at a 99% confidence level - of about 20 billion lire, largely attributable to the interest rate component. Its Maximum Potential Loss, calculated using the Worst-Case technique, averaged about 75 billion lire. The risk profile has decreased for the London and New York branches, whose trading activities are now being concentrated at Banca IMI; the two branches had a VaR of 2 billion lire at the end of the period.

The market value of the Group's minority interests in listed companies was 2,300 billion lire at the end of June, with a potential capital gain of more than 550 billion lire with respect to carrying value. At the end of the period the portfolio's Value at Risk, calculated over 10 working days at a 99% confidence level, was essentially unchanged since the start of the year at 250 billion lire.

Lending risk

Lending risks generated by banking operations are concentrated mainly at the Parent Bank. They are monitored by means of an internal model for risk measurement that quantifies the Value at Risk of performing cash loans and guarantees given to customers and banks. The VaR of the Parent Bank was 5,250 billion lire at the end of June, being the largest "unexpected" loss in the market value of the portfolio (covered by shareholders' equity) that could arise over a period of one year, with a confidence limit of 99.95%. Risk measured on the same aggregate but following the criteria set by the supervisory authorities, which call for the allocation of 8% of shareholders' equity against weighted lending assets,

results in an absorption of regulatory capital of about 9,500 billion lire. Non-financial companies, which are the most closely monitored in this sphere, presented a lower risk profile during the period: VaR calculated using the internal model decreased by 150 billion lire, from 3,700 billion lire to 3,550 billion lire, and the ratio of riskiness to outstanding cash loans and guarantees shrank by about 30 basis points.

Supplementary information

Ratings

There were no changes in SANPAOLO IMI's ratings during the first half of 1999, which are still among the highest assigned to Italy's commercial banks.

Rating agency	Rating type	Rating
Fitch-IBCA	• Short-term debt	F1+
	• Medium/long-term (senior) debt	AA-
Japan Rating and Investment Information	• Medium/long-term (senior) debt	AA
Moody's Investors Service	• Short-term debt	P-1
	• Medium/long-term (senior) debt	A1 with positive outlook
Standard & Poor's	• Short-term debt	A-1
	• Medium/long-term (senior) debt	A+ with stable outlook
Thomson BankWatch	• Short-term debt	TBW-1
	• Medium/long-term (senior) debt	AA-

In addition to the above debt ratings, SANPAOLO IMI has received a C+ Bank Financial Strength Rating from Moody's, a B/C Individual Rating and a Legal Rating of 2 from Fitch-IBCA, and a B Issuer Rating from Thomson BankWatch.

Other Group companies to be rated are Banque Sanpaolo, the funding-vehicle companies Sanpaolo IMI Bank International and Sanpaolo US Financial and, as from June 1999, Banca Fideuram:

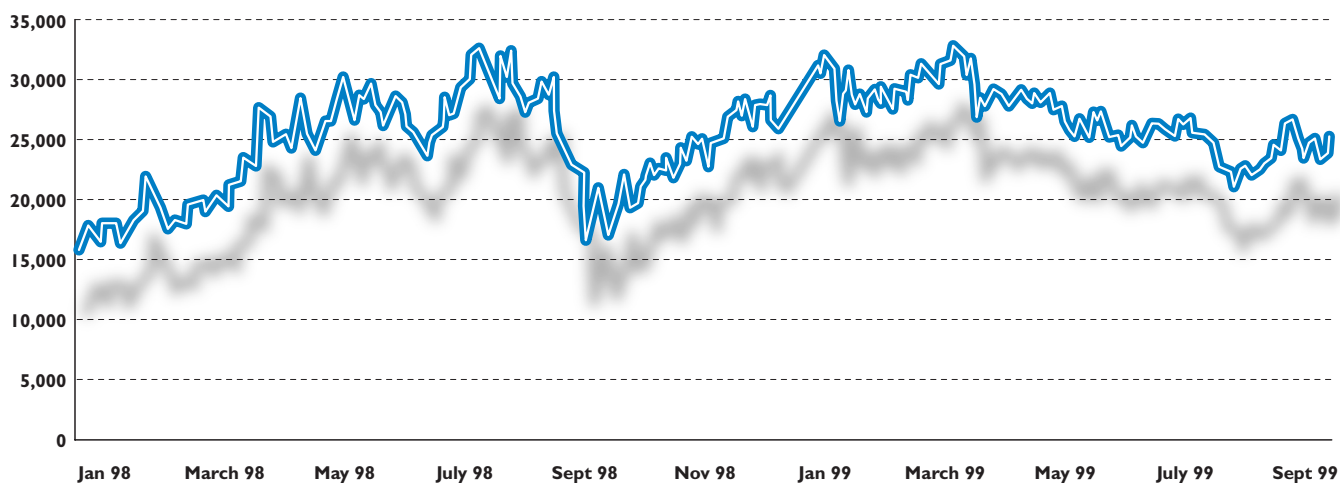
	Rating agency	Short-term debt rating	Medium/long-term (Senior) debt rating
Banque Sanpaolo	Fitch-IBCA	F1	A
	Moody's Investors Service	P-2	A3
Banca Fideuram	Standard & Poor's	A-1	A+
Sanpaolo IMI Bank International	Moody's Investors Service	P-1	A1
	Standard & Poor's	A-1	A+
	Thomson BankWatch	TBW-1	AA-
Sanpaolo US Financial	Moody's Investors Service	P-1	--
	Standard & Poor's	A-1	--
	Thomson BankWatch	TBW-1	--

In August, Fitch-IBCA raised its medium/long-term debt rating for Banque Sanpaolo from A to A+.

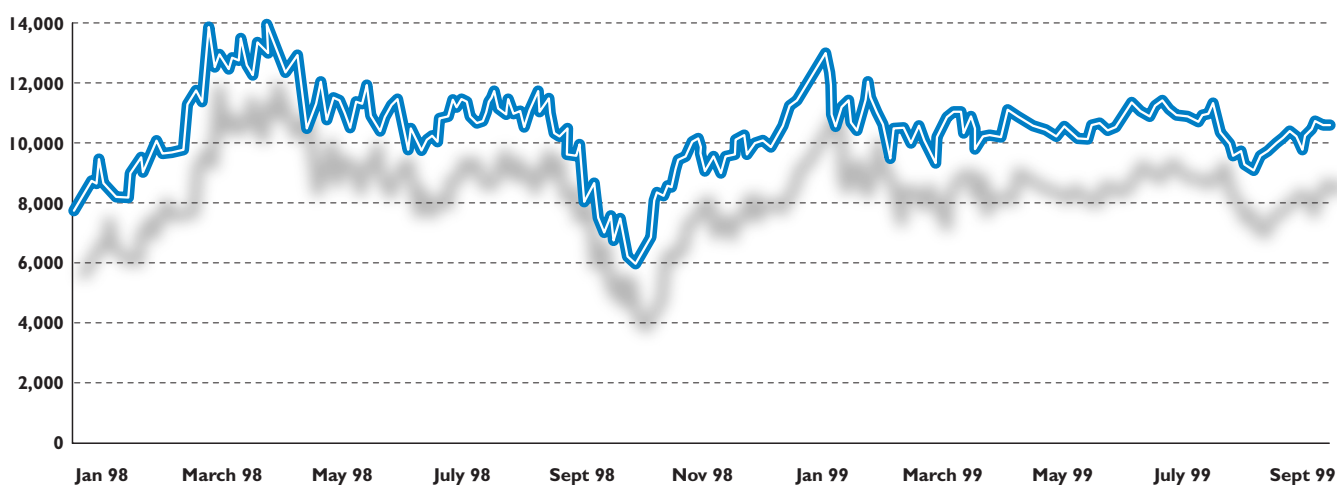
Performance of Group share prices

The share prices of listed Group companies were hurt by the downward trend for banking stocks during the first half of the year. By the end of June, SANPAOLO IMI shares had fallen 12.4% since the start of the year, while Banca Fideuram shares had lost 7.9%.

SANPAOLO IMI SHARE PRICE (in lire)



Year	High (in lire)	Low (in lire)	Average (in lire)
1994	11,522	8,756	9,955
1995	10,197	8,041	9,122
1996	10,549	8,400	9,494
1997	17,626	9,145	12,498
1998	32,123	17,272	24,796
1999 (Until September 15)	31,987	22,153	26,875

BANCA FIDEURAM SHARE PRICE (in lire)


Year	High (in lire)	Low (in lire)	Average (in lire)
1994	2,285	1,491	1,828
1995	2,033	1,646	1,830
1996	3,795	1,781	2,888
1997	7,997	3,253	5,532
1998	13,864	6,119	10,322
1999 (Until September 15)	12,909	9,083	10,575

Performance against market indices

	9/15/1999 (lire)	6/30/1999 (lire)	12/30/1998 (lire)	% Change 9/15/1999 - 12/30/1998	% Change 6/30/1999 - 12/30/1998
SANPAOLO IMI shares	23,963	25,656	29,296	-18.2	-12.4
Banca Fideuram shares	10,504	10,880	11,811	-11.1	-7.9
General index (MIBTEL)	23,986	24,608	23,695	+1.2	+3.9
Banking index (MIB bancario corrente, base 12/30/1998 = 1,000)	964	979	1,000	-3.6	-2.1

Shareholders of SANPAOLO IMI

Based on available information, the ownership of SANPAOLO IMI as of June 30, 1999, was analyzed as follows:

	%
Compagnia di San Paolo	16.1
Banco Santander Central Hispano	6.9
Monte dei Paschi di Siena	6.4
IFI-IFIL	4.3
Cariplo Foundation	2.8
Reale Mutua Assicurazione	2.0
KBC Bank	1.2
Riunione Adriatica di Sicurtà	1.1
Other shareholders	59.2
Total	100.0

Intercompany transactions; transactions with related parties

Transactions between the Parent Bank, subsidiary companies and associated companies take place in accordance with current legislation and are arranged on a mutually equitable basis. Details of intercompany transactions during the period are provided in the explanatory notes to the Parent Bank's financial statements.

Transactions with related parties as defined in the CONSOB Communications dated February 20, 1997 and February 27, 1998 - including those with personnel and officers of the SANPAOLO IMI Group and any companies they control - similarly comply with current legislation and are conducted at market prices.

The euro

The first stage of the Euro Project was successfully completed in 1998, enabling customers to carry out transactions in the single European currency as from January 1, 1999. During the period, the Group continued to assist customers in its use and to prepare for the introduction - planned for 2001 - of euro banknotes and coinage. The costs incurred to implement this project have totaled 91 billion lire, of which 86 billion lire was recorded in prior years and 5 billion lire in the first half of 1999.

The year 2000

During the period, the Group continued efforts to ensure that its computer systems are year 2000 compliant.

Action by the Parent Bank

Modifications to the Bank's software have been completed and the testing phase is now underway. These tests, which should be finished by the end of October, are being performed in a fully dedicated hardware and software environment.

The Bank's systems have passed several national and international tests, sometimes as pilot. These tests have included those arranged by the Bank of

Italy (transfer orders, credit cards, checks, ATM transactions, etc.) and by EBA Clearing, SWIFT, IBOS, and Global 2000 of the New York Clearing House (to check the range of international operations on a global scale), as well as those on the MTS, MID, MIF and IDEM markets. The Bank plans to take part in other testing sessions as well; most of these concern the markets and have been organized by the Bank of Italy for the months of September and October.

Tests have also been run on date-sensitive equipment separate from the Bank's information systems, and compatibility checks have been completed with suppliers, corporate customers and other banking counterparts.

A contingency plan is being prepared to ensure continuity of the Bank's own operations in the event of non-compliant systems and disruption caused by external parties. The Bank has also identified the potential risks to third parties and taken steps to minimize their likelihood of occurrence.

The total project cost is estimated at 33 billion lire, excluding the commitment of staff, which is put at some 25 man-years. Through June 30, 1999, total expenditure (excluding personnel costs) amounted to 16 billion lire (10 billion lire in prior years and 6 billion lire during the first half of 1999), almost all of which has been expensed.

Action by other Group companies

With support from the Parent Bank, all companies in the SANPAOLO IMI Group are completing Year 2000 compliance projects.

Costs incurred so far by Group subsidiaries total 18 billion lire, in addition to the staff time absorbed. This total does not include routine expenditure on the replacement of software and hardware.

Operating sectors

Organization by business area

The group has been organized into autonomous business areas, supported and directed by a Corporate Center. The new structure, adopted at the end of last year on completion of the merger between San Paolo and IMI, has been designed to:

- respond effectively to the changed competitive conditions;
- clearly identify the profitability and exposure to risk of each business;
- make managers strictly accountable for results.

The following business areas have been identified, the activities of which are carried out by the Parent Bank and/or its subsidiaries:

- Commercial Banking;
- Large Corporate;
- Government Agencies and Infrastructure;
- Personal Financial Services;
- Investment Banking;
- Merchant Banking;
- Corporate Center (including treasury operations, loan recovery and the management of equity investments).

The profitability of each area has been determined in terms of RORAC (Return on Risk Adjusted Capital), i.e. the ratio between income generated by the area and its average economic capital during the period. The latter is quantified with reference to the specific degree of risk using Va.R. (Value at Risk) statistical criteria.

In order to evaluate the profitability of a given area, the accounting information deriving from the Parent Bank's activities in that area is consolidated with that deriving from the activities of the subsidiaries concerned. Within the Parent Bank, results are allocated to individual business areas on the following basis:

- net interest income is calculated using appropriate internal transfer rates;
- in addition to actual commissions, notional commissions are also quantified for the services rendered by one area to another;
- the direct costs of each area are determined and parameters are used to apportion the cost of central services (except for holding company functions).

Capital is allocated to each business area by consolidating the related average economic capital absorbed by the Parent Bank with the average book value of the capital dedicated by the subsidiaries concerned. Specifically, the Parent Bank's capital has been allocated to the various areas with reference to average absorption, measured using the Va.R.

approach, and distinguishing among the different types of risk: lending risk, market risk and operational risk. The difference between the book value of consolidated shareholders' equity and the capital absorbed by the business areas has been allocated to the Corporate Center.

Particularly prudent criteria were adopted for allocating the Parent Bank's capital to the various business areas. Among these:

- the exposure of each area to lending and financial risk was calculated at a 99.95% confidence level, consistent with the Group's rating;
- these risks were covered using Tier I capital.

The way income and capital are calculated for each area is still subject to change, partly in relation to the possible redefinition of certain operating parameters.

Results by business area for first-half 1999

The results of the Group's business areas for the first half of 1999 are summarized in the following table:

Business area	Net income	Average economic capital	Annualized RORAC (%)
Commercial Banking	479	5,025	19.1
Large Corporate	58	1,451	8.0
Government Agencies and Infrastructure	38	437	17.5
Personal Financial Services	134	979	27.4
Investment Banking	71	721	19.8
Merchant Banking	51	724	14.0
Corporate Center	336	5,883	n.s.
	1,167	15,220	
Real estate business (being spun off)	4	1,357	
SANPAOLO IMI Group	1,171	16,577	

The Corporate Center is responsible for treasury operations, loan recovery and the management of equity investments. Income for the period consists mainly of extraordinary income from equity investments, totaling about 607 billion lire before taxes.

Commercial Banking

	6/30/1999
STATEMENT OF INCOME (L/bln)	
Operating income	1,149
Net income	479
AVERAGE ECONOMIC CAPITAL (L/bln)	
	5,025
ANNUALIZED RORAC (%)	
	19.1
OPERATING FIGURES (L/bln)	
Net cash loans to customers	72,079
Funding from customers	271,459
- Direct funding	72,203
- Indirect funding	199,256
- Administered savings	88,492
- Managed savings	110,764
- Mutual funds	80,806
- Asset management	22,946
- Life assurance policies	7,012
OPERATING STRUCTURE (branches)	
In Italy	1,281
Abroad	52

The Commercial Banking area does business with households, small traders and small/medium-sized enterprises, offering payment services, financing and financial-management products.

The area operates in Italy through the Parent Bank's 1,281 branches and abroad via Banque Sanpaolo's 52 branches in Paris, Lyon and the Côte D'Azur, and a 32.5% interest in Inter-Europa Bank, Hungary. Operations are supported by specialized Group companies, mostly active in managed savings (Sanpaolo Asset Management, Sanpaolo Vita, Sanpaolo Bank Lux, Sanpaolo Bank Austria, Sanpaolo Fiduciaria and Sanpaolo Gestion Internationale). The area also includes leasing (via Sanpaolo Leasint) and consumer credit (via Finconsumo, which is controlled jointly with Banco Santander Central Hispano).

Activities during the period were consistent with the guidelines developed at the end of 1998. These emphasized the growth of income from services, mainly by boosting financial operations by customers (especially through managed savings schemes), and the improvement of loan quality. In this regard, two projects were initiated which should produce lasting results in the short to medium term:

- a "revenue" project designed to strengthen the Group's managed savings business (by means of customer segmentation, the assignment of customer portfolios to specific individuals, and the use of personal

financial planning tools) and improve the quality of customer service (by devising a new range of account products);

- a "loans" project intended to re-engineer the entire lending process (including the preparation of a loans policy, the introduction of a new system for classifying loans and the adoption of a new form for loan applications).

In Italy, the Group also:

- established a staff incentive program focusing on target results, loan quality, managed savings and clientele development;
- prepared a "branch plan" which envisages the opening of 130 small, family-oriented branches over a period of 24 months, mainly in central/southern Italy and in selected locations elsewhere. This expansion will be backed by the recruitment of 450 new employees.

During the first half of the year, steps were also taken to develop the area's private banking business and to offer customers advanced on-line banking services.

Lastly, the Group is finalizing the merger of Sanpaolo Asset Management with Sanpaolo Fondi, so that a single company will be responsible for managing the mutual funds and individual asset management schemes of Italian customers introduced by the Group's bank branches and by the financial planners who work for Sanpaolo Invest.

The results achieved by this area during the first half of 1999 were encouraging. The expected decline in net interest income (caused by a narrowing of the spread) was offset by higher commissions, due to an increase in the volume of managed savings, and by significantly lower loan provisions and writedowns. Costs also diminished slightly. The area's net income of 479 billion lire represents about two thirds of the Group's total income excluding extraordinary items, and profitability was 19.1%.

As for operating volumes, managed savings amounted to 110,764 billion lire at the end of June: 80,806 billion lire in mutual funds, 22,946 billion lire in asset management and 7,012 billion lire in life assurance policies. Loans totaled 72,079 billion lire and direct funding amounted to 72,203 billion lire.

Large Corporate

	6/30/1999
STATEMENT OF INCOME (L/bln)	
Operating income	127
Net income	58
AVERAGE ECONOMIC CAPITAL (L/bln)	
	1,451
ANNUALIZED RORAC (%)	
	8.0
OPERATING FIGURES (L/bln)	
Net cash loans to customers	38,794
OPERATING STRUCTURE	
Branch offices in Italy	6
Foreign branches	11
Representative offices abroad	12

The Large Corporate area engages in lending and the provision of services to medium-sized and large business customers.

On the domestic market, this area currently focuses on groups with a turnover exceeding 1,000 billion lire. This threshold will be gradually reduced to 200 billion lire. In Italy it operates via a number of central units plus six area offices.

Foreign operations are conducted via the Parent Bank's 11 branches and 12 representative offices abroad, and through Sanpaolo Bank Ireland. Recently a project was approved to reorganize foreign corporate operations into a network based on three reference branches in New York (for the Americas), London (for Europe) and Tokyo (for Asia). This "local specialist" model defines the countries and sectors in which to operate, offering customers integrated corporate lending and investment banking products.

In Italy, the area has suffered a decline in net interest income due to conditions in the financial markets and increasing competition from Italian and foreign institutions. Another factor has been the ongoing tendency of large groups to reduce their reliance on bank loans, as part of their liability management. Given these conditions, the area has worked to limit the absorption of economic capital and to develop fee-based services.

Net income for the first six months of the year was 58 billion lire, with profitability of 8%.

Government Agencies and Infrastructure

	6/30/1999
STATEMENT OF INCOME (L/bln)	
Operating income	71
Net income	38
AVERAGE ECONOMIC CAPITAL (L/bln)	437
ANNUALIZED RORAC (%)	17,5
OPERATING FIGURES (L/bln)	
Net cash loans to customers	17,873

The Government Agencies and Infrastructure area provides financial services to public-sector organizations (notably, the financing of capital projects and major infrastructure schemes), in part by rendering specialized services and the origination of bonds and structured finance operations. Since Crediop is no longer under Group control, operations are conducted by a central department of the Parent Bank, which deals directly with major customers. Relations with smaller customers are coordinated via the domestic branch network of the Commercial Banking area.

The area has worked to strengthen its leadership of the public-works financing sector, in which the Group has a 16% market share. Demand rose steadily during the period, as did competition from Italy and abroad. Lending volumes were consolidated with disbursements of 1,800 billion lire during the first six months, mostly represented by loans to be repaid by the government.

Consistent with budget guidelines, the area has sought to expand operations by exploiting synergies with the Commercial Banking branch network. The decline in margins was countered by the launch of packages that include consulting services and assistance with the issue of securities. This area also acts as global advisor for the transformation into limited companies of municipal utilities and public agencies.

In July, the Group embarked on a project to spin off this area into a dedicated company, with a view to maximizing its flexibility. The plan is to use IMI Lease, once it is licensed as a bank, as the corporate vehicle for the project.

Net income for the period was 38 billion lire, with profitability of 17.5%. In calculating these figures, account was taken of the new corporate structure that will arise on the spin-off to IMI Lease, but excluded operations with foreign customers, which are temporarily included in the results of the Large Corporate area.

Personal Financial Services

	6/30/1999
STATEMENT OF INCOME (L/bln)	
Operating income	201
Net income	134
AVERAGE ECONOMIC CAPITAL (L/bln)	
	979
ANNUALIZED RORAC (%)	
	27.4
OPERATING FIGURES (L/bln)	
Funding from customers	88,430
- Direct funding	5,271
- Indirect funding	83,159
- Administered savings	12,998
- Managed savings	70,161
- Mutual funds	50,268
- Asset management	10,153
- Life assurance policies	9,740
OPERATING STRUCTURE	
Financial planners	4,667
Branches	60

Banca Fideuram and Sanpaolo Invest, which constitute the Personal Financial Services area, distribute savings-management services via their networks of financial planners. The market mainly consists of personal customers and small traders that are receptive to “door-to-door” methods of offering services and who have a savings potential in the middle-upper band.

Banca Fideuram and Sanpaolo Invest, which respectively deploy 3,281 and 1,386 financial planners, comprise Italy's largest network of such professionals. Banca Fideuram operates through a number of specialized savings-management companies (Fideuram Fondi, Fideuram Vita, IFAM, Fonditalia, Fideuram Bank Lux, Fideuram Fiduciaria, Fideuram GPM, Interfund Advisory, ISAC, Fideuram Assicurazioni, Fideuram Fund and Turis). Sanpaolo Invest currently works with the product companies associated with the Commercial Banking area.

During the period the area worked to strengthen its leadership of the Italian market, in a sector that offers considerable potential for creating shareholder value.

Banca Fideuram was especially busy with new projects. In Luxembourg it established Fideuram Bank Lux, the Group's first international private banking company. It also hired 113 new financial planners and began a development project in the field of Internet banking.

Another initiative aims for substantial growth in the volume of funds managed by Sanpaolo Invest. This project consists of several steps:

- the transformation of the company into a bank;
- the creation of a range of savings management (involving the formation of Sanpaolo Invest Ireland Ltd.), hedging and other products;
- the provision of on-line services to customers;
- the upgrading of central information services and those used by financial planners in their consulting activities;
- the expansion of the network of financial planners and their retention, perhaps via a profit-sharing scheme that is currently being worked out. During the period Sanpaolo Invest recruited 57 additional financial planners.

Together, Banca Fideuram and Sanpaolo Invest earned impressive net income of 134 billion lire, with profitability of more than 27%. These figures were achieved in spite of significant investment during the period, which will start to benefit results from next year.

The Personal Financial Services area achieved a 17.4% increase in customer funds under management during the period. These now total 70,161 billion lire. Mutual funds grew by 15.7%, asset management by 39.3% and life assurance policies by 8.0%. As of June 30, equity funds accounted for 51% of the area's mutual funds - an indication of its modern, sophisticated clientele.

Investment Banking

	6/30/1999
STATEMENT OF INCOME (L/bln)	
Operating income	127
Net income	71
AVERAGE ECONOMIC CAPITAL (L/bln)	721
ANNUALIZED RORAC (%)	19.8
OPERATING FIGURES (L/bln)	
Funds administered by Banca IMI SpA	1,563,005
- trading	556,660
- sales	28,204
- repurchase agreements	957,993
- placements	20,148

The Investment Banking area handles trading on behalf of the Group and third parties, raises venture capital and debt financing for corporate customers, and provides corporate finance consulting. These activities are conducted by Banca d'Intermediazione Mobiliare (Banca IMI) and its subsidiaries.

During the period, the area was involved in the reorganization resulting from the merger between San Paolo and IMI, by which all of the Group's investment banking activities will be handled by Banca IMI. More specifically, the following transactions took place:

- Banca IMI acquired control of Intersim, a brokerage house active in the Italian market, from the Parent Bank;
- the London branch of Banca IMI opened, having taken over the brokerage activities previously conducted by IMI Sigeco (UK) Ltd. and by the Parent Bank's branch in London;
- Banca IMI Securities Corp., previously Mabon Securities Corp., prepared to acquire the investment business run by the Parent Bank's branch in New York;
- Banca IMI transferred its private banking operations to the newly established Fideuram Bank Lux.

Brokerage activities carried out during the period by Banca IMI were focused on consolidating its leadership of the Italian market and gaining a stronger foothold abroad. Operations were designed to benefit from arbitrage opportunities, while limiting the extent of open positions.

The rise in funds administered following the concentration of the Group's financial activities at Banca IMI did not significantly change the risk profile.

Banca IMI also consolidated its position in the Italian market for bond and equity placements during the period, and significantly increased consultancy activities in relation to special finance operations.

Lastly, a project has begun regarding the provision of financial services over the Internet.

Banca IMI and its subsidiaries reported net income for the period of 71 billion lire, with profitability of almost 20%.

Merchant Banking

	6/30/1999
STATEMENT OF INCOME (L/bln)	
Operating income	88
Net income	51
AVERAGE ECONOMIC CAPITAL (L/bln)	724
ANNUALIZED RORAC (%)	14.0
OPERATING FIGURES (L/bln)	
Equity investments and convertible bonds	279

The Merchant Banking area acquires minority interests in listed and unlisted companies, with a view to generating capital gains on their subsequent divestment. Its activities are pursued via specialized staff employed by the Parent Bank and via LDV Holding, a subsidiary based in Holland.

Net income for the first half of the year was 51 billion lire, mainly due to profits on financial transactions of 72 billion lire involving the investments in Mediaset and ENI. Profitability was 14%, ignoring unrealized capital gains on the equity investment portfolio.

Investments acquired by the merchant banking business were significant, with an outlay of 91 billion lire. The more important included 17.9% of UTET, the holding company of the UTET publishing group (36 billion lire), and 1.9% of SNIA, a holding company in the field of synthetic fibers (33 billion lire). Mandates obtained to act in a financial advisory capacity were also significant, particularly in the airport industry.

As mentioned earlier, an agreement has been reached between the SANPAOLO IMI Group and N.H.S., a subsidiary of Compagnia di San Paolo. Together they will form a new company called Nuova Holding Subalpina. Under the agreement, SANPAOLO IMI is preparing to transfer its Merchant Banking activities to the new company which, via a spin-off, has already received the merchant banking business previously operated by N.H.S.

The new company, owned 51% by SANPAOLO IMI, has equity capital of more than 1,400 billion lire. These considerable financial resources, together with its capacity for origination and complementary status in terms of the products and services offered by the Group, will make it a top name in Italy's private equity business and a player of European standing in the field of public utilities. The initiative will be backed by the

creation of a foreign closed-end fund with assets of more than 200 billion lire, sponsored by the new company. The fund will invest in equities and the equity-linked instruments of medium-sized manufacturing firms.

Corporate Centre

	6/30/1999
STATEMENT OF INCOME (L/bln)	
Operating income	68
Net income	336
AVERAGE ECONOMIC CAPITAL (L/bln)	5,883
OPERATING FIGURES (L/bln)	
Investments in companies not consolidated on a line-by-line basis	2,347

The Corporate Center exercises the usual holding company functions (strategic direction, supervision, administration and external relations) and provides supporting services to the Parent Bank (systems and organization, back-office management, logistics, purchasing and management of real estate holdings). The Corporate Center also carries out treasury operations, collects non-performing loans and manages minority equity investments.

Most of the Corporate Center's net income for the period came from extraordinary gains on equity investments (about 607 billion lire before taxes), following the sale of interests in Crediop and Telecom Italia.

Treasury

The Parent Bank's treasury activities have been geared towards maintaining a low risk profile. Special care has been taken in the management of fixed-rate positions, given the gradual rise in long-term interest rates throughout the period.

Loan Recovery (Workout)

Activity has focused on maximizing recoveries and reducing the level of the non-performing loans recorded by the Parent Bank and Sanpaolo Immobiliare.

A staff of more than 200 people is active throughout the country. Non-performing loans totaling 541 billion lire were recovered during the period, with gains of 109 billion lire representing the difference between collections and the written-down value of the related loans. Including writedowns during the period, net non-performing loans at the start of the year decreased by 18.8% to 2,988 billion lire. New positions totaled 352 billion lire after writedowns, 37% less than during the first half of 1998. At the end of June, total non-performing loans therefore amounted to 3,340 billion lire, a decrease of 9.3% with respect to the start of the year.

The possibility of securitizing certain loans (selling them without recourse) is also being examined, in order to reduce the amount of capital allocated and the cost of recovering and managing non-performing positions.

Equity investments

The management of equity investments, which was especially intensive during the period, has been discussed in a separate section of this report.

**Real estate
(to be spin-off)**

	6/30/1999
STATEMENT OF INCOME (L/bln)	
Operating income	10
Net income	4
SHAREHOLDERS' EQUITY (L/bln)	1,357

As mentioned earlier, the July shareholders' meeting approved a project that will rationalize SANPAOLO IMI's real estate holdings. Buildings not used for banking purposes will be spun off, so that the Group can focus its resources on its core business of finance.

The project envisages that the Parent Bank will spin off, in the main, buildings not used for business purposes, investments in real estate and related loans amounting to 1,300 billion lire, thereby reducing its capital from 8,413 billion lire to 7,614 billion lire. The holdings will be transferred to Beni Stabili, a subsidiary of SANPAOLO IMI, which has applied for a stock market listing. After the operation, to be completed by year end, the Bank will have a minority interest of around 16% in Beni Stabili, while the rest of the company will be owned by SANPAOLO IMI's shareholders.

The operation will reduce the consolidated shareholders' equity of the SANPAOLO IMI Group by 1,357 billion lire, but the Group's capital adequacy ratios will still be more than sufficient.

Significant events in the second half of the year

Economic background

The solid U.S. economy still harbors fears for a possible upturn in inflation. Several factors could put the cost-of-living index under pressure: the price rises for oil and other commodities, the increasing cost of goods made in emerging Asian countries, and wage demands that are not offset by parallel rises in productivity.

Growing fears that the U.S. economy might overheat and that the Federal Reserve will raise short-term interest rates will continue to cause tensions on the foreign exchanges and (most notably) in the movement of bond and equity prices.

In Europe, expectations are high that the economies of member states will return to more rapid growth, with lower unemployment.

In all likelihood, Germany and Italy will achieve the most limited growth in GDP. Italy, in particular, still has structural weaknesses such as greater exposure to international shock waves, higher inflation, and the need for tight fiscal control due to high public sector indebtedness.

Group performance and prospects

Consolidated results for the first eight months of the year are satisfactory overall:

- on an annual basis, net interest income declined to a lesser extent than during the first half of the year;
- commission income grew faster than during the first six months, due in part to the growth of asset management on behalf of customers, which exceeded 194,000 billion lire at the end of August following a rise of 20.1% since the start of the year;
- costs continued to fall at a rate similar to that reported for the period to June;
- the marked reduction in loan provisions and writedowns was confirmed, due to the improved quality of loans.

Results to date suggest that SANPAOLO IMI will reach the profitability targets set for the full year: consolidated R.O.E. should be higher than 14% in 1999, which is consistent with the goal of exceeding 15% from the year 2000.

Turino, September 21, 1999

The Board of Directors

REPORT OF THE INDEPENDENT AUDITORS
ON THE LIMITED REVIEW PROCEDURES PERFORMED ON THE

FIRST HALF REPORT AS OF JUNE 30, 1999

(Translation from the original issued in Italian)

To the Shareholders of
Sanpaolo IMI S.p.A.:

1. We have performed a limited review examination on the first half report as of June 30, 1999 composed of the accounting schedules (balance sheet and statement of income) and the related explanatory notes of Sanpaolo IMI S.p.A. (hereinafter the Bank) and of the consolidated report of the Group. We have also checked that part of the report that provides information on operations for the sole purpose of verifying its consistency with the rest of the first half report.
2. Our examination was made in accordance with the limited review procedures recommended by CONSOB (the Italian Regulatory Commission for Companies and the Stock Exchange) in its resolution no. 10867 of July 31, 1997. The first half data of certain subsidiaries, the total assets and the net interest and other banking income of which represent 29.6% and 27.1%, respectively, of the consolidated amounts, have been subjected to limited review procedures by other auditing firms, whose reports have been furnished to us. The limited review mainly consisted in the collection of information on the entries in the accounting schedules and on the consistency of application of the accounting policies, on the basis of meetings held with the Management of the Bank and analyses of data reported in the accounting schedules. A limited review does not require certain auditing procedures such as compliance tests and detailed checks on the valuation of assets and liabilities. It therefore involves significantly less work than a full audit carried out according to established auditing standards and procedures. Accordingly, unlike the occasion of the audit of the statutory and consolidated annual accounts, we do not express an audit opinion on the first half report.

3. In order to facilitate the comparison with the financial statement data as of June 30, 1999, the Bank has also presented the pro-forma data as of June 30, 1998, including amounts for the IMI Group, following the merger which took place during 1998, and pro-forma data as of December 31, 1998 to consider the effect of the exclusion of Crediop S.p.A. from the full consolidation and its valuation under the equity method. These figures were not reviewed by us. The figures of the first half report as of June 30, 1998 used to prepare the pro-forma financial statement data were subjected to limited review procedures by us and we issued our report on them dated September 23, 1998.
4. On the basis of the work that we performed, we are not aware of any material adjustments or integrations that ought be made to the accounting schedules or the explanatory notes identified in paragraph 1. of this report to comply with the regulations for the preparation of first half reports laid down in Consob resolution no. 8195 dated June 30, 1994 and subsequent amendments.

ARTHUR ANDERSEN S.p.A.

s/Giulio Lubatti - Partner

Turin, Italy,
September 24, 1999

Half year consolidated financial statements

Consolidated balance sheet

billions of lire

ASSETS	6/30/1999	12/31/1998 pro forma (*)	6/30/1998 pro forma (*)	6/30/1998
10. Cash and deposits with central banks and post offices	835	815	637	609
20. Treasury bills and similar bills eligible for refinancing with central banks	9,867	11,484	15,619	14,814
30. Due from banks:	38,735	43,484	57,607	48,452
a) repayable on demand	9,083	7,013	9,001	7,930
b) other deposits	29,652	36,471	48,606	40,522
40. Loans to customers	139,340	141,286	148,289	127,840
including:				
- loans using public funds	109	130	145	99
50. Bonds and other debt securities	30,556	32,478	35,099	26,193
a) public entities	20,384	22,065	23,628	17,557
b) banks	6,442	7,190	8,817	6,355
including:				
- own bonds	1,967	2,288	2,990	2,518
c) financial institutions	541	538	711	731
including:				
- own bonds	-	-	-	-
d) other issuers	3,189	2,685	1,943	1,550
60. Shares, quotas and other equities	8,578	2,316	5,474	1,588
70. Equity investments	3,321	2,502	2,216	664
a) carried at equity	856	1,122	856	159
b) other	2,465	1,380	1,360	505
80. Investments in Group companies	1,230	736	707	216
a) carried at equity	1,230	736	697	209
b) other	-	-	10	7
90. Goodwill arising on consolidation	18	21	61	26
100. Goodwill arising on application of the equity method	69	92	188	129
110. Intangible fixed assets	517	574	498	435
including:				
- start-up costs	4	3	2	5
- goodwill	50	67	-	-
120. Tangible fixed assets	2,856	3,110	3,297	2,709
140. Own shares (par value 21 billion lire)	88	10	12	-
150. Other assets	25,663	26,541	23,654	16,620
160. Accrued income and prepaid expenses	6,948	8,581	11,451	10,358
a) accrued income	6,320	8,166	10,819	9,481
b) prepaid expenses	628	415	632	877
including:				
- discounts on bond issues	20	25	8	107
Total assets	268,621	274,030	304,809	250,653

(*) the pro forma information as of December 31, 1998, and June 30, 1998, has not been audited.

billions of lire

LIABILITIES AND SHAREHOLDERS' EQUITY		6/30/1999	12/31/1998 pro forma (*)	6/30/1998 pro forma (*)	6/30/1998	
10.	Due to banks		49,722	48,679	71,617	50,166
	a) repayable on demand	12,352		6,779		7,259
	b) time deposits or with notice period	37,370		41,900		42,907
20.	Due to customers		88,126	87,243	85,826	74,795
	a) repayable on demand	61,228		52,862		48,746
	b) time deposits or with notice period	26,898		34,381		26,049
30.	Securities issued		69,605	76,237	83,668	76,081
	a) bonds	47,224		50,144		48,962
	b) certificates of deposit	17,278		22,772		24,065
	c) other	5,103		3,321		3,054
40.	Public funds administered		115	134	150	104
50.	Other liabilities		30,016	28,160	28,744	22,570
60.	Accrued expense and deferred income		8,298	9,833	12,217	11,279
	a) accrued expense	7,677		9,207		10,611
	b) deferred income	621		626		668
70.	Provision for termination indemnities		840	835	828	744
80.	Provisions for risks and charges		2,218	3,134	1,889	1,193
	a) pensions and similar commitments	125		128		11
	b) taxation	1,407		2,280		647
	c) other	686		726		535
90.	Reserve for possible loan losses		41	36	28	-
100.	Reserve for general banking risks		696	696	687	29
110.	Subordinated liabilities		2,606	2,675	2,948	3,169
120.	Negative goodwill arising on consolidation		28	28	29	39
130.	Negative goodwill arising on application of the equity method		460	322	377	6
140.	Minority interests		330	280	372	499
150.	Capital		8,413	8,413	8,413	8,160
160.	Additional paid-in capital		-	-	275	275
170.	Reserves		5,936	5,565	5,828	1,057
	a) legal reserve	1,682		1,682		206
	b) reserve for own shares	88		10		-
	c) statutory reserves	-		-		-
	d) other reserves	4,166		3,873		851
190.	Retained earnings		-	-	43	-
200.	Net income for the period		1,171	1,760	870	487
Total liabilities and shareholders' equity			268,621	274,030	304,809	250,653
GUARANTEES AND COMMITMENTS						
10.	Guarantees given including:		23,494	22,199	24,191	21,626
	- acceptances	278		298		402
	- other guarantees	23,216		21,901		21,224
20.	Commitments		48,399	35,540	54,386	39,701

(*) the pro forma information as of December 31, 1998, and June 30, 1998, has not been audited.

Consolidated statement of income

		<i>billions of lire</i>			
		1st half 1999	1998 pro forma (*)	1st half 1998 pro forma (*)	1 st half 1998
10.	Interest income and similar revenues <i>including from:</i>	5,891	16,734	9,009	7,567
	– loans to customers	4,262	10,981	5,797	5,051
	– debt securities	965	3,117	1,661	1,260
20.	Interest expense and similar charges <i>including on:</i>	-3,891	-12,041	-6,575	-5,417
	– deposits from customers	-778	3,085	1,799	-1,494
	– securities issued	-1,987	5,106	2,955	-2,556
30.	Dividends and other revenues	216	278	220	77
	a) from shares, quotas and other equities	191	229	190	73
	b) from equity investments	25	49	30	4
40.	Commission income	2,368	4,312	2,195	1,552
50.	Commission expense	-494	-916	-506	-215
60.	Profits (losses) on financial transactions	87	383	269	251
70.	Other operating income	199	435	221	177
80.	Administrative costs	-2,344	-4,774	-2,397	-2,065
	a) payroll	-1,480	-2,954	-1,485	-1,356
	<i>including:</i>				
	– wages and salaries	-1,055	-2,113	-1,058	-971
	– social security charges	-354	-705	-354	-320
	– termination indemnities	-69	-133	-72	-64
	– pensions and similar commitments	-2	-3	-1	-1
	b) other	-864	-1,820	-912	-709
90.	Adjustments to intangible and tangible fixed assets	-259	-584	-272	-217
100.	Provisions for risks and charges	-60	-194	-58	-98
110.	Other operating expenses	-41	-99	-40	-29
120.	Adjustments to loans and provisions for guarantees and commitments	-786	-1,509	-905	-899
130.	Writebacks of adjustments to loans and provisions for guarantees and commitments	462	491	266	258
140.	Provisions to the reserve for possible loan losses	-5	-11	-98	-
150.	Adjustments to financial fixed assets	-52	-129	-72	-72
160.	Writebacks of adjustments to financial fixed assets	2	-	1	-
170.	Income (losses) from investments carried at equity	108	287	127	6
180.	Income from operating activities	1,401	2,663	1,385	876
190.	Extraordinary income	642	340	86	108
200.	Extraordinary expenses	-60	-108	-45	-32
210.	Extraordinary income	582	232	41	76
230.	Change in reserve for general banking risks	-	-16	-7	-7
240.	Income taxes	-771	-1,035	-507	-409
250.	Minority interests	-41	-84	-42	-49
260.	Net income for the period	1,171	1,760	870	487

(*) The pro forma statements of income for 1998 and the first-half of 1999 have not been audited.

Explanatory notes

Introduction

Background information on the consolidated half-year financial statements

- Form and content of the consolidated half-year financial statements
- Scope of consolidation
- Financial statements used for the consolidation
- Consolidation principles
- Audit of the half-year report
- Comparison with the quarterly accounts as of June 30, 1999
- Criteria adopted for the preparation of 1998 pro forma information for the SANPAOLO IMI Group
- Translation into English

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- Section 2 - Adjustments and provisions recorded for fiscal purposes

Part B - Consolidated balance sheet

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Part C - Consolidated statement of income

- Section 1 - Interest
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- Section 4 - Administrative costs
- Section 5 - Adjustments, writebacks and provisions
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Introduction - Background information on the consolidated half-year financial statements

Form and content of consolidated half-year financial statements

The report on Group performance during the first half of 1999 has been prepared in accordance with Decree 87 of January 27, 1992, the CONSOB instructions approved in Resolution 8195 of June 30, 1994 (as amended by Resolution 9389 of August 1, 1995) and subsequent amendments to the above. For all matters not governed by special regulations, reference has been made to the Italian Civil Code and to national accounting standards.

The SANPAOLO IMI Group's half-year report is structured much like the annual consolidated financial statements, comprising a report on operations and the financial statements as of June 30, which are represented by the balance sheet, the statement of income and the explanatory notes. This ensures, as far as possible, the necessary continuity between the annual and half-year accounts.

As in the full-year financial statements, the report on operations describes the Group's financial position and its performance during the half-year, both as a whole and with reference to its various sectors of activity. The notes to the half-year financial statements provide details and analyses regarding balance sheet and statement of income information.

In addition to the information required by the Bank of Italy and CONSOB, the notes and the report on operations provide all the supplementary information considered necessary, even where not specifically required by law, in order to present a true and fair view of the Group's financial and operating position.

The amounts contained in the Group's half-year report are stated in billions of Italian lire, as per CONSOB Resolution 11661 of October 20, 1998. In accordance with CONSOB Recommendation 98083971 of October 26, 1998, the accounting tables have also been translated into millions of euro, using the fixed exchange rate of 1,936.27 lire to the euro.

The consolidated financial statements (balance sheet and statement of income) are presented together with comparative pro forma information as of June 30, 1998 and December 31, 1998. For the sake of consistency, the pro forma information for the full year includes SpA using the equity method rather than on a line-by-line basis (see below "Criteria adopted for the preparation of 1998 pro forma information for the SANPAOLO IMI Group").

The following schedules are attached to the consolidated half-year financial statements:

- Statement of changes in consolidated shareholders' equity;
- Statement of consolidated cash flows;
- Statement reconciling the Bank's half-year financial statements with the consolidated half-year financial statements;
- List of equity investments that exceed 10% of the capital of unquoted and private companies as of June 30, 1999 (as per Consob resolution no. 11715 of November 24, 1998);
- Financial statements (balance sheet and statement of income) in euro.

Scope of consolidation

The scope of line-by-line consolidation reflects membership of the SANPAOLO IMI Banking Group as recorded in the appropriate register in compliance with art. 64 of Decree 385 dated September 1, 1993, with the exception of certain minor subsidiaries whose balance sheets and results of operations are not significant to the consolidated financial statements, or which have been put into liquidation or listed for disposal. In addition to SANPAOLO IMI SpA (the Parent Bank), the Banking Group comprises those directly- and indirectly-controlled subsidiaries which carry out banking, finance or other activities which complement those of the Parent Bank.

The comparative information as of June 30, 1998 comprises the pro forma consolidation of the Sanpaolo Group and the IMI Group. With respect to this and the comparative information as of December 31, 1998, the following groups have been excluded from the scope of line-by-line consolidation as of June 30, 1999:

- Crediop (and its subsidiaries Crediop BV, Crediop Overseas Bank and C.Fin) since, following the disposal of a 20% interest, the Group no longer holds a controlling interest;
- Imigest Immobiliare (and its subsidiaries Tradital and Immobiliare Italia Gestioni) since this company is an element of the real estate business which SANPAOLO IMI SpA is preparing to spin-off in part;

Investments in subsidiaries whose activities differ from those of the rest of the Group, together with those excluded from the scope of consolidation for the above-mentioned reasons, are valued using the equity method, together with holdings in companies that are subject to significant influence since the Group controls at least 20% of the voting rights at ordinary meetings (i.e. associated companies).

Companies consolidated on a line-by-line basis and investments carried at equity are listed in Part B, Section 3 of these explanatory notes.

Financial statements used for the consolidation

The financial statements used for the consolidation are those prepared as of June 30, 1999, and approved by the boards of the subsidiaries concerned. They have been adjusted, where necessary, for consistency with Group accounting policies. The financial statements used for consolidation purposes of companies operating in the financial leasing sector were prepared using the financial method, which is more consistent with Group accounting policies.

Consolidation principles

The consolidated financial statements comprise the financial statements of the Parent Bank, SANPAOLO IMI, as supplemented to assimilate the line-by-line consolidation of the subsidiaries included in the scope of consolidation, the proportional consolidation of Finconsumo SpA (company subject to joint control), and the valuation at equity of associated companies.

The main consolidation principles adopted are as follows:

- The book value of investments in consolidated companies, held by the Parent Bank or other Group companies, is eliminated against the Group's interest in their shareholders' equity, and their assets and liabilities are combined on a line-by-line basis. The elimination of book value against shareholders' equity is carried out with reference to the values current at the time the investment was consolidated for the first time, or at the time the controlling interest was acquired. Where appropriate, any differences arising are allocated to the assets and liabilities of the consolidated companies concerned. Differences arising on application of the equity method are allocated to goodwill or negative goodwill arising on consolidation, depending on whether the value of the investment is higher or lower than the related portion of shareholders' equity. Goodwill is offset against any negative differences generated during the period. Residual goodwill is amortized over a period of five years.

More specifically, the comparison of book value with the corresponding portion of shareholders' equity is carried out:

- for investments held as of December 31, 1994, with reference to their balance sheets as of December 31, 1993, being the date the Parent Bank first prepared consolidated financial statements;
- for investments purchased subsequent to December 31, 1994, with reference to their balance sheets at the date of acquisition or, where these are not available, with reference to the balance sheets included in the official financial statements prepared closest to that date.
- for investments formerly belonging to the IMI Group, with reference to their shareholders' equity as of January 1, 1999 (effective date for accounting purposes of the merger between Sanpaolo and IMI). In addition, in order to more fairly present the financial information relating to these equity interests, the total additional value of the Group's portion of their shareholders' equity, determined with respect to their total book value, has been allocated to appropriate captions within consolidated shareholders' equity, in accordance with its treatment in the financial statements of the former IMI Group, instead of to "negative goodwill arising on consolidation".

- Intercompany receivables, payables, off-balance sheet transactions, costs and revenues are eliminated, as are any intercompany gains and losses arising from significant transactions between Group companies. By way of exception, given the provisions of art. 34, Decree 87/92, costs and revenues arising from intra-Group trading in securities and currency are not eliminated if such transactions were carried out on a normal market basis.
- Investments in companies carried at equity are stated at an amount equal to the corresponding portion of their shareholders' equity. Any valuation differences arising with respect to the capital and reserves acquired by the Group – to the extent not attributable to the specific assets and liabilities of the investments concerned – are allocated to goodwill/negative goodwill arising on application of the equity method. Valuation differences deriving from the results for the period reported by the various investments are classified under "Net income (loss) from investments carried at equity" in the consolidated statement of income. Goodwill is offset against any negative differences generated during the period. Residual goodwill is amortized over a period of five years.
- The foreign currency financial statements of consolidated companies are translated into lire using the period-end rates of exchange. Differences arising on the translation of their shareholders' equity using these closing rates of exchange are allocated to consolidated reserves, unless they are offset by specific hedging transactions.
- Adjustments and provisions made solely for fiscal purposes in the financial statements of companies consolidated on a line-by-line basis are eliminated.

Audit of the consolidated half-year report

The half-year report of the SANPAOLO IMI Group has been subjected to a limited audit by Arthur Andersen SpA, in accordance with CONSOB Recommendations 97001574 of February 20, 1997 and 10867 of July 31, 1997, and the shareholders' resolution of April 30, 1998.

Comparison with the quarterly accounts as of June 30, 1999

The consolidated half-year report, prepared using final accounting information for the Parent Bank and its subsidiaries, includes a number of changes with respect to the quarterly report as of June 30, 1999, which was presented at the end of July in order to provide advance information concerning the Group's results for the first six months of the year.

The differences are not significant and do not alter the substance of the information already provided. They relate primarily to:

- the completion of the reconciliation process and the elimination of intercompany transactions;
- a further provision against loans of 28 billion lire, recorded by the Parent Bank. This adjustment follows a deterioration in the solvency of a major borrower, which was identified during August. The account concerned is now classified as a problem loan.

Criteria adopted for the preparation of 1998 pro forma information for the SANPAOLO IMI Group

Pro forma financial statements as of December 31, 1998

To ensure the consistency of comparison, the financial statements as of December 31, 1998 are presented on a pro forma basis, taking into account that Crediop is no longer consolidated on a line-by-line basis. These pro forma accounts have been prepared by eliminating the contribution of Crediop and its fully consolidated subsidiaries from the individual financial statement captions, and by valuing the investment in Crediop using the equity method. Accordingly, the pro forma amounts reported for consolidated net income and shareholders' equity are identical to those already published.

Consistent with the approach adopted as from the 1999 half-year report, and pursuant to the Bank of Italy's instructions dated August 3, 1999, the pro forma statements reflect the reclassification of prepaid taxes from "prepaid expenses" to "other assets."

Pro forma financial statements as of June 30, 1998

For the sake of comparison with the consolidated financial statements at June 30, 1999, the financial statements as of June 30, 1998, are presented on a pro forma basis to reflect the combination of the accounts of the Sanpaolo and IMI Groups at that date. In addition to the exclusion of Crediop, on the basis described in relation to the preparation of the pro forma financial statements as of December 31, 1998, the necessary changes also included a number of adjustments to the official information published by the two separate Groups at that date.

These adjustments take account of certain differences in the formats and accounting policies previously adopted by the two Groups, as well as the changes in accounting policy made by the SANPAOLO IMI Group at the end of 1998. In addition, consistent with the approach adopted as from the 1999 half-year report, the pro forma financial statements as of June 30, 1998 also reflect the reclassification of prepaid taxes from "prepaid expenses" to "other assets."

Excluding the deconsolidation of Crediop, the effect of which is presented in the tables which follow, the main adjustments to the pre-merger financial statements presented separately by the two Groups as of June 30, 1998, are summarized below.

Pro forma statement of income for the first half of 1998

- interest income: this has been reduced by 10 billion lire following the reclassification of the "net positive differential on hedging transactions" reported by the San Paolo Group as a reduction of the IMI Group's larger "net negative differential on hedging transactions", which was classified under interest expense;
- interest expense: this has been increased by a total of 5 billion lire following the adjustment of interest income (reduction of 10 billion lire, as explained above) and commission expense on services (increase of 15 billion lire). The latter adjustment derives from a difference in the classification criteria adopted by the San Paolo and IMI Groups regarding the deferral of commissions on security placements over the economic lives of the transactions concerned;
- commission income: this has been increased by 15 billion lire, with a matching decrease in other net operating income, to align the classification of compensation on the early reimbursement of loans;
- commission expense: this has been reduced by a total of 1 billion lire, being the net effect of reclassifying 15 billion lire to interest expense, as mentioned above, and an increase of 14 billion lire following the reclassification of penalties arising from the early reimbursement of funding from operating expenses;
- other operating income: this has been reduced by 29 billion lire following the reclassification of commission income (15 billion lire regarding compensation for the early reimbursement of loans), of loan writebacks (4 billion lire collected in excess of book values), and of the book value of merchant banking investments sold during the period (9 billion lire);
- payroll expenses: these have been decreased by 59 billion lire, with corresponding increases in other administrative costs (39 billion lire) and extraordinary expenses (20 billion lire). This restatement follows changes in the classification of certain costs during 1998, consistent with guidelines issued by the Italian Accounting Profession (following the introduction of the IRAP tax and regarding, for example, staff training expenses, travel and transfers) and with Bank of Italy instructions (redundancy costs);
- other administrative costs: these have been increased by 51 billion lire, with corresponding reductions in payroll costs (39 billion lire) and extraordinary expenses (12 billion lire). These adjustments relate to the personnel expenses described above, and to the reclassification of charges incurred in support of the Interbank Deposit Guarantee Fund;

- provisions for loan losses: consistent with the adjustment of loans in the 1998 financial statements, the provision of 92 billion lire reported in the half-year financial statements of the former IMI SpA and eliminated from the former IMI Group's consolidated financial statements since it had been recorded solely for tax purposes, has been reinstated.

Pro forma balance sheet as of June 30, 1998

- loans: consistent with the financial statements as of December 31, 1998, loans to customers have been decreased by 1,156 billion lire both as a result of the changes in accounting policy introduced in 1998 (discounting to present value and new general writedowns) and following standardization of the policy regarding default interest. There has been a corresponding reduction in the provisions for loan losses reported in the financial statements of the former IMI SpA which, except for 268 billion lire, were classified as part of shareholders' equity in the consolidated financial statements of the former IMI Group, since they had been provided solely for tax purposes;
- adjustment solely to the official statements: prepaid taxes totalling 305 billion lire have been reclassified from prepaid expenses to other assets, consistent with the policy adopted as from the 1999 half-year report;
- equity reserves: these have been decreased by 435 billion lire, to reflect latent tax charges introduced at the end of 1998 with regard to the reserve for general banking risks, the reserve as per Law 169/83 and the reserves of the foreign subsidiary IMI International, whose distribution would result in a tax charge for the Parent Bank. Equity reserves have also been reduced by the deferred taxes provided by the Parent Bank on the adjustment of foreign currency balances using the fixed rates against the euro (pursuant to Art. 21 of Decree 213/98), and by 417 billion lire following the cancellation of shares in San Paolo held among the equity investments of the former IMI SpA;
- pro forma share capital: the post-merger amount has been reported, after cancellation of the shares in San Paolo held by the former IMI SpA (417 billion lire); the resulting changes have adjusted the reserves.

The adjustments required to determine the aggregate pro forma figures of the SANPAOLO IMI Group for the first half of 1998 are presented below in both the official and reclassified formats.

Translation into English

The financial statements have been translated into English from the original version in Italian. They have been prepared in accordance with the accounting principles established by the Italian law related to financial statements, which may not conform with generally accepted accounting principles in other countries.

Determination of the SANPAOLO IMI Group's pro forma reclassified statement of income for 1st half 1998

billions of lire

	San Paolo Group	IMI Group	Adjustments	Effect of deconsolidating Crediop	SANPAOLO IMI Group pro forma
Interest income and similar revenues	7,567	2,776	-10	-1,324	9,009
Interest expense and similar charges	-5,417	-2,251	-5	1,098	-6,575
NET INTEREST INCOME	2,150	525	-15	-226	2,434
Net commissions and other dealing revenues	1,325	326	2	31	1,684
Profits (losses) on financial transactions and investment income	324	144	-	-10	458
Profits from companies carried at equity and dividends from equity investments	10	94	-	53	157
NET INTEREST AND OTHER BANKING INCOME	3,809	1,089	-13	-152	4,733
Administrative costs	-2,065	-372	8	32	-2,397
of which:					
. payroll costs	-1,356	-204	59	16	-1,485
other administrative costs	-559	-141	-51	15	-736
. indirect duties and taxes	-150	-27	-	1	-176
Other net income	160	29	-	-2	187
Adjustments to tangible and intangible fixed assets	-217	-48	-11	4	-272
OPERATING INCOME	1,687	698	-16	-118	2,251
Adjustments to loans and provisions for risks and charges	-98	-5	-	45	-58
Adjustments to loans	-641	-9	-86	-1	-737
Adjustments to financial fixed assets, net	-72	-	-	1	-71
INCOME BEFORE EXTRAORDINARY ITEMS	876	684	-102	-73	1,385
Extraordinary income, net	76	18	-4	-49	41
INCOME BEFORE INCOME TAXES	952	702	-106	-122	1,426
Income taxes	-409	-189	17	74	-507
Change in reserve for general banking risks	-7	-	-	-	-7
Net income attributable to minority interests	-49	-40	-1	48	-42
NET INCOME FOR THE PERIOD	487	473	-90	-	870

Determination of the SANPAOLO IMI Group's pro forma reclassified balance sheet as of June 30, 1998

	<i>billions of lire</i>				
Assets	San Paolo Group	IMI Group	Adjustments	Effect of deconsolidating Crediop	SANPAOLO IMI Group pro forma
Cash and deposits with central banks and post offices	609	28	-	-	637
Loans	176,292	62,483	-1,156	-31,723	205,896
· <i>due from banks</i>	48,452	13,128	-	-3,973	57,607
· <i>loans to customers</i>	127,840	49,355	-1,156	-27,750	148,289
Dealing securities	38,073	14,978	-	-1,721	51,332
Fixed assets	8,546	2,986	-417	475	11,590
· <i>investment securities</i>	4,522	353	-	-3	4,872
· <i>equity investments</i>	880	1,847	-417	613	2,923
· <i>intangible fixed assets</i>	435	73	-	-10	498
· <i>tangible fixed assets</i>	2,709	713	-	-125	3,297
Differences arising on consolidation and on application of the equity method	155	89	5	-	249
Other assets	26,978	9,350	63	-1,284	35,105
Total assets	250,653	89,914	-1,505	-34,253	304,809
Liabilities and shareholders' equity	San Paolo Group	IMI Group	Adjustments	Effect of Deconsolidating Crediop	SANPAOLO IMI Group pro forma
Payables	201,147	72,137	-	-32,022	241,262
· <i>due to banks</i>	50,166	27,302	-	-5,851	71,617
· <i>due to customers and securities issued</i>	150,981	44,835	-	-26,170	169,644
Provisions	1,937	858	144	-194	2,745
· <i>for taxation</i>	647	279	412	-141	1,197
· <i>for termination indemnities</i>	744	93	-	-9	828
· <i>for risks and charges</i>	535	384	-268	-44	607
· <i>for pensions and similar commitments</i>	11	102	-	-	113
Other liabilities	33,849	8,440	-	-1,328	40,961
Subordinated liabilities	3,169	29	-	-250	2,948
Minority interests	499	331	1	-459	372
Shareholders' equity:	10,052	8,119	-1,650	-	16,521
· <i>capital</i>	8,160	3,000	-2,747	-	8,413
· <i>reserves</i>	1,405	4,646	1,188	-	7,239
· <i>net income for the period</i>	487	473	-90	-	870
Total liabilities and shareholders' equity	250,653	89,914	-1,505	-34,253	304,809
Guarantees and commitments	San Paolo Group	IMI Group	Adjustments	Effect of deconsolidating Crediop	SANPAOLO IMI Group pro forma
Guarantees given	21,626	662	-	1,903	24,191
Commitments	39,701	18,087	-	-3,402	54,386

Determination of the SAN PAOLO-IMI Group pro forma balance sheet as of June 30, 1998

	<i>billions of lire</i>				
Assets	San Paolo Group	IMI Group	Adjustments	Effect of deconsolidating Crediop	SANPAOLO IMI Group pro forma
10 Cash and deposits with central banks and post offices	609	28	-	-	637
20 Treasury bills and similar bills eligible for refinancing with central banks	14,814	828	-	-23	15,619
30 Due from banks	48,452	13,128	-	-3,973	57,607
a) repayable on demand	7,930	1,844	-	-773	9,001
b) other deposits	40,522	11,284	-	-3,200	48,606
40 Loans to customers	127,840	49,355	-1,156	-27,750	148,289
<i>including</i>					
- <i>loans using public funds</i>	99	46	-	-	145
50 Bonds and other debt securities	26,193	10,592	-	-1,686	35,099
a) public entities	17,557	7,374	-	-1,303	23,628
b) banks	6,355	2,602	-	-140	8,817
<i>including</i>					
- <i>own bonds</i>	2,518	558	-	-86	2,990
c) financial institutions	731	223	-	-243	711
<i>including</i>					
- <i>own bonds</i>	-	-	-	-	-
d) other issuers	1,550	393	-	-	1,943
60 Shares, quotas and other equities	1,588	3,900	-	-14	5,474
70 Equity investments	664	1,356	-417	613	2,216
a) carried at equity	159	11	-	686	856
b) other	505	1,345	-417	-73	1,360
80 Investments in Group companies	216	491	-	-	707
a) carried at equity	209	488	-	-	697
b) other	7	3	-	-	10
90 Goodwill arising on consolidation	26	30	5	-	61
100 Goodwill arising on application of the equity method	129	59	-	-	188
110 Intangible fixed assets	435	73	-	-10	498
<i>including</i>					
- <i>start-up costs</i>	5	1	-	-4	2
120 Tangible fixed assets	2,709	713	-	-125	3,297
140 Own shares	-	12	-	-	12
150 Other assets	16,620	7,147	368	-481	23,654
160 Accrued income and prepaid expenses	10,358	2,202	-305	-804	11,451
a) accrued income	9,481	1,951	-	-613	10,819
b) prepaid expenses	877	251	-305	-191	632
<i>including</i>					
- <i>discounts on bond issues</i>	107	8	-	-107	8
Total assets	250,653	89,914	-1,505	-34,253	304,809

billions of lire

Liabilities and shareholders' equity	San Paolo Group	IMI Group	Adjustments	Effect of deconsolidating Crediop	SANPAOLO IMI Group pro forma
10 Due to banks	50,166	27,302	-	-5,851	71,617
a) repayable on demand	7,259	3,450	-	-17	10,692
b) time deposits or with notice period	42,907	23,852	-	-5,834	60,925
20 Due to customers	74,795	11,431	-	-400	85,826
a) repayable on demand	48,746	5,035	-	-151	53,630
b) time deposits or with notice period	26,049	6,396	-	-249	32,196
30 Securities issued	76,081	33,358	-	-25,771	83,668
a) bonds	48,962	27,542	-	-25,144	51,360
b) certificates of deposit	24,065	3,300	-	-627	26,738
c) other securities	3,054	2,516	-	-	5,570
40 Public funds administered	104	46	-	-	150
50 Other liabilities	22,570	6,494	-	-320	28,744
60 Accrued expense and deferred income	11,279	1,945	-	-1,007	12,217
a) accrued expense	10,611	1,900	-	-913	11,598
b) deferred income	668	45	-	-94	619
70 Provision for termination indemnities	744	93	-	-9	828
80 Provisions for risks and charges	1,193	470	412	-186	1,889
a) pensions and similar commitments	11	102	-	-	113
b) taxation	647	279	412	-141	1,197
c) other	535	89	-	-45	579
90 Reserves for possible loan losses	-	296	-268	-	28
100 Reserve for general banking risks	29	658	-	-	687
110 Subordinated liabilities	3,169	29	-	-250	2,948
120 Negative goodwill arising on consolidation	39	-	-	-10	29
130 Negative goodwill arising on application of the equity method	6	206	-	165	377
140 Minority interests	499	331	1	-459	372
150 Capital	8,160	3,000	-2,747	-	8,413
160 Additional paid-in capital	275	-	-	-	275
170 Reserves	1,057	3,739	1,187	-155	5,828
a) legal reserve	206	768	-	-	974
b) reserve for own shares	-	12	-	-	12
c) statutory reserves	-	571	-	-	571
d) other reserves	851	2,388	1,187	-155	4,271
190 Retained earnings	-	43	-	-	43
200 Net income for the period	487	473	-90	-	870
Total liabilities and shareholders' equity	250,653	89,914	-1,505	-34,253	304,809

Guarantees and commitments	San Paolo Group	IMI Group	Adjustments	Effect of deconsolidating Crediop	SANPAOLO IMI Group pro forma
10 Guarantees given including:	21,626	662	-	1,903	24,191
- acceptances	402	-	-	-	402
- other guarantees	21,224	662	-	1,903	23,789
20 Commitments	39,701	18,087	-	-3,402	54,386

Determination of the SANPAOLO IMI Group's pro forma statement of income for 1st half 1998

	San Paolo Group	IMI Group	Adjustments	Effect of deconsolidating Crediop	SANPAOLO IMI Group pro forma
10 Interest income and similar revenues	7,567	2,776	-10	-1,324	9,009
<i>including from:</i>					
- loans to customers	5,051	1,917	-	-1,171	5,797
- debt securities	1,260	443	-	-42	1,661
20 Interest expense and similar charges	-5,417	-2,251	-5	1,098	-6,575
<i>including on</i>					
- deposits from customers	-1,494	-310	-	5	-1,799
- securities issued	-2,556	-1,064	-15	680	-2,955
30 Dividends and other revenues	77	143	-	-	220
a) from shares, quotas and other equities	73	117	-	-	190
b) from equity investments	4	26	-	-	30
40 Commission income	1,552	604	16	23	2,195
50 Commission expense	-215	-298	1	6	-506
60 Profits (losses) on financial transactions	251	26	-	-8	269
70 Other operating income	177	75	-29	-2	221
80 Administrative costs	-2,065	-372	8	32	-2,397
a) payroll	-1,356	-204	59	16	-1,485
<i>including</i>					
- wages and salaries	-971	-139	41	11	-1,058
- social security charges	-320	-37	-	3	-354
- termination indemnities	-64	-9	-	1	-72
- pensions and similar commitments	-1	-1	-	1	-1
b) other	-709	-168	-51	16	-912
90 Adjustments to intangible and tangible fixed assets	-217	-48	-11	4	-272
100 Provisions for risks and charges	-98	-5	-	45	-58
110 Other operating expenses	-29	-25	14	-	-40
120 Adjustments to loans and provisions for guarantees and commitments	-899	-8	2	-	-905
130 Writebacks of adjustments to loans and provisions for guarantees and commitments	258	5	4	-1	266
140 Provisions to the reserve for possible loan losses	-	-6	-92	-	-98
150 Adjustments to financial fixed assets	-72	-1	-	1	-72
160 Writebacks of adjustments to financial fixed assets	-	1	-	-	1
170 Income (losses) from investments carried at equity	6	68	-	53	127
180 Income from operating activities	876	684	-102	-73	1,385
190 Extraordinary income	108	28	4	-54	86
200 Extraordinary expenses	-32	-10	-8	5	-45
210 Extraordinary income	76	18	-4	-49	41
230 Change in reserve for general banking risks	-7	-	-	-	-7
240 Income taxes for the period	-409	-189	17	74	-507
250 Minority interests	-49	-40	-1	48	-42
260 Net income for the period	487	473	-90	-	870

Part A - Accounting policies

Section 1 - Description of accounting policies

The consolidated half-year report as of June 30, 1999, has been prepared using the accounting policies adopted in relation to the financial statements as of December 31, 1998. The consolidated half-year accounts have been prepared using the discrete approach, by which the reference period is considered to be an independent financial year. Accordingly, the half-year consolidated statement of income reflects both the ordinary and extraordinary components of income pertaining to the period, in accordance with the accrual principle.

In compliance with the Bank of Italy's instructions on deferred taxation, which were issued on August 3, 1999 and which will take effect from the 1999 financial statements, the treatment of deferred tax assets has been changed. In particular, where deductible timing differences exceed taxable timing differences, the net tax effect is now classified under caption 150 "other assets" (with a credit to income taxes), rather than under caption 160.b), "prepaid expenses."

Loans, guarantees and commitments

Loans

Loans, comprising principal not yet due and principal and interest due but not yet collected, are stated at their estimated realizable value, taking account of the solvency of borrowers in difficulty and any debt-servicing problems faced by individual industrial sectors or the countries in which borrowers are resident. The assessment performed also takes into consideration any guarantees received, market prices (where applicable) and general difficulties experienced by the different categories of borrower. Estimated realizable value is determined following a detailed review of loans outstanding at period-end, considering the degree of risk associated with the various forms of lending and the risk of default inherent in loans that are currently performing normally. The estimated realizable value of doubtful loans (non-performing, problem and restructured loans, loans being restructured and loans to companies under observation, assessed on a case-by-case basis) takes into consideration not only the likelihood of eventual recovery, but also the financial cost of delayed repayments and any total or partial failure to generate income.

In particular:

- non-performing loans, being loans to borrowers in a state of insolvency or similar, are valued on a case-by-case basis;
- problem loans, being loans to borrowers in temporary difficulties, are valued on a case-by-case basis;
- restructured loans, being loans for which a syndicate of banks (or a single bank) reschedules the repayment of principal or re-negotiates the applicable terms at lower-than-market rates, are valued on a case-by-case basis;
- loans being restructured, being loans for which the borrower has applied for consolidation to a variety of banks within the past 12 months, are valued on a case-by-case basis;
- loans exposed to "country risk", being loans to borrowers resident in countries with debt-servicing difficulties, are normally adjusted on a general basis by applying writedown percentages that are not lower than those specified by the banking association. In addition, specific positions are assessed on a case-by-case basis, using objective criteria, with reference to the category of risk concerned;
- performing loans, being loans to borrowers who, at this time, do not present specific insolvency risks, are valued on a general basis, except for the positions of certain companies under observation, which are assessed on a case-by-case basis. General adjustments to performing loans are calculated on a historical-statistical basis, taking into consideration the net average total of previously performing loans which became problem or non-performing loans during the last three years, and applying to this total the average percentage writedowns relating to each risk category.

The present value adjustments reflect the difference between book value and:

- estimated realizable value; or
- the discounted present value of future financial flows (principal and interest) or NPV.

The discounted present value of financial flows is determined by reference to expected cash receipts, the timing of such receipts and the applicable discounting rate.

The timing and extent of expected cash receipts are determined by the department responsible for the evaluation of lending, whose work includes reference to estimates and general statistics deriving from historical data and studies of the business sectors concerned.

With regard to the discounting rate applied as of June 30, 1999, the Parent Bank has used a reference rate of 5.96%, as applied at the end of 1998, since this reflects the best approximation of the average yield on the loan portfolio – considering the contractual rates currently applied by the Bank and the returns expected over the medium term. A similar approach has been adopted by subsidiary companies; foreign companies have applied reference rates appropriate to the markets concerned.

For the purpose of classifying loans as non-performing, problem, restructured, in course of restructuring or exposed to “country-risk”, reference is made to current supervisory regulations on the subject. These have been supplemented, with regard to the Parent Bank, by specific and detailed internal instructions regarding, in particular, aspects of implementation and the introduction of rules for the automatic transfer of loans between the various risk categories.

With regard to the Parent Bank, doubtful loans are classified to the various risk categories (non-performing, problem, restructured and being restructured) by the branches and Area Management, working together with the central functions responsible for the supervision of lending.

Following a review by the central functions responsible for the control and recovery of loans, the resulting estimated realizable values are formally approved by the committees and other levels within the organization empowered to take such decisions.

Default interest accrued during the period is eliminated from the statement of income since, for the sake of prudence, collection is considered unlikely.

Writedowns, both specific and general, are made by an adjustment to reduce the value of the asset recorded in the balance sheet on the basis discussed above. The original values may be reinstated by means of writebacks, should the reasons for any writedowns cease to apply.

The discounting process automatically means that there will be writebacks to discounted loans: in fact, the mere passage of time, with the consequent approach of the expected collection deadlines, implies an automatic reduction in the implicit financial charges previously deducted from the value of the loans.

Loans deriving from financing and deposit contracts

These are recorded at the amount disbursed. The difference between the amount of the loan granted to a customer and the amount actually disbursed is credited to the statement of income in accordance with the loan repayment plan. Loans backed by discounted notes, acquired within the scope of lending activities, are recorded in the financial statements at their nominal value, while the portion pertaining to future years is recorded among deferred income.

Reverse repurchase agreements on securities

Reverse repurchase agreements that require the holder to resell securities when the agreement matures are treated as lending transactions. The amounts disbursed in this way are therefore recorded as loans. Income from lending, comprising interest coupons on securities and the differential between the spot and forward prices for such securities, are recorded on an accruals basis as interest in the statement of income.

Loan of securities

Transactions involving the loan of securities guaranteed by funds freely available to the lender, are treated in the same way as repurchase agreements on securities. Securities loaned, not guaranteed by sums of money, are reported in the financial statements as a combination of two functionally-linked transactions: a loan to and a deposit from a third party (or vice versa). These transactions are essentially the same as repurchase agreements, which means that the securities loaned remain in the portfolio of the lender.

Finance leases

Lease transactions are recorded using lease accounting methodology, which states lease contracts and transactions in such a way as to disclose their economic substance. This approach, which recognizes the financial nature of leasing transactions, treats the excess of total lease payments over the cost of the related asset as interest income. Such income is credited to the statement of income with reference to the residual principal and the pre-determined rate of return, taking into consideration the end-of-lease purchase value of the asset. Accordingly, the balance of loans under finance leases reported in the consolidated financial statements essentially represents the outstanding principal on loans to customers and installments due but not yet collected.

Guarantees and commitments

Guarantees and commitments giving rise to lending risk are recorded at the total value of the exposure, while the related risk is assessed on the basis described in relation to loans. Expected losses in relation to guarantees and commitments are covered by the related provision.

Securities and off-balance sheet transactions (other than foreign currency transactions)

Investment securities

Investment securities, due to be held long term by the Group as stable investments, are valued at cost, as adjusted by accrued issue discounts and accrued dealing discounts (being the difference between the purchase cost of the securities and the related redemption price, net of issue discounts yet to mature).

Such securities are written down to reflect any lasting deterioration in the solvency of the issuers and the ability of the related nations to repay debt, except where suitable guarantees are available. The original value of investment securities is reinstated when the reasons for any writedowns cease to apply.

Dealing securities

Securities held for dealing and treasury purposes are stated at their average daily cost (as adjusted to reflect accrued issue discounts). Cost is determined as follows:

- securities quoted in organized markets: the official price quoted on the last trading day of the period;
- securities not quoted in organized markets: at the lower of cost or market value, determined with reference to quoted securities with similar characteristics. The original value of such securities is reinstated when the reasons for any writedowns cease to apply. Unquoted securities which are economically linked to derivative contracts are valued at market price, consistent with the accounting treatment of the contracts concerned.

Any transfers between the investment and dealing portfolios are made on the basis of the book value of the securities transferred at the time of the transaction; book value is determined using the method applicable to the originating portfolio. Securities transferred and still held at period-end are valued using the method applicable to the destination portfolio.

Commitments to buy or sell for securities transactions to be settled

Commitments to buy are valued on the basis applicable to the destination portfolio. The value of commitments to sell, on the other hand, takes into consideration the contractual forward sale price.

Equity investments

Equity investments not consolidated line-by-line or carried at equity are stated at cost, as revalued in the past at the time of transformation into a limited company or as a result of mergers, determined on a LIFO basis with annual layers. Cost is written down to reflect any permanent losses in value, taking into account any reductions in the equity value of the companies concerned and, where available, market prices. The original value of equity investments is reinstated if the reasons for any writedowns cease to apply.

Dividends from investments that are not consolidated line-by-line or carried at equity are recorded, together with the related tax credits, in the period in which they are collected.

Foreign currency assets and liabilities (including off-balance sheet transactions other than derivatives)

With the introduction of the euro, the term foreign currency refers to all currencies outside the EMU area.

Assets and liabilities denominated in foreign currency

Assets and liabilities denominated in foreign currencies, or in lire indexed to foreign exchange movements, as well as financial fixed assets funded in foreign currencies, or in lire indexed to foreign exchange movements, are valued using the spot exchange rates applying at period-end. Equity investments funded in lire and denominated in foreign currencies subject to local exchange-control restrictions (non-convertible currencies) are stated at the historical rates of exchange applying at the time of acquisition.

Foreign currency costs and revenues are stated using the exchange rates applying at the time they arose.

Unsettled spot and forward currency transactions

Unsettled spot and forward currency transactions carried out for hedging purposes are valued in the same way as the assets and liabilities being hedged, whether they are recorded on or off the balance sheet.

Transactions not carried out for hedging purposes are valued:

- at period-end spot exchange rates, in the case of spot transactions still to be settled;
- at period-end forward exchange rates for the maturity dates concerned, in the case of forward transactions.

The effect of these valuations is debited or credited to the statement of income.

Introduction of the euro

Following the fixing of permanent rates for the conversion to euro of the currencies of countries adhering to the EMU, the exchange differences arising on euro-zone assets and liabilities previously held at historical cost have also become permanent. The SANPAOLO IMI Group does not hold any such assets and liabilities at historical cost; accordingly, there are no latent foreign exchange differences to be recognized.

Tangible fixed assets

Tangible fixed assets are stated at purchase cost, including related charges and the cost of improvements. In certain cases, purchase cost may have been restated in case of transformation, at the time of mergers or as a result of applying revaluation laws.

Operating assets are depreciated on a straight-line basis over their residual useful lives. Tangible fixed assets are written down in cases where there is a permanent loss in value, regardless of how much depreciation has already been accumulated. The value of such assets is reinstated in future accounting periods if the reasons for any writedowns no longer apply.

Repair and maintenance expenses that do not enhance the value of the related assets are charged against income as incurred.

Intangible fixed assets

Intangible fixed assets are stated at purchase or production cost, including related charges, and amortized over the period they are expected to benefit, as described below:

- Formation and capital increase expenses and other deferred charges are amortized, generally on a straight-line basis, over five years.
- Costs incurred for the purchase of software or for its development using external resources are amortized, generally on a straight-line basis, over three years, taking account of the residual period such software is expected to benefit.
- The differences arising on the merger of Banca Provinciale Lombarda and Banco Lariano in 1993 and on the merger of Crediop - Credito per le Imprese e le Opere Pubbliche - in 1995, net of the portion allocated to more closely reflect the value of the related assets, are amortized on a straight-line basis. Amortization is provided over a period of ten years in the case of Banca Provinciale Lombarda and Banco Lariano, and over five years with regard to Crediop. These amortization periods reflect the durability of the goodwill accumulated by the merged banks, as determined by the expert appraisals prepared in relation to the respective mergers.

Payables

Payables are stated at their nominal value. The difference between the face value of loans received, or securities placed, and the amount actually received, is recorded in the financial statements among deferrals and released to the statement of income on an accruals basis, in accordance with the repayment plan implicit in the funding transaction. Zero-coupon securities issued are stated at their issue price plus accrued interest. Consistent with the policies described above, funding repurchase agreements that require the holder to resell the securities acquired when the agreement matures are recorded among payables, as are related securities borrowing transactions.

Funding repurchase agreements on securities issued by Group companies are not reported on the above basis if they are arranged by the issuing company concerned. In this case, they are recorded as securities issued with a forward repurchase commitment.

Provision for employee termination indemnities

The provision for employee termination indemnities represents the total liability due to each employee in accordance with current legislation and payroll agreements.

Provisions for risks and charges

Provisions for risks and charges cover known or likely liabilities whose timing and extent cannot be determined at period-end or at the time the financial statements are prepared.

Pensions and similar commitments

The accumulated provisions under this heading relate to supplementary pensions for the retired employees of former IMI. The contingency arising in this connection is assessed on the basis of independent actuarial appraisals, in order to determine the provisions to technical reserves needed to cover future pensions.

Taxation

The provision for taxation covers income taxes (IRPEG) and the regional tax on business activities (IRAP), taking account of taxes applicable in the countries in which branches operate, deferred taxation, and outstanding or potential fiscal disputes.

Income taxes for the period are prudently determined on the basis of current fiscal legislation with reference to the expected taxable income for the full year, taking account of disallowed costs and, with regard to the Parent Bank, the benefits deriving from the allocation of profits to a special reserve pursuant to Decree 153/99 issued in accordance with Law 461/98.

Deferred taxation reflects the tax effect of timing differences between the book value of assets and liabilities and their value for tax purposes, which will lead to taxable and deductible amounts in future years when there is reasonable evidence that such differences will reversal. To this end, and in compliance with international accounting standard IAS 12, taxable timing differences are defined as those which will give rise to taxable income in future years (deferred capital gains, for example); while deductible timing differences are defined as those which will give rise to deductible amounts in future years (such as provisions and costs that can be deducted for tax purposes over a period of years, e.g. loan writedowns that exceed 0.5% of total loans). If deductible timing differences exceed taxable timing differences, the net tax effect is classified under caption 130 - other assets – against income taxes.

The deferred taxation on equity reserves of the Parent Bank that will become taxable “however used”, as well as that on the equity reserves of foreign subsidiaries which, if distributed, would give rise to a tax charge for the Parent Bank, is charged against shareholders' equity. Deferred taxation relating to revaluations arising on conversion to the euro, credited to a specific reserve pursuant to art. 21 of Decree 213/98, is charged directly against this reserve.

No provision is made for reserves that would only become taxable in the event of distribution, if such reserves are allocated to accounts not available for distribution or the events which would give rise to such taxation are not expected to occur.

Other provisions

Provisions for guarantees and commitments cover losses in respect of guarantees given and, more generally, the contingencies associated with guarantees and commitments.

Other provisions for risks and charges cover estimated losses arising from legal action and, in particular, from repayments claimed by the receivers of bankrupt customers. They also cover possible charges in connection with guarantees given on the sale of equity investments, with the Group's commitment to support the Interbank Deposit Guarantee Fund and with other potential liabilities.

The provision for other personnel charges comprises:

- provisions made by the Parent Bank on the basis of an independent actuarial report to an independent supplementary pension fund to cover unfunded pension liabilities, as well as provisions for contributions that may be due in relation to the personnel of the Parent Bank;
- provisions made on an actuarial basis to set up the technical reserve needed to cover long-service bonuses payable when staff celebrate twenty-five and thirty-five years of employment.

Reserve for general banking risks

This reserve covers general business risks and, as such, forms part of shareholders' equity in compliance with international supervisory standards and Bank of Italy instructions.

Accruals and deferrals

Accruals and deferrals are recognized in accordance with the matching principle.

Derivative contracts

Derivatives on currency, securities, interest rates, stockmarket indices or other assets

Derivative contracts are valued individually using the methods applicable to the portfolio concerned (hedging contracts and non-hedging contracts).

The values determined are recorded separately in the balance sheet without off-setting assets and liabilities. Agreements between the parties for the compensation of reciprocal receivables and payables in the case of default by one of the counterparties ("master netting agreements") are not relevant for disclosure purposes, but are taken into consideration when assessing the counterparty's lending risk.

The values determined by the contract valuation process (hedging and non-hedging) are written down on a case-by-case or a general basis, where appropriate, in order to reflect the lending risk (counterparty and/or country risk) inherent in the contracts.

Hedging contracts

These are entered into with the aim of protecting the value of individual assets or liabilities, as well as any groups of assets or liabilities, on or off the balance sheet, from the risk of market fluctuations. In the case of off-balance sheet items, the hedging objective is achieved via the use of asset and liability management techniques. A transaction is considered to be a hedge in the presence of the following documented conditions:

- a) intent to enter into a hedge;
- b) high degree of correlation between the technical and financial characteristics of the assets and liabilities hedged and those inherent in the hedging contract.

If just one of the conditions above ceases to apply, then the contract is re-classified as "non-hedging".

Hedging derivatives are valued on a basis consistent with the assets and liabilities being hedged. The related procedures for presentation in the financial statements are summarized below:

Balance sheet: the period element of differentials or interest margins on contracts hedging the interest arising from interest-earning / bearing assets and liabilities is classified among "Accrued income" or "Accrued expenses". The period element of differentials on forward rate agreements hedging the interest arising from interest-earning / bearing assets and liabilities is classified among "Prepaid expenses" or "Deferred income". The market value of contracts hedging the risk of price fluctuations, and the effect of valuing contracts hedging the exchange risk on lending and funding activities (principal portion) using year-end spot exchange rates, are classified among "Other assets" or "Other liabilities". Contracts hedging investment securities, or total loans and deposits, are valued at cost.

Statement of income: where derivative contracts are intended to hedge the interest arising from interest-earning / bearing assets and liabilities, the related economic effect will form part of the interest margin on an accruals basis. In this case, the related differentials and margins are allocated either to interest income or to interest expense, depending on their nature. If, on the other hand, the derivative contract hedges the risk of market price or exchange fluctuations (principal portion), then the revenues or costs generated are treated as "Profits (losses) on financial transactions". More specifically, differentials and margins earned on derivative contracts hedging dealing securities are treated as interest, if they relate to multiple-flow contracts (e.g. IRS) or to single-flow contracts where the duration of the underlying asset is less than one year (e.g. FRAs); but as profits (losses) on financial transactions, if they relate to single-flow contracts where the duration of the underlying asset is more than one year (e.g. futures and options).

Non-hedging contracts

These are valued as follows:

Contracts on securities, interest rates, stockmarket indices and other assets: contracts quoted in organized markets are stated at their market value on the last day of the period. Contracts linked to reference indicators subject to official observation are stated on the basis of their financial value (replacement cost), determined with reference to the market quotations for those indicators on the last day of the period. Other contracts are valued with reference to other elements determined on an objective and consistent basis.

Foreign currency derivatives: these are stated using the forward exchange rates ruling at period-end for the maturity dates of the transactions subject to valuation.

The related procedures for presentation in the financial statements are summarized below:

Balance sheet: the amounts determined from the valuation of non-hedging contracts are classified as "Other assets" or "Other liabilities".

Statement of income: the economic effects of non-hedging derivative contracts are classified as "Profits (losses) on financial transactions".

Internal deals

The Parent Bank has adopted an organizational structure based on specialized trading desks that have exclusive authorization to deal in specific derivatives. The arrangement is inspired mainly by the goals of efficiency (lower transaction costs), improved management of market and counterparty risks, and the optimal allocation of specialized human resources. These desks manage portfolios consisting of various types of derivatives (and sometimes securities); they have their own books of account and established limits on net risk, and they are responsible for their own results.

The desks serve as counterparties to other desks (which are also autonomous from an accounting point of view) that are not authorized to deal in the market, by means of internal deals in derivatives at market prices. The non-specialized desks initiate these internal deals mainly for hedging purposes.

With regard to the accounting treatment of internal deals and their effect on income, it should be noted that:

- internal deals involving derivatives held in specialized desk portfolios are stated at market value;
- internal deals involving derivatives held in non-specialized desk portfolios are treated on a basis consistent with the assets or liabilities being hedged (for example, at market value if they hedge listed dealing securities and at cost if they hedge investment securities and/or deposits).

Settlement date

Currency and security transactions, interbank deposits and loans and the bills portfolio are recorded with reference to their settlement dates.

Section 2 - Adjustments and provisions recorded for fiscal purposes

Value adjustments recorded solely for fiscal purposes

Adjustments recorded solely for fiscal purposes by consolidated companies in their statutory financial statements have been reversed upon consolidation.

Provisions recorded solely for fiscal purposes

Provisions recorded solely for fiscal purposes by consolidated companies in their statutory financial statements have been reversed upon consolidation.

In particular, the net income and shareholders' equity of Crediop SpA, consolidated using the equity method, have been increased to reflect the reversal of provisions for loan losses, net of the related tax effect.

Part B - Consolidated balance sheet

Section 1 - Loans

The Group's loan portfolio is analyzed below by type of counterparty:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Due from banks (caption 30)	38,735	43,484	-10.9
Loans to customers (caption 40)	139,340	141,286	-1.4
Total	178,075	184,770	-3.6

Due from banks (caption 30)

Amounts due from banks include:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
a) deposits with central banks	328	1,154	-71.6
b) bills eligible for refinancing with central banks	-	-	-
c) finance leases	-	-	-
d) repurchase agreements	11,445	14,674	-22.0
e) securities loaned	3	81	-96.3

Deposits with central banks as of June 30, 1999, represent the compulsory reserve with the Bank of Italy, 328 billion lire (1,149 billion lire as of December 31, 1998).

Loans to customers (caption 40)

Loans to customers, which are analyzed by technical form in the report on operations, include:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
a) Bills eligible for refinancing with central banks	-	-	-
b) Finance leases	2,893	2,577	12.3
c) Repurchase agreements	3,772	9,350	-59.7
d) Securities loaned	1,050	141	644.7

"Secured loans to customers", excluding those granted directly to Governments or other public entities amount to 17,097 billion lire (17,115 billion lire as of December 31, 1998), and are detailed as follows:

Secured loans to customers

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
a) Mortgages	33,366	32,474	2.7
b) Pledged assets:			
1. cash deposits	552	495	11.5
2. securities (*)	7,818	12,606	-38.0
3. other instruments	330	1,533	-78.5
c) Guarantees given by:			
1. Governments	7,130	8,532	-16.4
2. other public entities	503	488	3.1
3. banks	2,612	2,419	8.0
4. other operators	16,534	14,260	15.9
Total	68,845	72,807	-5.4

(*) Includes repurchase and similar agreements guaranteed by underlying securities totalling 4,822 billion lire as of June 30, 1999 and 9,491 billion lire as of December 31, 1998.

Secured loans to customers and those granted directly to Governments or other public entities represent 61.7% of total loans to customers (63.6% as of December 31, 1998).

Degree of risk in loan portfolio

The principal and interest elements of loans are stated at their estimated realizable value by applying the policies described in detail in part A, section 1 of these notes. The related writedowns are made by directly reducing the consolidated balance sheet value of the loans concerned.

Since the introduction of the discounting technique in 1998, the estimated realizable value of problem loans takes into account not only the likelihood of recovery, but also the financial cost deriving from their total or partial failure to generate income and from the rescheduling of payments. Adjustments to discount loans to their present value as of June 30, 1999 total 775 billion lire, a decrease of 122 billion lire from 897 billion lire as of December 31, 1998. This reduction reflects writebacks of 216 billion lire, write-offs of 19 billion lire and new writedowns totalling 113 billion lire.

Analysis of loans to customers

	6/30/1999			12/31/1998 pro forma		
	Gross value	Total adjustments	Net book value	Gross value	Total adjustments	Net book value
A. Doubtful loans	12,806	6,223	6,583	13,150	5,913	7,237
A.1 Non-performing loans	8,720	5,151	3,569	8,740	4,859	3,881
A.2 Problem loans	3,453	943	2,510	3,758	907	2,851
A.3 Loans currently being restructured	10	3	7	4	1	3
A.4 Restructured loans	375	51	324	361	67	294
A.5 Unsecured loans exposed to country risk	248	75	173	287	79	208
B. Performing loans	133,305	548	132,757	134,612	563	134,049
Total loans to customers	146,111	6,771	139,340	147,762	6,476	141,286

The coverage of non-performing loans, gross of write-offs, is 69.1% compared with 66.5% at the end of 1998, while the equivalent figure for problem loans has risen to 36.6% from 33.7% at the end of 1998. Net of write-offs, the coverage of non-performing and problem loans is, respectively, 59.1% (55.6% in 1998) and 27.3% (24.1% in 1998).

Analysis of loans to banks

	6/30/1999			12/31/1998 pro forma		
	Gross value	Total adjustments	Net book value	Gross value	Total adjustments	Net book value
A. Doubtful loans	544	330	214	415	195	220
A.1 Non-performing loans	23	22	1	7	6	1
A.2 Problem loans	-	-	-	8	2	6
A.3 Loans currently being restructured	-	-	-	-	-	-
A.4 Restructured loans	-	-	-	-	-	-
A.5 Unsecured loans exposed to country risk	521	308	213	400	187	213
B. Performing loans	38,521	-	38,521	43,264	-	43,264
Total loans to banks	39,065	330	38,735	43,679	195	43,484

Movements in doubtful loans to customers

	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Gross value as of January 1, 1999	8,740	3,758	4	361	287
A.1 including: for default interest	1,738	111	-	1	-
B. Increases	629	902	6	71	32
B.1 transfers from performing loans	83	646	-	7	11
B.2 default interest	166	16	-	-	-
B.3 transfers from other categories of problem loan	240	40	6	41	-
B.4 other increases	140	200	-	23	21
C. Decreases	649	1,207	-	57	71
C.1 transfers to performing loans	34	123	-	5	21
C.2 write-offs	124	33	-	9	-
C.3 collections	461	769	-	28	33
C.4 disposals	-	-	-	-	-
C.5 transfers to other categories of problem loan	30	282	-	15	-
C.6 other decreases	-	-	-	-	17
D. Gross value as of June 30, 1999	8,720	3,453	10	375	248
D.1 Including: for default interest	1,836	94	-	1	-

Movements in doubtful amounts due from banks

	<i>billions of lire</i>				
	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Gross value as of January 1, 1999	7	8	-	-	400
<i>A.1 including: for default interest</i>	-	-	-	-	-
B. Increases	17	-	-	-	156
B.1 transfers from performing loans	15	-	-	-	43
B.2 default interest	-	-	-	-	-
B.3 transfers from other categories of problem loan	2	-	-	-	-
B.4 other increases	-	-	-	-	113
C. Decreases	1	8	-	-	35
C.1 transfers to performing loans	-	-	-	-	10
C.2. write-offs	-	-	-	-	1
C.3. collections	-	6	-	-	24
C.4. disposals	-	-	-	-	-
C.5. transfers to other categories of problem loan	-	2	-	-	-
C.6. other decreases	1	-	-	-	-
D. Gross value as of June 30, 1999	23	-	-	-	521
<i>D.1 including: for default interest</i>	-	-	-	-	-

Movements in adjustments made to loans granted to customers

	<i>billions of lire</i>					
	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Total adjustments as of January 1, 1999	4,859	907	1	67	79	563
<i>A.1 including: for default interest</i>	1,738	111	-	1	-	9
B. Increases	641	245	3	16	12	43
B.1 adjustments	582	217	1	3	9	24
<i>B.1.1 including: for default interest</i>	166	16	-	-	-	4
B.2 use of reserves for possible loan losses	-	-	-	-	-	-
B.3 transfers from other categories of problem loan	55	22	2	13	-	9
B.4 other increases	4	6	-	-	3	10
C. Decreases	349	209	1	32	16	58
C. 1. writebacks from valuations	136	69	-	16	7	16
<i>C. 1.1. including: for default interest</i>	-	-	-	-	-	-
C. 2. writebacks following collections	85	39	-	1	9	8
<i>C. 2.1. including: for default interest</i>	36	21	-	-	-	3
C. 3. write-offs	115	30	-	9	-	23
C. 4. transfers to other categories of problem loan	13	70	1	6	-	11
C. 5. other decreases	-	1	-	-	-	-
D. Total adjustments as of June 30, 1999	5,151	943	3	51	75	548
<i>D.1 including: for default interest</i>	1,836	94	-	1	-	12

As already discussed, total adjustments include 775 billion lire relating to the adoption of a policy of discounting doubtful loans. Writedowns for discounting purposes total 590 billion lire on non-performing loans, 162 billion lire on problem loans and 23 billion lire on restructured loans, loans being restructured and performing loans valued on a case-by-case basis.

Performing loans include 565 billion lire specifically under observation by the Parent Bank, covered by writedowns totalling 43 billion lire (including 1 billion lire for default interest). In addition, the inherent risk associated with other performing loans is covered by general writedowns of 457 billion lire.

The contingent asset represented by the possible recovery of default interest on loan positions previously written down amounts to around 400 billion lire.

Movements in adjustments made to loans granted to banks

	<i>billions of lire</i>					
	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Total adjustments as of January 1, 1999	6	2	-	-	187	-
<i>A.1 including: for default interest</i>	-	-	-	-	-	-
B. Increases	16	-	-	-	132	-
B.1 adjustments	3	-	-	-	110	-
<i>B.1.1 including: for default interest</i>	-	-	-	-	-	-
B.2 use of reserves for possible loan losses	-	-	-	-	-	-
B.3 transfers from other categories						
of problem loan	2	-	-	-	-	-
B.4 other increases	11	-	-	-	22	-
C. Decreases	-	2	-	-	11	-
C. 1. writebacks from valuations	-	-	-	-	6	-
<i>C. 1.1. including: for default interest</i>	-	-	-	-	-	-
C. 2. writebacks following collections	-	-	-	-	4	-
<i>C. 2.1. including: for default interest</i>	-	-	-	-	-	-
C. 3. write-offs	-	-	-	-	1	-
C. 4. transfers to other categories						
of problem loan	-	2	-	-	-	-
C. 5. other decreases	-	-	-	-	-	-
D. Total adjustments as of June 30, 1999	22	-	-	-	308	-
<i>D.1 including: for default interest</i>	-	-	-	-	-	-

Loans to customers and banks resident in nations exposed to country risk

billions of lire

Country	Exposure as of 6/30/1999					Net unsecured exposure as of 12/31/1998 pro forma	Change %
	Total exposure	of which: unsecured			Net exposure		
		Gross exposure	Gross weighted exposure	Total adjustments			
Brazil	233	147	81	24	123	78	57.7
Bahrain	54	54	54	8	46	-	n.s.
South Korea	43	43	43	7	36	34	5.9
Russia	1,162	334	334	300	34	114	-70.2
Qatar	104	36	36	7	29	31	-6.5
Argentina	136	28	28	5	23	23	-
Tunisia	35	22	13	1	21	1	n.s.
South Africa	19	19	19	3	16	28	-42.9
India	17	9	9	1	8	16	-50.0
Philippines	9	9	9	1	8	7	14.3
Morocco	275	10	9	2	8	8	-
Algeria	90	9	8	1	8	14	-42.9
Croatia	7	7	7	1	6	6	-
Other countries	1,042	42	37	22	20	61	-67.2
Total	3,226	769	687	383	386	421	-8.3

Adjustments to unsecured loans exposed to country risk have been made by applying the writedown percentages agreed by the Italian bankers' association. For loans not guaranteed to residents of the Russian Federation the amount of coverage was increased in the period from 60%, as prescribed by the Bankers' Association, to 90% in consideration of the lengthening of the financial crisis of the company. The additional writedowns following this change totalled 134 billion lire, of which 100 billion lire for loans and 34 billion lire for investment securities.

Secured loans, amounting to 2,457 billion lire, are insured by SACE (and similar foreign entities), by sureties from banks operating in the OECD (1,714 billion lire) or by other forms of guarantee deemed adequate to cover the lending risk (743 billion lire). The last mentioned mainly comprise Parent Bank loans of 583 billion lire granted to RAO Gazprom (Russia) and of 61 billion lire granted to the National Iranian Oil Company that are guaranteed by receivables deriving from supply contracts with leading West European companies. In compliance with Bank of Italy regulations, these loans are included in the calculation of country risk, which is deducted from the Group's capital for supervisory purposes.

Other information relating to loans

Information regarding the distribution of loans, by category of borrower, industry, geographical area, currency, maturity and liquidity, is provided in part B, section 11 of these notes.

Section 2 - Securities

Securities owned by the Group are analyzed as follows:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Treasury bills and similar bills eligible for refinancing with central banks (caption 20)	9,867	11,484	-14.1
Bonds and other debt securities (caption 50)	30,556	32,478	-5.9
Shares, quotas and other equities (caption 60)	8,578	2,316	270.4
Total	49,001	46,278	5.9

"Treasury bills and similar bills eligible for refinancing with central banks" represent securities that may be used for refinancing purposes but which, at the balance sheet date, had not been used for this purpose.

Investment securities

Securities recorded in the consolidated financial statements include those which will be held long term by Group companies and which have been reported as investment securities in their financial statements. The investment securities portfolio is analyzed as follows:

	6/30/1999		12/31/1998 pro forma	
	Book value (a)	Market value (b)	Book value (a)	Market value (b)
1. Debt securities				
1.1 Government securities				
– quoted	1,982	2,149	2,882	2,996
– unquoted	-	-	-	-
1.2 other securities				
– quoted	1,061	1,041	1,467	1,487
– unquoted	225	206	183	171
2. Equities				
– quoted	-	2	-	1
– unquoted	-	-	-	-
Total	3,268	3,398	4,532	4,655

(a) After period-end writedowns

(b) The market value of quoted securities is determined with reference to the simple average of prices over the last six months.

A comparison between the market value and book value of "Government securities" reveals a net unrealized, unrecorded gain in the income statement of 124 billion lire on unhedged securities and of 43 billion lire on securities hedged with interest rate swaps. Derivative valuations show an unrealized, unrecorded loss of 39 billion lire.

In addition to the contribution from the Parent Bank (364 billion lire), "Other securities" include the portfolio of a foreign subsidiary, totalling 734 billion lire, comprising EU government securities (25 billion lire) and securities issued by leading banks and other European operators (709 billion lire). The capital loss representing the difference between the market value and the book value of "other securities – unquoted" relates to South American and Eastern European securities held by the Parent Bank which are covered by a U.S. Treasury guarantee, the value of which on maturity covers 100% of the face value of the securities concerned.

Unsecured securities issued by residents in Russia that were previously written down by 60% as of December 31, 1998, are now written down by 90%, in view of the deterioration of the economic situation in that country. The additional writedown resulted in a charge of 34 billion lire to the statement of income.

"Equities" entirely comprise units in mutual funds included in the investment portfolios of certain subsidiary companies.

Overall, the total redemption value of investment securities exceeds their book value by 176 billion lire.

Dealing securities

Dealing securities comprise:

	6/30/1999		12/31/1998 pro forma	
	Book value	Market value	Book value	Market value
1. Debt securities				
1.1 Government securities				
– quoted	23,946	23,946	27,333	27,337
– unquoted	319	319	367	367
1.2 other securities				
– quoted	7,633	7,633	5,692	5,692
– unquoted	5,257	5,269	6,037	6,054
2. Equities				
– quoted	8,572	8,572	2,310	2,310
– unquoted	6	6	7	7
Total	45,733	45,745	41,746	41,767

Other information relating to securities

The composition of the securities portfolio is analyzed by geographical area, currency and liquidity in part B, section 11 of these notes.

Section 3 - Equity investments

Equity investments, reported in consolidated asset captions 70 and 80, are detailed below:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Equity investments (caption 70)	3,321	2,502	32.7
Investments in Group companies (caption 80)	1,230	736	67.1
Total	4,551	3,238	40.5
of which:			
- significant investments	2,086	1,858	12.3
- other holdings	2,465	1,380	78.6

Significant investments

Significant investments held by the Group, being those in subsidiary companies and in companies subject to significant influence, as defined in articles 4 and 19 of Decree 87/92, are listed in the table below:

Name	Registered office	Type of relationship (*)	Ownership Held by	Voting rights at share holders' meeting %	Consolidated book value (L/mil)
A. Companies consolidated line-by-line					
SANPAOLO IMI SpA (Parent Bank)	Turin				
<i>A.1 Line-by-line</i>					
1 Banca Fideuram SpA Banca IMI	Milan	1	SANPAOLO IMI	74.09 0.24 <hr/> 74.33	XXX XXX
2 Banca d'Intermediazione Mobiliare IMI SpA (Banca IMI)	Milan	1	SANPAOLO IMI	100.00	XXX
3 Banca IMI Securities Corp. (ex Mabon Sec. Corp.)	USA	1	IMI Capital Markets USA	100.00	XXX
4 Banque Sanpaolo SA	France	1	SANPAOLO IMI	100.00	XXX
5 Bonec Ltd	Ireland	1	Sanpaolo Bank Ireland	100.00	XXX
6 Fideuram Bank SA Fideuram Vita	Luxembourg	1	Banca Fideuram	99.99 0.01 <hr/> 100.00	XXX XXX
7 Fideuram Fiduciaria SpA	Rome	1	Banca Fideuram	100.00	XXX
8 Fideuram Fondi SpA	Rome	1	Banca Fideuram	99.25	XXX
9 Fideuram Gestioni Patrimoniali SIM SpA	Milan	1	Banca Fideuram	100.00	XXX
10 Fonditalia Management Company SA	Luxembourg	1	Banca Fideuram Fideuram Vita	99.96 0.04 <hr/> 100.00	XXX XXX

Name	Registered office	Type of relationship (*)	Ownership Held by	Voting rights at share holders' meeting %	Consolidated book value (L/mil)
11 IDEA SA (formerly Société de Gest. du funds I.M.I.F.)	Luxembourg	1	IMI International IMI Bank (Lux)	0.83 99.17 <u>100.00</u>	XXX XXX
12 IMI Bank (Lux) SA	Luxembourg	1	Banca IMI IMI Sigeco (UK)	99.99 0.01 <u>100.00</u>	XXX XXX
13 IMI Capital Markets USA Corp.	USA	1	IMI Investments	100.00	XXX
14 IMI Fideuram Asset Management SIM S.p.A	Milan	1	SANPAOLO IMI Banca Fideuram	50.00 50.00 <u>100.00</u>	XXX XXX
15 IMI International SA	Luxembourg	1	SANPAOLO IMI	100.00	XXX
16 IMI Investments SA	Luxembourg	1	Banca IMI IMI International	99.99 0.01 <u>100.00</u>	XXX XXX
17 IMI Lease SpA	Rome	1	SANPAOLO IMI	100.00	XXX
18 IMI Real Estate SA	Luxembourg	1	IMI Bank (Lux) IMI International	99.99 0.01 <u>100.00</u>	XXX XXX
19 IMI Sigeco (UK) Ltd	United Kingdom	1	Banca IMI	100.00	XXX
20 Imil Ltd.	Jersey	1	IMI International	100.00	XXX
21 Imitec SpA	Rome	1	Banca Fideuram	100.00	XXX
22 Independent Management for Institutional Advisory Co. SA	Luxembourg	1	IMI Bank (Lux) IMI Sigeco (UK)	99.80 0.20 <u>100.00</u>	XXX XXX
23 Interfund Advisory Company SA	Luxembourg	1	Banca Fideuram Fideuram Vita	99.92 0.08 <u>100.00</u>	XXX XXX
24 International Securities Advisory Company SA	Luxembourg	1	Banca Fideuram Fideuram Vita	99.98 0.02 <u>100.00</u>	XXX XXX
25 Intersim SpA	Milan	1	Banca IMI	100.00	XXX
26 Lackenstar Ltd	Ireland	1	Sanpaolo Bank Ireland	100.00	XXX
27 LDV Holding BV	Holland	1	SANPAOLO IMI	100.00	XXX (A)
28 Sanpaolo Asset Management SA	France	1	Banque Sanpaolo Hoche 52 Société Fonciere d'Investissement Société Immobiliere d'Investissement	99.97 0.01 0.01 0.01 <u>100.00</u>	XXX XXX XXX XXX
29 Sanpaolo Asset Management SIM SpA	Milan	1	Sanpaolo Fondi	100.00	XXX
30 Sanpaolo Bail SA	France	1	Banque Sanpaolo Hoche 52 Société Fonciere d'Investissement Sanpaolo Mur	99.97 0.01 0.01 0.01 <u>100.00</u>	XXX XXX XXX XXX
31 Sanpaolo Bank (Austria) AG	Austria	1	Sanpaolo Bank	100.00	XXX
32 Sanpaolo Bank SA	Luxembourg	1	SANPAOLO IMI	100.00	XXX
33 Sanpaolo Bank Ireland Plc	Ireland	1	SANPAOLO IMI	100.00	XXX
34 Sanpaolo Fiduciaria SpA	Turin	1	SANPAOLO IMI	100.00	XXX

Name	Registered office	Type of relationship (*)	Ownership	Voting rights at share holders' meeting %	Consolidated book value (L/mil)
			Held by		
35 Sanpaolo Fondi Sgr SpA	Turin	1	SANPAOLO IMI	100.00	XXX
36 Sanpaolo Fonds Gestion Snc	Luxembourg	1	Banque Sanpaolo Sanpaolo Asset Management SA	80.00 20.00 <u>100.00</u>	XXX XXX
37 Sanpaolo Gestion Internationale SA	Luxembourg	1	SANPAOLO IMI	100.00	XXX
38 Sanpaolo IMI Bank (International) SA (formerly IMI Bank Int.)	Madeira	1	SANPAOLO IMI IMI International IMI Bank (Lux) IMI Sigeco (UK) IMI Investments	69.01 30.98 0.003 0.003 0.003 <u>100.00</u>	XXX (D) XXX XXX XXX XXX
39 Sanpaolo IMI U.S. Financial Co. (formerly Sanpaolo U.S. Fin. Co.)	USA	1	SANPAOLO IMI	100.00	XXX
40 Sanpaolo Immobiliare SpA	Turin	1	SANPAOLO IMI	100.00	XXX
41 Sanpaolo Invest Sim SpA	Rome	1	SANPAOLO IMI	100.00	XXX
42 Sanpaolo Leasint SpA	Milan	1	SANPAOLO IMI	100.00	XXX
43 Sanpaolo Mur SA	France	1	Banque Sanpaolo Sanpaolo Bail	99.99 0.01 <u>100.00</u>	XXX XXX
44 Sanpaolo Riscossioni Genova SpA	Genoa	1	SANPAOLO IMI	100.00	XXX
45 Sanpaolo Riscossioni Prato SpA	Prato	1	SANPAOLO IMI	100.00	XXX
46 SEP SpA	Turin	1	SANPAOLO IMI	100.00	XXX
47 Société de Gestion du fonds commun de placement Fideuram Fund SA	Luxembourg	1	Banca Fideuram Fideuram Vita	99.20 0.80 <u>100.00</u>	XXX XXX
48 Tobuk Ltd	Ireland	1	Sanpaolo Bank Ireland	100.00	XXX
49 Turis AG	Switzerland	1	Banca Fideuram	100.00	XXX
50 Tushingam Ltd	Ireland	1	Sanpaolo Bank Ireland	100.00	XXX
<i>A.2 Proportional method</i>					
1 Finconsumo SpA	Turin	7	SANPAOLO IMI	50.00	XXX
B. Carried at equity					
Subsidiaries					
1 Beni Stabili SpA	Rome	1	SANPAOLO IMI	99.99	288,799 (C)
2 Cedar Street Securities Corp.	USA	1	Banca IMI Securities	100.00	80

Name	Registered office	Type of relationship (*)	Ownership		Voting rights at share holders' meeting %	Consolidated book value (L/mil)
			Held by			
3 Consorzio Studi e Ricerche Fiscali	Rome	1	SANPAOLO IMI Banca Fideuram Imigest Immobiliare Sanpaolo Fondi Sanpaolo Leasint Fideuram Vita Banca IMI		50.00 15.00 10.00 5.00 5.00 5.00 10.00	425
4 Fideuram Assicurazioni SpA	Rome	1	Banca Fideuram		100.00	27,914
5 Fideuram Vita SpA	Rome	1	Banca Fideuram		100.00	500,337
6 Galea Srl	Rome	1	Imigest Immobiliare		100.00	-
7 Gedit SA	Luxembourg	1	SANPAOLO IMI Sviluppi Immobiliari		90.00 10.00	-
8 IMI Sigeco (Nominees) Ltd.	United Kingdom	1	IMI Sigeco (UK)		100.00	3
9 Immobiliare Italia Servizi SpA	Rome	1	Imigest Immobiliare		67.00	-
10 Immobiliare Italia Gestioni SPA	Rome	1	Imigest Immobiliare		75.00	-
11 Immobiliare Roma Laurentino Srl	Rome	1	Imigest Immobiliare		100.00	-
12 Imigest Immobiliare SpA	Rome	1	SANPAOLO IMI		100.00	84,668 (B)
13 Independent Management for Institutional SICAV	Luxembourg	1	Independent Management for Institutional Adv. IMI Bank (Lux)		50.00 50.00	193 -
14 Leasint Servizi Integrati SpA	Milan	1	Sanpaolo Leasint		100.00	1,700
15 Pavim Srl	Rome	1	Tradital		100.00	-
16 Piramide Srl	Desio	1	Tradital		100.00	-
17 Prospettive 2001 SpA	Milan	1	SANPAOLO IMI		100.00	25,533
18 Sanpaolo Gestion Immobilière	France	1	Banque Sanpaolo Sanpaolo Bail Sanpaolo Asset Management SA		99.98 0.01 0.01	578
19 Sanpaolo IMI Institutional Asset Management SGR	Luxembourg	1	Banca IMI IMI Fideuram Asset Management Hoche 52		15.00 30.00 55.00	1,041 - -
20 Sanpaolo Leasint GMBH	Austria	1	Sanpaolo Leasint		100.00	177
21 Sanpaolo Services Lux SA	Luxembourg	1	SANPAOLO IMI Sanpaolo Bank		99.60 0.40	484
22 Sanpaolo IMI Investments SA	Luxembourg	1	SANPAOLO IMI IMI International		99.90 0.10	1,934
23 Sanpaolo Vita SpA	Milan	1	SANPAOLO IMI		100.00	200,025
24 Sanpaolo IMI Private Equity SpA (formerly IMI ABN-Amro Inv.)	Turin	1	SANPAOLO IMI		100.00	1,022 (A)
25 Servizi Previdenziali SpA	Rome	1	IMI Fideuram Asset Man.		100.00	1,500
26 Socavie SA	France	1	Banque Sanpaolo Société Immobilière Hoche-Beaujon		99.80 0.20	2,759
27 Société Civile Les Jardins d'Arcadie	France	1	Banque Sanpaolo		55.00	-
28 Société Civile Parisienne de l'Av. Hoche	France	1	Banque Sanpaolo		100.00	5,853

Name	Registered office	Type of relationship (*)	Ownership		Voting rights at share holders' meeting %	Consolidated book value (L/mil)
			Held by			
29 Société Fonciere d'Investissement	France	1	Banque Sanpaolo Hoche 52		99.92 0.08	-
					100.00	
30 Société Immobilière d'Investissement	France	1	Banque Sanpaolo Société Fonciere d'Investissement		99.98 0.02	198
					100.00	
31 Société Immobilière Hoche Beaujon	France	1	Banque Sanpaolo Hoche 52 Société Fonciere d'Investissement		99.92 0.04 0.04	57,968
					100.00	
32 SPB 1650 Van Ness Corp.	USA	1	SANPAOLO IMI		100.00	-
33 SPB Delta Towers LLC	USA	1	SANPAOLO IMI		100.00	2
34 Spei SpA	Rome	1	IMI Lease		100.00	1,512
35 Sviluppo Immobiliari SpA (formerly Apokè Six)	Milan	1	SANPAOLO IMI		100.00	16,500 (B)
36 Tradital SpA	Milan	1	Imigest Immobiliare		100.00	- (B)
37 Urbe Srl	Rome	1	Imigest Immobiliare		100.00	-
38 Apoke' Two Srl (in liquidation)	Rome	1	SANPAOLO IMI Sviluppo Immobiliari		94.67 5.33	-
					100.00	
39 Fidimi Consulting SpA(in liquidation)	Rome	1	SANPAOLO IMI		100.00	200
40 Crediop Finance PLC (in liquidation)	United Kingdom	1	SANPAOLO IMI		100.00	16
41 Hoche 52 (in liquidation)	France	1	Banque Sanpaolo Sanpaolo Bail Société Fonciere d'Investissement		99.92 0.04 0.04	-
					100.00	
42 IMI Bank AG (in liquidation)	Germany	1	IMI Bank Lux IMI International		95.24 4.76	2,564
					100.00	
43 Imifin SpA (in liquidation)	Rome		SANPAOLO IMI		100.00	-
44 IMI Funding Corp. (in liquidation)	USA	1	SANPAOLO IMI		100.00	156
45 Sanpaolo US Holding Co. (in liquidation)	USA	1	SANPAOLO IMI		100.00	5,862
Total investments in Group companies carried at equity						<u>1,230,003</u>
Associated companies						
46 Bafin	Castelfidardo	8	LDV Holding		23.00	10,597 (A)
47 Banca Italo-Romena SpA	Milan	8	SANPAOLO IMI		20.00	2,100
48 Beaujon Immobilière (formerly Options Financieres)	France	7	Banque Sanpaolo		50.00	817
49 BNC Assicurazioni SpA	Rome	8	SANPAOLO IMI		30.00	86,683
50 CBE Service S.p.r.l.	Belgium	8	SANPAOLO IMI		20.00	10
51 Conservateur Finance	France	8	Banque Sanpaolo		20.00	7,321
52 Consorzio U.Sa.S.	Turin	8	SANPAOLO IMI		28.60	-
53 Crediop SpA	Rome	8	SANPAOLO IMI		40.00	524,684
54 Egida Compagnia di Assicurazioni SpA	Turin	7	SANPAOLO IMI		50.00	8,404
55 Esatri SpA	Milan	8	SANPAOLO IMI		31.50	19,334
56 Eurofondo S.C.p.A.	Rome	8	SANPAOLO IMI		25.00	22

Name	Registered office	Type of relationship (*)	Ownership	Voting rights at share holders' meeting %	Consolidated book value (L/mil)
			Held by		
57 Eurosic SA	France	8	Banque Sanpaolo	32.77	56,849
58 Finnat Investments SpA	Rome	8	SANPAOLO IMI	20.00	220
59 Gedeam Investments Group Inc.	Luxembourg	8	SANPAOLO IMI	49.26	115,406
60 Galère 28	France	8	Banque Sanpaolo	23.43	3
61 IMAB Beteiligungsgesellschaft	Austria	8	LDV Holding	31.67	3,519 (A)
62 Inter-Europa Bank RT	Hungary	8	SANPAOLO IMI	32.50	17,696
63 Le Moulins de L'Eveque	France	8	Banque Sanpaolo	20.00	2
64 Logiasit SA	France	8	Banque Sanpaolo	20.00	3
65 Nordest Avio SpA	Rome	8	LDV Holding	33.00	502 (A)
66 Proger Srl	Pescara	8	Tradital	20.00	-
67 San Marino Gestion SA	Luxembourg	8	Sanpaolo Bank	20.00	345
68 S.I.M. Società Italiana Monitoraggio	Rome	8	SANPAOLO IMI	20.00	200
69 Societa' Generale Gestioni Immobiliare SpA	Rome	8	Tradital	50.00	-
70 Société Civile 26 Rue Richard Gardebled	France	8	Banque Sanpaolo	20.00	32
71 Société Civile 4 Av. Bouisson Bertrand	France	8	Banque Sanpaolo	20.00	-
72 Société Civile Impasse Montauray	France	8	Banque Sanpaolo	20.00	1
73 Société Civile Domaine De La Flambelle	France	8	Banque Sanpaolo	25.00	56
74 Société Civile du 41 Av. Bouisson Bertrand	France	8	Banque Sanpaolo	25.00	8
75 Société Civile Le Jardin de Nazareth	France	8	Banque Sanpaolo	20.00	4
76 Société Civile Le Maestro	France	8	Banque Sanpaolo	20.00	-
77 Société Civile Les Jardins du Ponant	France	8	Banque Sanpaolo	25.00	1
78 Société Civile Res Club les Arcades	France	8	Banque Sanpaolo	25.00	-
79 Société Civile St Gratien Village	France	8	Banque Sanpaolo	30.00	-
80 Société D'Etudes Ficatier-Courbevoie	France	8	Banque Sanpaolo	50.00	1
81 Consorzio Bancario S.I.R. SpA (in liquidation)	Rome	8	SANPAOLO IMI	32.49	975
82 Finexpance SpA (in liquidation)	Chiavari	8	SANPAOLO IMI	30.00	-
83 Galileo Holding SpA (in liquidation)	Marghera	8	SANPAOLO IMI	31.52	-
Total other investments carried at equity					<u>855,795</u>
Total investments carried at equity					<u>2,085,798</u>

(*) Type of relationship:

1 = control pursuant to art. 2359.1.1 of the Italian Civil Code (majority of voting rights at an ordinary meeting);

7 = joint control pursuant to art. 35.1 of Decree 87/92;

8 = associated company pursuant to art. 36.1 of Decree 87/92: companies over which "significant influence" is exercised, which is deemed to be the case if at least 20% of the voting rights at an ordinary meeting are held.

(A) This investment is held by the merchant banking business due to be transferred to Nuova Holding Subalpina SpA, in which SANPAOLO IMI will hold a controlling interest.

(B) Equity investment forming part of the assets to be spun-off to Beni Stabili SpA

(C) Due to the above spin-off, ownership of Beni Stabili SpA will decrease to 16.13%.

(D) The change of name is currently being ratified by the Portuguese authorities.

Among the other equity investments held by the Group as of June 30, 1999, the principal in terms of their book value are listed below:

Other equity

Name	Registered offices	Percentage ownership (%)	Book value (L/bln)
ADR International Airport South Africa	South Africa	0.40	14,718 (a)
Banca Agricola Mantovana SpA	Mantua	9.81	399,000
Banca d'Italia	Rome	2.00	106,414
Banca Mediocredito SpA	Turin	1.11	8,153
Banco del Desarrollo SA	Chile	16.21	30,907
Banco Santander Central Hispano SA	Spain	1.72	1,094,548
Banksiel SpA	Milan	7.00	5,475
Banque Michel Inchauspe SA	France	19.99	7,624
Banque Nationale de Paris SA	France	0.23	77,831
Biat SA	Tunisia	0.73	15,200
Cedel International	Luxembourg	1.33	6,192
Elsacom NV	The Netherlands	7.71	15,189 (a)
Fata Group SpA	Pianezza (Turin)	13.17	5,200 (a)
Ina SpA	Rome	3.72	349,702
Mediaset SpA	Milan	0.16	13,172 (a)
Rimoldi Necchi SpA	Milan	16.92	6,000 (a)
Salvagnini BV	The Netherlands	9.40	12,279 (a)
Simest SpA	Rome	3.31	9,308
Snia BPD SpA	Milan	1.78	33,241 (a)
Tecnost SpA	Ivrea (Turin)	1.40	116,743
Unim SpA	Rome	2.93	29,375 (b)
Unionvita SpA	Rome	15.00	9,015
Utet	Turin	17.90	21,615 (a)
Others			77,892
			Total 2,464,793

(a) These investments are held by the merchant banking business due to be transferred to Nuova Holding Subalpina SpA, in which SANPAOLO IMI will hold a controlling interest.

(b) Equity investment forming part of the assets to be spun-off to Beni Stabili SpA.

Composition of the investment portfolio

Analysis of caption 80 "Investments in Group companies"

	6/30/1999 (L/bln)	12/31/1998 pro-forma (L/bln)	Change %
a) Investment in banks			
1. quoted	-	-	-
2. unquoted	3	3	-
b) Investment in financial institutions			
1. quoted	-	-	-
2. unquoted	99	9	n.s.
c) Other investments			
1. quoted	-	-	-
2. unquoted	1,128	724	55.8
Total	1,230	736	67.1

Analysis of caption 70 "Equity investments"

	6/30/1999 (L/bln)	12/31/1998 pro-forma (L/bln)	Change %
a) Investment in banks			
1. quoted	1,604	214	649.5
2. unquoted	689	962	-28.4
b) Investment in financial institutions			
1. quoted	-	-	-
2. unquoted	176	285	-38.2
c) Other investments			
1. quoted	549	832	-34.0
2. unquoted	303	209	45.0
Total	3,321	2,502	32.7

The principal transactions during the period, which resulted in a net increase in the portfolio by 1,313 billion lire, with respect to December 31, 1998, a total of 4,551 billion lire, were:

Increases:

- Purchase of a 1.24% interest in Banco Santander Central Hispano for 925 billion lire.
- Purchase of shares in Banca Agricola Mantovana SpA for 399 billion lire within the framework of the public offer to buy shares in that bank launched by Monte dei Paschi di Siena.
- Purchase of shares in Beni Stabili SpA from the subsidiary Sviluppo Immobiliari for 22 billion lire and subscription of 267 billion lire to the share capital increase of Beni Stabili SpA; these transactions were made in preparation for the real estate spin-off.
- Acquisition of an interest in Tecnost SpA for 117 billion lire on accepting Olivetti's public offer to acquire shares in Telecom Italia SpA.
- Purchase of shares in INA SpA for 114 billion lire.
- Purchase of a 0.23% interest in Banque Nationale de Paris for 78 billion lire.

Decreases:

- Disposal of the interest in Telecom Italia SpA within the framework of the Olivetti bid, with a capital gain of 417 billion lire.
- Disposal of a 20% interest in Crediop SpA to the Dexia Group, with a capital gain of 181 billion lire. For consistency this holding has also been classified among non-Group investments as of December 31, 1998.

The interest in ENI SpA and part of the interest held in Mediaset SpA were transferred to the dealing portfolio during the period. The disposal of part these shares and the valuation of the remainder at market value, in compliance with the valuation criteria applied to the dealing portfolio, resulted in a total capital gain of about 73 billion lire.

Amounts due to and from controlled companies

The following table sets out the amounts due to and from companies belonging to the SANPAOLO IMI Banking Group, as defined pursuant to article 4 of Decree 87/92, and the amounts due to and from subsidiaries that are not part of the Group:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
a) Assets			
1. due from banks	-	789	-100.0
<i>of which:</i>			
- <i>subordinated</i>			
2. due from financial institutions	96	-	n.s.
<i>of which:</i>			
- <i>subordinated</i>			
3. due from other customers	398	486	-18.1
<i>of which</i>			
- <i>subordinated</i>			
4. bonds and other debt securities	-	-	-
<i>of which</i>			
- <i>subordinated</i>			
Total assets	494	1,275	-61.3
b) Liabilities			
1. due to banks	-	251	-100.0
2. due to financial institutions	1	1	-
3. due to other customers	1,000	88	n.s.
4. securities issued	1,342	291	n.s.
5. subordinated liabilities	-	-	-
Total liabilities	2,343	631	n.s.
c) Guarantees and commitments			
1. guarantees given	28	1,125	-97.5
2. commitments	-	-	-
Total guarantees and commitments	28	1,125	-97.5

Section 4 - Tangible and intangible fixed assets

Tangible fixed assets (caption 120)

Tangible fixed assets comprise:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Property			
- operating	2,187	2,122	3.1
- non-operating	413	718	-42.5
- undergoing renovation	35	26	34.6
Furniture and installations			
- vehicles	2	2	-
- office furniture and machines	71	108	-34.3
- electronic equipment	93	80	16.3
- general and specific installations	55	54	1.9
Total	2,856	3,110	-8.2

Advances paid for the purchase of tangible fixed assets totalled 2 billion lire at period-end.

Real estate spin-off transaction

The shareholders' meeting held on 7/28/1999 approved the spin-off of assets held by SANPAOLO IMI SpA totalling 1,302 billion lire to Beni Stabili SpA. These assets consist of property, equity investments in Sviluppo Immobiliari SpA, IMIGEST Immobiliare SpA and UNIM SpA, loans to Sviluppo Immobiliari SpA and IMIGEST Immobiliare SpA, liquid assets and prepaid and deferred taxes relating to the segment to be spun-off. The total value of the assets to be spun-off for consolidation purposes is 1,357 billion lire, due to the effect of valuing subsidiary companies using the equity method.

As of 12/31/1998 the book value of the Parent Bank's property to be spun-off was 733 billion lire, including non-operating property used by third parties (335 billion lire), property currently used by the commercial network (346 billion lire) and other property for sale (52 billion lire), of which 36 billion lire relates to non-operating property and 16 billion lire to operating property.

Intangible fixed assets (caption 110)

Intangible fixed assets comprise:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Merger differences (goodwill of merged companies)	193	228	-15.4
Goodwill	50	67	-25.4
Other deferred charges	274	279	-1.8
Total	517	574	-9.9

The differences arising on the mergers of Banca Provinciale Lombarda and Banco Lariano in 1993 and that of Crediop in 1995 are recorded in the financial statements since they represent goodwill relating to merged companies. Such differences are stated net of the amounts allocated to the related assets acquired.

Goodwill reflects the value that emerged on the acquisition of a business segment in prior years. It is currently being amortized in the financial statements of a finance company that formed part of the IMI Group.

Other deferred charges include:

- 127 billion lire for software costs which will benefit future years, 46 billion lire of which relates to investments made in connection with the introduction of the euro;
- 30 billion lire for improvements to rented property;
- 4 billion lire for start-up and expansion costs.

The bases adopted for the analysis and accounting recognition of these charges are consistent with the current accounting principles and CONSOB recommendations. In particular, amounts have been deferred as intangible fixed assets if they will benefit future years, rather than just the accounting period in which they were incurred.

No advance payments have been made for the purchase of intangible fixed assets.

Section 5 - Other assets

Asset captions 150 and 160 comprise the following:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Other assets (caption 150)	25,663	26,541	-3.3
Accrued income and prepaid expenses (caption 160)	6,948	8,581	-19.0
Total	32,611	35,122	-7.1

Other assets (caption 150)

Analysis of caption 150 "Other assets"

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Valuation of derivative contracts on interest rates and stockmarket indices	11,986	13,723	-12.7
Unprocessed transactions (a)	2,461	1,516	62.3
Transactions by foreign branches	736	1,175	-37.4
Amounts in transit between branches and subsidiaries (a)	2,491	3,425	-27.3
Due from tax authorities	1,368	1,506	-9.2
- tax credits relating to prior years	493	554	-11.0
- tax withholdings overpaid during the period on bank interest income	215	124	73.4
- taxes withheld during the period	21	51	-58.8
- taxes paid in advance on termination indemnities (Law 662/96)	92	91	1.1
- advance direct taxes	261	472	-44.7
- other credits	286	214	33.6
Effect of currency hedges, forex swap and cross-currency swap transactions	1,603	912	75.8
Tax collection accounts	1,074	292	267.8
Net effect of translating funds from international agencies using current rates, with the exchange risk borne by third parties	139	93	49.5
Deposits with clearing-houses to secure derivative contracts	4	41	-90.2
Premiums paid on purchased options	411	339	21.2
Prepaid taxes	990	1,026	-3.5
Value date adjustments	193	415	-53.5
Checks and other instruments held	111	72	54.2
Items relating to securities transactions	81	58	39.7
Other	2,015	1,948	3.4
Total	25,663	26,541	-3.3

(a) Largely allocated at the beginning of the following accounting period.

As mentioned in Section A of these notes, the criteria adopted for the disclosure of deferred tax assets has been modified in line with indications provided by the Bank of Italy. These are now classified under caption 150 – Other assets – rather than under caption 160 b) prepaid expenses.

Section 6 - Payables

Due to banks (caption 10)

Deposits taken from banks are analyzed as follows:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Due to central banks			
- repurchase agreements and securities borrowed	4,909	-	n.s.
- other deposits from the Italian Exchange Office	150	72	108.3
- other deposits from central banks	482	380	26.8
- advances	-	46	-100.0
Due to banks			
- deposits	16,591	17,928	-7.5
- repurchase agreements and securities borrowed	7,162	9,890	-27.6
- long-term loans from international bodies	7,911	8,413	-6.0
- current accounts	5,357	3,341	60.3
- other	7,160	8,609	-16.8
Total	49,722	48,679	2.1

Long-term loans from international bodies include loans used by the Parent Bank to finance investment projects in industrial sectors and public utility services.

Due to customers and securities issued (captions 20 and 30)

Funds obtained from customers, comprising deposits and securities issued, are detailed below:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Due to customers			
- current accounts	55,506	50,738	9.4
- repurchase agreements and securities borrowed	12,115	17,162	-29.4
- savings deposits	7,282	7,307	-0.3
- short-term payables relating to special management services carried out for the government	971	1,162	-16.4
- other (*)	12,252	10,875	12.7
Securities issued			
- bonds	47,224	50,144	-5.8
- certificates of deposit	17,278	22,771	-24.1
- bankers' drafts	839	536	56.5
- other securities	4,264	2,785	53.1
Total	157,731	163,480	-3.5

(*) Includes short positions on securities in connection with trading activities

There have been no issues of bonds convertible into shares of the Parent Bank or other companies, or similar securities or bonus shares.

Public funds administered (caption 40)

Public funds administered are provided by the State and other public entities mainly to act as a source of assisted loans to customers. These funds are analyzed below:

	6/30/1999 (L/bln)	12/31/1998 pro-forma (L/bln)	Change %
Funds provided by the State	21	26	-19.2
Funds provided by regional public agencies	44	49	-10.2
Other funds	50	59	-15.3
Total	115	134	-14.2
<i>of which:</i> <i>funds with risk borne by the government under Law 19 of 2/6/87</i>	36	42	-14.3

Other information relating to payables

Information regarding the distribution of deposits by geographical area currency and degree of liquidity is reported in part B, section 11 of these notes.

Section 7 - Provisions

Provisions are detailed below:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Provision for termination indemnities (caption 70)	840	835	0.6
Provisions for risks and charges (caption 80)			
- pensions and similar commitments (caption 80a)	125	128	-2.3
- taxation (caption 80b)	1,407	2,280	-38.3
- other (caption 80c)			
- provisions for guarantees and commitments	68	77	-11.7
- provisions for other risks and charges	416	446	-6.7
- provisions for other personnel charges	202	203	-0.5
Reserve for possible loan losses (caption 90)	41	36	13.9
Total	3,099	4,005	-22.6

Provisions for risks and charges

Pensions and similar commitments (caption 80.a)

This provision covers charges relating to the supplementary pensions of former IMI SpA personnel that have already retired. The extent of the potential liability is determined on the basis of an independent actuarial appraisal.

Taxation (caption 80.b)

Current taxes cover income taxes due, including local taxes payable by foreign branches and subsidiaries, as well as outstanding and potential fiscal disputes.

Fiscal disputes regarding the Parent Bank generally relate to legislative uncertainties about the definition of taxable income. The various levels of tax commission decisions have confirmed the approach taken by the Bank. The most significant dispute relates to the size and tax treatment of the difference arising on the merger of Banca Popolare dell'Agricoltura in 1986; the Turin regional tax commission has essentially confirmed the approach taken by the Bank. If this decision is accepted by the tax authorities, the total additional tax charge would amount to less than 10 billion lire. The dispute is currently pending before the Corte di Cassazione.

The subsidiary Fideuram Vita is in dispute with the tax authorities regarding the years from 1985 to 1990. Regarding the first three years, the company obtained a favorable ruling from the first level commission, but the rulings from the second and third level courts were unfavourable. In the belief that it will be possible to overturn these rulings, the company has appealed to the Corte di Cassazione. Regarding the three subsequent years, the first level tax commission concurred with all of the company's submissions; the fiscal authorities have appealed against this ruling. The verdict from the hearing before the tax commission in July 1999 is still not known, although the company is confident of a favourable outcome. Accordingly, no specific provisions have been made by the company with regard to these contingencies.

With reference to the results for the first half of 1999, a new estimate of deferred taxes has been made. This estimate takes into account the new timing differences arising between the book and fiscal value of assets and liabilities during the first six months of the year, as well as the reversal of timing differences that arose in prior years. In particular, 124 billion lire of prepaid taxes booked in 1998 were annulled, while taxes prepaid during the period amounted to 88 billion lire. Due to these movements, total taxes prepaid by the Group amount to 990 billion lire as of June 30, 1999. They are classified among other assets.

Provisions for risks and charges - Other provisions (caption 80.c)

Provisions for guarantees and commitments, 68 billion lire, cover expected losses in respect of guarantees given and, more generally, the contingencies associated with the Group's guarantees and commitments.

Provisions for other risks and charges, 416 billion lire, include provisions made by the Parent Bank totalling 259 billion lire to cover expected losses deriving from legal action including, in particular, the repayments claimed by receivers of bankrupt customers, as well as charges which might arise in connection with guarantees given on the disposal of equity investments, from the commitment to the Interbank Deposit Guarantee Fund, and from other contingencies. These provisions also include 39 billion lire recorded by Banque Sanpaolo and 91 billion lire recorded by the subsidiaries which distribute financial products, in order to cover the operating risks typical of their respective areas of business. Smaller provisions have also been recorded by other Group companies.

The provision for other personnel charges, 202 billion lire, includes:

- 186 billion lire provided by the Parent Bank, on the basis of an independent actuarial appraisal, to cover the unfunded liabilities of its independent supplementary pension fund;
- 15 billion lire provided to cover long-service bonuses earned by employees;
- 1 billion lire provided to cover contingencies relating to employees and the renovation of the Frankfurt and New York branches.

Reserve for possible loan losses (caption 90)

This caption reflects provisions made by certain subsidiaries to cover lending risks - including the risks deriving from derivative transactions for unspecified contingencies.

Section 8 - Capital, reserves, reserve for general banking risks and subordinated liabilities

The Group's interest in shareholders' equity is detailed below:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Shareholders' equity			
- capital (caption 150)	8,413	8,413	-
- reserves (caption 170)			
- legal reserve	1,682	1,682	-
- reserve for own shares	88	10	n.s.
- other reserves	4,166	3,873	7.6
- reserve for general banking risks (caption 100)	696	696	-
- negative goodwill arising on consolidation (caption 120)	28	28	-
- negative goodwill arising on application of the equity method (caption 130)	460	322	42.9
- net income for the period (caption 200)	1,171	1,760	-33.5
Group interest in shareholders' equity	16,704	16,784	-0.5
Minority interests (caption 140)	330	280	17.9
Subordinated liabilities (caption 110)	2,606	2,675	-2.6

Group interest in consolidated shareholders' equity

Capital, equity reserves and net income for the period (captions 150, 170 and 200)

Capital, the legal reserve and the statutory reserve reflect the amounts reported in the financial statements of the Parent Bank; "other reserves" include the remaining reserves of the Parent Bank and changes during the period in the Group's interest in the shareholders' equity of consolidated companies (excluding their net income); the reserve for general banking risks comprises amounts reported by the Parent Bank and other companies consolidated line-by-line; net income for the period represents the net income of the Parent Bank and the Group's interest in the net income of other companies falling within the scope of consolidation. The revaluation reserves, if any, are attributable entirely to minorities on the basis of their equity ratios.

Capital amounts to 8,413,109,688,000 lire and is represented by 1,402,184,948 issued and fully-paid ordinary shares, par value 6,000 lire each.

Reserve for general banking risks (caption 100)

The reserve for general banking risks comprises 650 billion lire recorded by the Parent Bank and 46 billion lire recorded by certain subsidiary companies.

Negative goodwill arising on consolidation (liability caption 120)

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Sanpaolo Bank SA	17	17	-
Sanpaolo Invest Sim SpA	7	7	-
Intersim SpA	2	2	-
Sanpaolo Gestion International SA	1	1	-
Other	1	1	-
Total	28	28	-

Goodwill arising on consolidation (asset caption 90)

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Sanpaolo Fondi SpA	13	15	-13.3
Finconsumo SpA	4	5	-20.0
Sanpaolo Riscossioni Genova SpA	1	1	-
Total	18	21	-14.3

Negative goodwill arising on application of the equity method (liability caption 130)

Negative goodwill arising on application of the equity method reflects the additional net value of investments carried at equity (subsidiaries not consolidated line-by-line and significant investments reported in Part B - Section 3 of these explanatory notes) with respect to their carrying values reported in the financial statements of the Group companies concerned. This caption, which totals 460 billion lire, essentially reflects the retained earnings of subsidiary companies operating in the insurance sector and of Crediop SpA.

Goodwill arising on application of the equity method (asset caption 100)

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Sanpaolo Vita SpA	69	92	-25.0
Total	69	92	-25.0

Goodwill arising on application of the equity method, classified among assets, reflects goodwill paid on the acquisition of investments carried at equity. Such goodwill is amortized over a number of years.

Transactions in own shares

The shareholders' meeting of the Parent Bank held on April 30, 1999 authorized the allocation of a reserve for the purchase of own shares totalling 1,500 billion lire. This reserve was funded by a transfer from the merger surplus reserve that arose on the merger with the former IMI SpA. The maximum number of own shares which can be purchased, on one or more occasions over a period of 18 months from the date the resolution, is 140 million shares. The Parent Bank did not buy or sell any own shares during the first half of 1999.

Transactions in the shares of SANPAOLO IMI SpA were arranged during the period by Banca d'Intermediazione Mobiliare IMI SpA and its subsidiaries IMI Sigeco UK Ltd and Intersim SpA as part of their trading activities – principally with regard to the financial coverage of transactions involving FIB 30 futures and options. As of June 30, 1999, Banca d'Intermediazione Mobiliare IMI SpA held 3,436,356 shares (total par value 20,618,136,000 lire) with a book value of 88 billion lire, and Intersim SpA held 219 shares (total par value 1,314,000 lire); IMI Sigeco UK did not hold any shares in the Parent Bank.

Effects of the real estate spin-off

The real estate spin-off, mentioned earlier, will reduce the book value of consolidated shareholders' equity by 1,357 billion lire, as follows:

- capital will decrease by 799 billion lire;
- the legal reserve will decrease by 160 billion lire;
- other reserves will decrease by 398 billion lire.

Minority interests (caption 140)

Minority interests totalling 330 billion lire essentially relate to the interest in equity attributable to the minority shareholders of Banca Fideuram.

Subordinated liabilities (caption 110)

Subordinated liabilities include subordinated debt totalling 215 billion lire which is not included in the calculation of the regulatory capital.

Contractually, subordinated loans may not be redeemed early, nor converted into capital or any other type of liability. In particular, such contracts lay down that:

- early redemption can only take place on the issuer's initiative and with the authorization of the Bank of Italy;
- the loan period must not be less than five years: if no maturity is stated, the contract must state that a notice period of at least five years has to be given;
- in the event that the issuer is put into liquidation, these subordinated loans can only be reimbursed once all other creditors, not similarly subordinated, have been satisfied.

Other information on subordinated liabilities

Information regarding the distribution of subordinated liabilities by geographical area, currency and degree of liquidity is reported in part B, section 11 of these notes.

Regulatory capital

In line with Bank of Italy guidelines on disclosure of information, regulatory capital is analyzed below together with the minimum requirements for supervisory purposes.

	6/30/1999 (L/bln)	12/31/1998 (*) (L/bln)	Change %
A. Regulatory capital			
A.1 Tier 1 capital	15,522	15,577	-0.4
A.2 Tier 2 capital	2,256	2,474	-8.8
A.3 Items to be deducted	-892	-224	298.2
A.4 Regulatory capital	16,886	17,827	-5.3
B. Minimum regulatory requirements			
B.1 Lending risk	11,740	11,272	4.2
B.2 Market risk	950	1,472	-35.5
<i>of which:</i>			
- risks on trading portfolio	843	1,392	-39.4
- exchange risks	107	80	33.8
B.3 Other minimum requirements	68	110	-38.2
B.4 Total minimum requirements	12,758	12,854	-0.7
C. Risk assets and capital-adequacy ratios			
C.1 Risk-weighted assets	159,475	160,663	-0.7
C.2 Tier 1 capital/risk weighted assets	9.7%	9.7%	
C.3 Regulatory capital/risk weighted assets	10.6%	11.1%	

(*) This information represents the regulatory capital calculated as of December 31, 1998 in compliance with Bank of Italy's instructions, and has not been restated.

A statement of changes in consolidated shareholders' equity during the period is attached to these notes, together with a reconciliation of the Parent Bank's net income and shareholders' equity with the corresponding consolidated amounts.

Section 9 - Other liabilities

Liability captions 50 and 60 comprise the following:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Other liabilities (caption 50)	30,016	28,160	6.6
Accrued expense and deferred income (caption 60)	8,298	9,833	-15.6
Total	38,314	37,993	0.8

Other liabilities (caption 50)

Analysis of caption 50 "Other liabilities"

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Valuation of derivatives on interest rates and stockmarket indices	11,265	13,227	-14.8
Items relating to securities transactions	425	2,345	-81.9
Amounts available for third parties	2,692	2,231	20.7
Unprocessed transactions (a)	4,225	3,897	8.4
Transactions involving foreign branches	1,441	1,437	0.3
Amounts in transit with branches and subsidiaries (a)	1,822	1,144	59.3
Non-liquid balances from portfolio transactions	714	444	60.8
Amounts due to employees	472	490	-3.7
Due to the tax authorities	595	370	60.8
Premiums collected on options sold	460	497	-7.4
Deposits guaranteeing agricultural and construction loans	106	105	1.0
Tax payment accounts	1,683	108	n.s.
Other	4,116	1,865	120.7
Total	30,016	28,160	6.6

(a) Largely allocated at the beginning of the new period.

Section 10 - Guarantees and commitments

Guarantees (caption 10)

Analysis of caption 10 "Guarantees given"

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
a) Commercial guarantees	18,084	18,004	0.4
b) Financial guarantees	5,068	3,838	32.0
c) Assets lodged in guarantee	342	357	-4.2
Total	23,494	22,199	5.8

Commitments (caption 20)

Analysis of caption 20 "Commitments"

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
a) Commitments to grant finance (certain to be called on)	12,536	6,865	82.6
b) Commitments to grant finance (not certain to be called on)	35,863	28,675	25.1
Total	48,399	35,540	36.2

On the basis of Bank of Italy instructions:

- commitments to grant finance certain to be called on include securities to be received for forward or spot transactions to be settled (7,033 billion lire) and commitments to grant finance under contracts for loans which are certain to be paid out (4,712 billion lire);
- commitments to grant finance not certain to be called on include securities to be received for put options issued (11,713 billion lire) and amounts to be paid out under various types of financing contract (19,299 billion lire).

Unused lines of credit

The Group has unused lines of credit, excluding operating limits, as detailed below:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
a) Central banks	135	145	-6.9
b) Other banks	1,714	1,807	-5.1
Total	1,849	1,952	-5.3

Forward transactions

Forward transactions, excluding dealing transactions on behalf of third parties, are detailed below:

	<i>billions of lire</i>			
	Hedging	Dealing	Other	Total
1. Purchase/sale of				
1.1 securities				
- purchases	2	7,005	-	7,007
- sales	2	8,547	-	8,549
1.2 currency				
- currency against currency	6,977	4,277	-	11,254
- purchases against euro	10,970	2,076	-	13,046
- sales against euro	10,998	1,741	-	12,739
2. Deposits and loans				
- to be disbursed	943	4,039	1,523	6,505
- to be received	187	9,978	1,992	12,157
3. Derivative contracts				
3.1 with exchange of capital				
(a) securities				
- purchases	-	26,668	-	26,668
- sales	822	25,722	-	26,544
(b) currency				
- currency against currency	1,626	1,344	-	2,970
- purchases against euro	6,700	9,724	-	16,424
- sales against euro	1,270	13,951	-	15,221
(c) other instruments				
- purchases	-	-	-	-
- sales	-	-	-	-
3.2 without exchange of capital				
(a) currency				
- currency against currency	-	202	-	202
- purchases against euro	998	480	-	1,478
- sales against euro	90	-	-	90
(b) other instruments				
- purchases	16,101	252,349	-	268,450
- sales	26,626	225,073	4,187	255,886
Total	84,312	593,176	7,702	685,190

At period end, the potential unrealized net loss on hedging contracts was 94 billion lire. In compliance with the accounting policies, this amount has not been recorded in the financial statements since the purpose of these derivative contracts is to hedge interest and exchange rate risks with regard to funding activities (in particular, the issue of bonds with a structured yield) and/or lending activities. The above contracts are recorded on a basis consistent with that adopted for the hedged transactions, with the identification of period-end accruals in relation to interest rate and/or exchange rate differentials. Had the hedged assets and liabilities been valued in the same way, the resulting gain would have offset the above loss.

Forward transactions outstanding as of June 30, 1999 presented in the table above, essentially reflect the activities of the Parent Bank and those subsidiaries operating in the banking and stockbroking sector.

Financial information relating to derivative contracts and forward currency purchase/sale transactions

<i>Notional amounts</i>	<i>billions of lire</i>			
	Interest rates	Currency	Stockmarket index price	Other
OTC trading contracts				
- Forward (a)	13,950	6,890	678	-
- Swaps (b)	312,627	23,208	2,547	-
- Options purchased	50,447	1,140	14,432	-
- Options sold	48,059	1,151	3,961	-
Exchange traded contracts				
- Futures purchased	17,143	-	1,605	-
- Futures sold	12,364	-	231	-
- Options purchased	30,097	-	344	-
- Options sold	14,608	-	205	-
Total trading contracts	499,295	32,389	24,003	-
Total non-trading contracts	39,450	39,322	7,700	580
Total contracts	538,745	71,711	31,703	580

(a) Including FRAs and forward currency purchase/sale transactions.

(b) Mainly comprising IRS and CIRS contracts and basis swaps.

<i>Notional amounts of OTC transactions, related market values and add on</i>	<i>billions of lire</i>			
	Interest rates	Currency	Stockmarket index price	Other
Notional amounts	464,229	71,712	29,384	580
Market value of OTC trading contracts				
- positive	11,323	489	161	-
- negative	13,514	1,586	132	-
Add on	3,291	226	992	-
Market value of OTC non-trading contracts				
- positive	2,969	1,768	549	-
- negative	2,138	961	494	-
Add on	165	751	525	48

The market values of hedging and dealing derivative contracts arranged with third parties have been calculated using criteria established by the Bank of Italy for determining the solvency ratio. The market values identified in the table above derive from applying such criteria. In particular, they include period-end accruals and the effect of restating at spot rates the notional amounts to be exchanged on the maturity of cross-currency interest rate swaps.

<i>Residual maturity of notional amounts underlying OTC derivative contracts</i>			<i>billions of lire</i>
	Up to 12 months	Between 1 and 5 years	Beyond 5 years
Interest rate related	184,449	196,975	107,237
Exchange rate related	61,429	8,419	1,864
Stockmarket index related	17,985	9,462	1,937
Other contracts	580	-	-

<i>Credit quality of OTC derivative contracts, by counterparty</i>			<i>billions of lire</i>
	Positive market value	Add on	Credit risk equivalent (a) (market value)
Governments and central banks	35	30	65
Banks	13,531	4,599	18,130
Other	3,693	1,321	5,014
Total	17,259	5,950	23,209

(a) The credit risk equivalent reported in this table includes transactions with an original life not exceeding 14 days.

Other information relating to guarantees

The classification of guarantees given by category of counterparty is provided in part B, section 11 of these notes.

Section 11 - Concentration and distribution of assets and liabilities

Significant exposures

The table below shows the positions defined as "significant exposures" by the Bank of Italy in compliance with EC guidelines. For this purpose, the positions are considered significant if the overall exposure to a single client (or group of companies) on a consolidated basis is equal to or greater than 15% of the consolidated regulatory capital. Exposure is calculated using a system of weighting positions exposed to lending risk, which takes into account the nature of the counterparty and the guarantees received. These positions comprise total assets at risk (loans, shares, bonds, etc.) outstanding in relation to customers and groups of related customers (including banks).

	6/30/1999
a) Amount (in billions of lire)	19,995
b) Number	4

Distribution of loans to customers, by category of borrower

Loans to customers are distributed as follows:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
a) Governments	9,167	9,347	-1.9
b) Other public entities	7,930	7,768	2.1
c) Non-financial businesses	78,496	79,534	-1.3
d) Financial institutions	13,572	17,862	-24.0
e) Family businesses	4,973	5,170	-3.8
f) Other	25,202	21,605	16.6
Total	139,340	141,286	-1.4

Distribution of loans to resident non-financial and family businesses

The distribution of loans to non-financial and family businesses resident in Italy is detailed below, by industry:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
a) Sales and distribution services	11,091	11,244	-1.4
b) Commerce, salvage and repairs	9,607	8,818	8.9
c) Construction and public works	8,117	9,231	-12.1
d) Transport	5,676	2,949	92.5
e) Energy	5,391	6,884	-21.7
f) Other sectors	31,378	34,547	-9.2
Total	71,260	73,673	-3.3

Distribution of guarantees given, by category of counterparty

Guarantees given by the Group are classified by category of counterparty as follows:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
a) Governments	280	-	n.s.
b) Other public entities	234	482	-51.5
c) Banks	1,670	2,059	-18.9
d) Non-financial businesses	15,739	13,865	13.5
e) Financial institutions	4,889	5,138	-4.8
f) Family businesses	171	161	6.2
g) Other operators	511	494	3.4
Total	23,494	22,199	5.8

Geographical distribution of assets and liabilities

The geographical distribution of the Group's assets and liabilities is detailed below, by reference to the countries of residence of the counterparties concerned:

	6/30/1999				12/31/1998 pro forma			
	Italy	Other EU countries	Other countries	Total	Italy	Other EU countries	Other countries	Total
<i>billions of lire</i>								
1. Assets								
1.1 due from banks	16,894	16,435	5,406	38,735	19,460	19,631	4,393	43,484
1.2 loans to customers	117,741	13,826	7,773	139,340	121,453	13,096	6,737	141,286
1.3 securities	38,482	8,668	1,851	49,001	37,165	6,442	2,671	46,278
Total	173,117	38,929	15,030	227,076	178,078	39,169	13,801	231,048
2. Liabilities								
2.1 due to banks	19,435	13,118	17,169	49,722	11,773	19,059	17,847	48,679
2.2 due to customers	62,928	20,948	4,250	88,126	70,614	12,436	4,193	87,243
2.3 securities issued	52,722	10,924	5,959	69,605	57,159	13,501	5,577	76,237
2.4 other accounts	679	2,042	-	2,721	839	1,970	-	2,809
Total	135,764	47,032	27,378	210,174	140,385	46,966	27,617	214,968
3. Guarantees and commitments	45,526	8,789	17,578	71,893	34,602	9,568	13,569	57,739

Maturities of assets and liabilities

The residual maturities of assets and liabilities are detailed in the following table:

	<i>billions of lire</i>								
	Specified maturity							Unspecified maturity	Total
	On demand	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years		Beyond 5 years			
			Fixed rate	Indexed rate	Fixed rate	Indexed rate			
1. Assets									
1.1 Treasury bonds eligible for refinancing	681	371	2,609	1,493	2,206	1,235	1,272	-	9,867
1.2 due from banks	15,493	13,992	6,815	908	726	189	267	345	38,735
1.3 loans to customers	26,005	24,874	17,612	19,348	22,903	12,830	11,618	4,150	139,340
1.4 bonds and other debt securities	691	5,326	3,898	6,661	7,263	3,938	2,779	-	30,556
1.5 off-balance sheet transactions	37,152	105,554	103,429	65,649	4,707	28,732	631	-	345,854
Total assets	80,022	150,117	134,363	94,059	37,805	46,924	16,567	4,495	564,352
2. Liabilities									
2.1 due to banks	16,867	17,829	6,519	1,059	1,434	2,278	3,736	-	49,722
2.2 due to customers	66,683	12,854	1,382	2,188	2,187	2,505	327	-	88,126
2.3 securities issued:									
- bonds	614	1,451	5,929	12,892	14,535	7,881	3,922	-	47,224
- certificates of deposit	168	6,146	6,444	3,761	739	3	17	-	17,278
- other securities	852	4,174	77	-	-	-	-	-	5,103
2.4 subordinated liabilities	-	207	449	848	1,046	-	56	-	2,606
2.5 off-balance sheet transactions	38,760	99,995	113,395	55,180	9,213	29,110	1,625	-	347,278
Total liabilities	123,944	142,656	134,195	75,928	29,154	41,777	9,683	-	557,337

Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies that are not members of the EMU are analyzed below as of June 30, 1999. The comparative amounts as of December 31, 1998, represent balances denominated in currencies other than the Italian lira, including assets and liabilities denominated in euro-zone currencies totalling, respectively, 44,913 billion lire 43,190 billion lire.

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
a) Assets			
1. due from banks	10,108	14,319	-29.4
2. loans to customers	14,929	25,579	-41.6
3. securities	5,937	11,835	-49.8
4. equity investments	93	418	-77.8
5. other accounts	78	185	-57.8
Total assets	31,145	52,336	-40.5
b) Liabilities			
1. due to banks	12,553	25,527	-50.8
2. due to customers	12,514	15,727	-20.4
3. securities issued	11,786	16,546	-28.8
4. other accounts	1,025	1,018	0.7
Total liabilities	37,878	58,818	-35.6

Section 12 - Administration and dealing on behalf of third parties

Asset management

The total market value of portfolios managed on behalf of customers is detailed below:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
Asset management (1)	36,390	32,018	13.7

(1) With reference to specific instructions from the Bank of Italy, this information relates solely to personalized asset management on behalf of customers, and excludes Group mutual funds totalling 135,699 billion lire (115,038 billion lire as of December 31, 1998) and the technical reserves of subsidiary insurance companies, consolidated using the equity method, totalling 17,769 billion lire (14,850 billion lire as of December 31, 1998).

Custody and administration of securities

The nominal value of securities held in custody and for administration, including those received as guarantees, is detailed below:

	6/30/1999 (L/bln)	12/31/1998 pro forma (L/bln)	Change %
a) Third-party securities held on deposit	385,155	350,035	10.0
b) Third-party securities deposited with third parties	244,942	223,588	9.6
c) Portfolio securities deposited with third parties	18,254	22,744	-19.7

Other transactions

Fund for applied research

Co-ordination of the Fund for Applied Research has continued on behalf of the Ministry for Universities and Scientific and Technological Research. Activity increased in the first half of 1999 following the start of the operational phase of Law "488/92".

In the first half of 1999, 373 applications were received, 248 preliminary inquiries were carried out, 180 contracts were signed and 308 billion lire was allocated.

Guarantee Fund for small and medium-sized undertakings in Southern Italy (Law 341/95)

By the Convention between the Italian Treasury and the Parent Bank, dated December 21, 1995, as approved and activated by Decree of the Director-General of the Treasury dated January 5, 1996, the Parent Bank has been granted the concession to administer this Fund established under Law 341/95.

The purpose of Law 341/95 is to help rationalize the financial situation of those small and medium-sized enterprises in Southern Italy that qualify under EU parameters. This involves measures of various types, from interest-relief grants on financing designed to convert short-term bank borrowing into long-term loans, to the granting of supplementary guarantees for participating loans, for the purchase of equity investments and for the debt consolidation described above.

As of June 30, 1999, 4,247 applications with a total value of 3,054 billion lire had been received in relation to the consolidation of short-term debt, of which 2,518 billion lire is in the process of being paid out.

Third-party portion of syndicated loans

The third-party portion of syndicated loans arranged by the Parent Bank, without representation, totalled 1,554 billion lire at the end of June 1999 (2,704 billion lire as of December 31, 1998).

Portfolio management services rendered by third parties

As of June 30, 1999, the value of portfolio management services rendered to customers by third parties amounts to 4,222 billion lire.

Part C - Consolidated statement of income

Section 1 - Interest

Interest income and similar revenues (caption 10)

Analysis of caption 10 "Interest income and similar revenues"

billions of lire

	1st half 1999	1998 pro forma	1st half 1998 pro forma
a) On amounts due from banks <i>including</i> - deposits with central banks	652 22	2,613 195	1,536 124
b) On loans to customers <i>including</i> - loans using public funds	4,262 -	10,981 1	5,797 -
c) On debt securities	965	3,117	1,661
d) Other interest income	12	23	15
e) Net differential on hedging transactions	-	-	-
Total	5,891	16,734	9,009

Detail of caption 10 "Interest income and similar revenues"

billions of lire

	1st half 1999	1998 pro forma	1st half 1998 pro forma
a) On assets denominated in foreign currency	686	5,062	2,732

"Interest income and similar revenues" earned during the first half of 1999 on assets denominated in foreign currency relate to transactions not denominated in euro-zone currencies. The comparative amounts for 1998, relate to transactions denominated in currencies other than the Italian lira, including those denominated in euro-zone currencies totalling 1,900 billion lire.

Interest expense and similar charges (caption 20)

Analysis of caption 20 "Interest expense and similar charges"

billions of lire

	1st half 1999	1998 pro forma	1st half 1998 pro forma
a) On amounts due to banks	955	3,399	1,896
b) On amounts due to customers	778	3,045	1,789
c) On securities issued <i>including:</i> - certificates of deposit	1,896 470	5,050 1,706	2,637 870
d) On public funds administered	-	-	-
e) On subordinated liabilities	91	215	110
f) Net differential on hedging transactions (*)	171	332	143
Total	3,891	12,041	6,575

(*) The net differentials on derivative contracts entered into for hedging purposes.

Detail of caption 20 "Interest expense and similar charges"

billions of lire

	1st half 1999	1998 pro forma	1st half 1998 pro forma
a) On liabilities denominated in foreign currency	553	4,607	2,817

"Interest expense and similar charges" incurred during the first half of 1999 on liabilities denominated in foreign currency relate to transactions not denominated in euro-zone currencies. The comparative amounts for 1998, relate to transactions denominated in currencies other than the Italian lira, including those denominated in euro-zone currencies totalling 1,732 billion lire.

Section 2 - Commission

Commission income (caption 40)

Analysis of caption 40 "Commission income"

billions of lire

	1st half 1999	1998 pro forma	1st half 1998 pro forma
a) Guarantees given	42	91	46
b) Collection and payment services	159	353	176
c) Management, dealing and consultancy services			
1. dealing in securities	109	209	128
2. dealing in currency	33	58	29
3. asset management	72	139	90
4. custody and administration of securities	32	56	60
5. placement of securities	153	339	196
6. consultancy services	39	30	7
7. "door-to-door" sales of securities and financial products and services	98	261	81
8. acceptance of instructions	104	220	148
9. management of mutual funds	1,025	1,623	769
d) Tax collection services	29	60	29
e) Other services	473	873	436
Total	2,368	4,312	2,195

Subcaption e) "Other services" includes, in particular:

billions of lire

	1st half 1999	1998 pro forma	1st half 1998 pro forma
Loans granted	157	271	146
Deposits and current account overdrafts	135	232	107
Current accounts	43	125	71
Banking functions in relation to mutual funds deposited	93	146	35
Loan-arrangement activities	-	4	1
Other services	45	95	76
Total	473	873	436

Commission expense (caption 50)

Analysis of caption 50 "Commission expense"

billions of lire

	1st half 1999	1998 pro forma	1st half 1998 pro forma
a) Collection and payment services	44	109	55
b) Management and dealing services			
1. dealing in securities	41	60	30
2. dealing in currency	-	1	1
3. asset management	-	1	1
4. custody and administration of securities	10	17	7
5. placement of securities	7	12	19
6. "door-to-door" sales of securities and financial products and services	323	616	333
7. management of mutual funds	14	15	7
c) Other services	55	85	53
Total	494	916	506

Subcaption c) "Other services" includes, in particular:

billions of lire

	1st half 1999	1998 pro forma	1st half 1998 pro forma
Intermediation on financing transactions	9	16	10
Loans obtained	31	26	16
Guarantees received	1	3	2
Loan-arrangement activities	2	7	3
Other services	12	33	22
Total	55	85	53

Section 3 - Profits (losses) on financial transactions

Profits (losses) on financial transactions (caption 60)

Analysis of caption 60 "Profits (losses) on financial transactions"

billions of lire

	1st half 1999	1998 pro forma	1st half 1999 pro forma
Security transactions:			
a) Net revaluations / writedowns	-172	118	-194
b) realized profits and losses	-932	97	840
Currency transactions	91	58	21
Other transactions	1,100	110	-398
Total	87	383	269

Current regulations require the separate identification of the economic effects of each element of an integrated and fully-hedged treasury portfolio, comprising shares and other securities (in lire and foreign currency, sensitive to changes in interest rate) and derivatives (futures, options, IRS, interest rate and cross currency swaps and other instruments). Consequently, the above amounts must, to a large extent, be analyzed together with the dividend income included within net interest and other banking income.

Section 4 - Administrative costs

Payroll costs (caption 80.a)

	1st half 1999	1998 pro forma	billions of lire 1st half 1998 pro forma
Wages and salaries	1,055	2,113	1,058
Social security charges	354	705	354
Termination indemnities	69	133	72
Pensions and similar commitments	2	3	1
Total	1,480	2,954	1,485

Average number of employees by category

	1st half 1999	1998 pro forma	1st half 1998 pro forma
a) Executives	327	341	348
b) Managers	4,391	4,465	4,511
c) Other employees	19,544	19,816	19,974
Total	24,262	24,622	24,833

Other administrative costs (caption 80.b)*billions of lire*

	1st half 1999	1998 pro forma	1st half 1998 pro forma
Rental of premises	84	160	77
Software maintenance and upgrades	66	132	68
Consultancy services	56	134	85
Postage and telegraph charges	39	73	32
Maintenance of operating assets	37	80	36
Telephone	30	73	38
Power charges	28	54	26
Data transmission charges	28	60	24
External data processing	28	54	23
Legal and judiciary expenses	24	45	19
Security services	23	49	23
Cleaning of premises	19	39	17
Office supplies	18	35	18
Advertising and entertainment	17	57	29
Databank access charges	16	32	12
Equipment leasing charges	15	37	17
Maintenance of properties owned by the Group	14	30	16
Insurance premiums - banks and customers	12	35	18
Transport and counting of valuables	10	23	11
Courier and transport services	10	22	9
Searches/commercial information costs	10	20	9
Maintenance of leasehold premises	7	15	5
Contributions and membership of trade unions and business associations	6	12	5
Contribution to the Interbank Deposit Guarantee Fund	-	12	12
Other expenses	106	206	107
Total	703	1.489	736
Indirect duties and taxes			
– stamp duties	116	231	124
– tax amnesty charge (Pres. Decree 601/73)	11	27	15
– local property taxes	10	22	10
– taxes on stock exchange contracts	7	13	13
– non-recoverable VAT on purchases	6	6	-
– other	11	32	14
Total	161	331	176
Total other administration costs	864	1.820	912

Administrative costs for the first half of 1999 include 5 billion lire relating to the "Euro project" and 3 billion lire regarding the amortization of costs capitalized as a result of that project.

Section 5 - Adjustments, writebacks and provisions

Adjustments to intangible and tangible fixed assets (caption 90)

Analysis of caption 90 "Adjustments to intangible and tangible fixed assets"

billions of lire

	1st half 1999	1998 pro forma	1st half 1998 pro forma
Adjustments to intangible fixed assets			
- amortization of start-up and capital increase expenses	1	1	1
- amortization of goodwill	17	34	16
- amortization of merger differences	36	71	35
- amortization of software costs	36	73	13
- amortization of other deferred charges	24	48	44
- amortization of goodwill arising on consolidation	3	11	-
- amortization of goodwill arising on application of the equity method	23	62	25
Adjustments to tangible fixed assets			
- depreciation of property	59	125	63
- depreciation of furniture and installations	60	159	75
Total	259	584	272

Individual assets have been written down with reference to their remaining useful lives using, in most cases, the maximum fiscally allowed rates, including the provision of accelerated depreciation.

Provisions for risks and charges (caption 100)

Provisions for risks and charges, 60 billion lire, recorded during the period reflect the consolidation of the provision made by the Parent Bank (49 billion lire) and those made by subsidiary companies (11 billion lire). The provision made by the Parent Bank includes 34 billion lire to cover expected losses from legal action, as well as 6 billion lire to cover long-service bonuses earned by employees, and 6 billion lire to top up the Parent Bank's employee pension fund. Provisions by subsidiaries were mainly made, on a prudent basis, by companies that provide financial services for families, in order to cover risks associated with the marketing financial products.

Adjustments to loans and provisions for guarantees and commitments (caption 120)

Analysis of caption 120 "Adjustments to loans and provisions for guarantees and commitments"

billions of lire

	1st half 1999	1998 pro forma	1st half 1998 pro forma
a) Adjustments to loans	786	1,476	905
of which:			
- general adjustments for country risk	119	172	172
- other general adjustments	3	208	14
b) Provisions for guarantees and commitments	-	33	-
of which:			
- general provisions for country risk	-	-	-
- other general provisions	-	24	-
Total	786	1,509	905

Writebacks of adjustments to loans and provisions for guarantees and commitments (caption 130)

Analysis of caption 130 "Writebacks of adjustments to loans and provisions for guarantees and commitments"

billions of lire

	1st half 1999	1998 pro forma	1st half 1998 pro forma
Revaluation of loans previously written down	251	177	126
Revaluation of loans previously written off	17	29	3
Revaluation of provisions for guarantees and commitments	1	2	-
Collection of default interest previously written down	59	102	60
Collection of loans previously written off	47	102	37
Collection of loan principal previously written down	87	79	40
Total	462	491	266

Provisions to reserves for possible loan losses (caption 140)

Provisions to reserves for possible loan losses represent the provisions made by certain subsidiary companies and do not adjust asset accounts since they are intended only to cover unspecified contingencies.

Adjustments to financial fixed assets (caption 150)

Analysis of caption 150 "Adjustments to financial fixed assets"

billions of lire

	1st half 1999	1998 pro forma	1st half 1998 pro forma
Adjustments to investment securities	34	51	51
Adjustments to equity investments	18	78	21
Total	52	129	72

Adjustments to investment securities, 34 billion lire, reflect the writedown of certain unsecured securities issued by residents of Russia. This follows an increase in the writedown rate from 60% to 90%, in view of the continuing debt servicing difficulties experienced by that country.

Adjustments to equity investments, 18 billion lire, relate to the writedown of holdings in the following companies, to take account of permanent losses in value:

	1st half 1999	1998 pro forma	1st half 1998 pro forma
Inter Europa Bank	16	-	-
Apokè Six	-	31	-
Banco del Desarrollo	-	21	-
Eurotunnel	-	6	6
Rimoldi Necchi	-	6	4
Abete Sviluppo	-	5	5
Other adjustments	2	9	6
Total	18	78	21

The writedown of the holding in Inter Europa Bank Rt reflects the lower market value of this security on the Budapest Stock Exchange during the first half of the year, with respect to the value of its shareholders' equity.

Section 6 - Other consolidated statement of income captions

Consolidated statement of income captions 30, 70, 110, 190, 200, 230 and 240, not discussed above, include:

	1st half 1999	1998 pro forma	1st half 1998 pro forma
Dividends and other revenues (caption 30)	216	278	220
Other operating income (caption 70)	199	435	221
Other operating expenses (caption 110)	41	99	40
Extraordinary income (caption 190)	642	340	86
Extraordinary expenses (caption 200)	60	108	45
Change in the reserve for general banking risks (caption 230)	-	-16	-7
Income taxes for the period (caption 240)	771	1,035	507

Dividends and other revenues (caption 30)

Analysis of caption 30 "Dividends and other revenues"

	1st half 1999	1998 pro forma	1st half 1998 pro forma
Shares, quotas and other equities			
- dividends	121	146	121
- tax credits	70	83	69
Equity investments, other than those consolidated line-by-line or carried at equity			
- dividends	18	33	19
- tax credits	7	16	11
Total	216	278	220

Other operating income (caption 70)

Analysis of caption 70 "Other operating income"

	1st half 1999	1998 pro forma	1st half 1998 pro forma
Expenses recovered from customers			
- stamp duties	110	221	116
- other taxes	16	34	16
- legal costs	13	21	11
- other recoveries	18	46	16
Reimbursement of services rendered to third parties	12	14	4
Gains on the sale of leased assets	2	7	3
Property rental income	6	45	28
Income from merchant banking activities	10	19	12
Other income	12	28	15
Total	199	435	221

Other operating expenses (caption 110)

Analysis of caption 110 "Other operating expenses"

billions of lire

	1st half 1999	1998 pro forma	1st half 1998 pro forma
Losses on the sale of leased assets	10	29	9
Leasing charges on furniture and fittings	3	2	4
Losses from merchant banking activities	3	3	-
Other expenses for marketing network agents	9	17	8
Other expenses	16	48	19
Total	41	99	40

Extraordinary income (caption 190)

Analysis of caption 190 "Extraordinary income"

billions of lire

	1st half 1999	1998 pro forma	1st half 1998 pro forma
Extraordinary income			
– income taxes prepaid in prior periods	-	166	-
– release of excess tax provisions	-	8	19
– collection of default interest previously considered unrecoverable	-	1	-
– other extraordinary income	27	35	36
Amounts not payable	4	4	2
Gains on:			
– disposal of financial fixed assets – equity investments	607	34	26
– disposal of financial fixed assets – investment securities	3	5	1
– disposal of financial fixed assets – other	-	71	1
– disposal of tangible fixed assets	1	16	1
Total	642	340	86

Attachments

Statement of changes in consolidated shareholders' equity

	Capital	Reserves and retained earnings	Reserve for general banking risks	Negative goodwill arising on consolidation and application of the equity method	Net income for the period	<i>billions of lire</i> Total
Shareholders' equity as of December 31, 1998	8,413	5,799	696	116	1,760	16,784
Allocation of 1998 net income:						
- to reserves	-	289	-	209	-498	-
- to shareholders	-	-	-	-	-1,262	-1,262
Change in reserves	-	-167	-	167	-	-
Change in reserve for general banking risks	-	-	-	-	-	-
Differences arising on the translation of foreign currency financial statements and other adjustments	-	15	-	-4	-	11
Net income for the period	-	-	-	-	1,171	1,171
Shareholders' equity as of June 30, 1999	8,413	5,936	696	488	1,171	16,704

Statement of consolidated cash flows

billions of lire

APPLICATION OF FUNDS

Use of funds generated by operations		3,075
Dividends paid	1,262	
Use of provision for termination indemnities	64	
Use of provisions for risks and charges	1,749	
Increase in funds applied		5,396
Equity investments	1,311	
Intangible fixed assets	4,065	
Cash and deposits with central banks	20	
Decrease in funds taken		5,837
Due to customers and securities issued	5,768	
Subordinated liabilities	69	
Total		14,308

billions of lire

SOURCES OF FUNDS

Funds generated by operations		2,722
Net income for the period	1,171	
Provision for termination indemnities	69	
Net adjustments to loans and provisions for guarantees and commitments	324	
Provisions for risks and charges	833	
Adjustments to tangible fixed assets	119	
Adjustments to intangible fixed assets	140	
Adjustments to financial fixed assets	50	
Exchange differences on translating the equity of consolidated companies and other adjustments	11	
Provisions for risks and charges	5	
Increase in funds taken		1,414
Minority interests	50	
Other liability captions	321	
Due to banks	1,043	
Decrease in funds applied		10,172
Due from banks	4,749	
Dealing securities	1,264	
Tangible fixed assets	57	
Intangible fixed assets	254	
Loans to customers	1,946	
Goodwill arising on consolidation and on application of the equity method	26	
Other asset captions	1,876	
Total		14,308

Reconciliation of the Bank's financial statements and the consolidated financial statements

	Net income for the period	Capital and reserves	Shareholders' equity	Reserve for possible loan losses	<i>billions of lire</i> Total
PARENT BANK	1,226	13,271	14,497	-	14,497
Reported by subsidiary companies consolidated line-by-line	675	7,091	7,766	41	7,807
Consolidation adjustments					
- Carrying value of equity investments	-	-5,335	-5,335	-	-5,335
- Dividends	-667	667	-	-	-
- Reversal of gains on the disposal of equity investments	-98	67	-31	-	-31
- Elimination of writedowns to cover losses of companies consolidated line-by-line or using the equity method	3	-	3	-	3
- Effect of consolidating subsidiary companies using the equity method	108	460	568	-	568
- Other	-35	-399	-434	-	-434
- Minority interests	-41	-289	-330	-	-330
CONSOLIDATED FINANCIAL STATEMENTS	1,171	15,533	16,704	41	16,745

**List of equity investments that exceed 10%
of the voting capital of unquoted
or private companies as of June 30, 1999
(pursuant to Consob resolution no. 11715 of November 24, 1998) (*)**

Name	Held by	Share %
Alcali Immobiliare i Lecci	Beni Stabili	100.00
Bergamo Esattorie	Sanpaolo IMI	11.35
Biessefin in liquidation	Sanpaolo IMI	36.10
Boissy Griselle 7	Société Fonciere d'Investissement Société Immobiliere d'Investissement	99.00 1.00
	Total	100.00
Boissy R.E.R. 5	Société Fonciere d'Investissement	90.00
Boissy R.E.R. 8	Société Fonciere d'Investissement Société Immobiliere d'Investissement	99.00 1.00
	Total	100.00
Boissy St. Leger 94	Société Fonciere d'Investissement Société Immobiliere d'Investissement	99.00 1.00
	Total	100.00
Brummel International Limited	Wobco Holding	100.00
BSG - Beni Stabili Gestioni	Beni Stabili	100.00
C.p.c. S.A.	Uno Immobiliare in liquidation	10.46
Celeasing srl in liquidation	Sanpaolo IMI	100.00
Chateau Bolides	Uno Immobiliare in liquidation	49.00
Cifrali 8	Banque Sanpaolo S.A.	18.30
Cifrali 9	Banque Sanpaolo S.A.	14.09
Cive	Sanpaolo IMI	69.97
Cupa del Principe	Immobiliare Rome Laurentino	34.00
D.D.	Sviluppi Immobiliari	100.00
Dott.ing. Giuseppe Torno & C. in liquidation	Sanpaolo IMI	21.91
Dulevo	Sanpaolo IMI	16.30
Edil Lauenthia '72	Beni Stabili	100.00
Elvetia Edile	Sanpaolo IMI	100.00
Feic - Finanziaria Economia Ittica Cooperativa	Sanpaolo IMI	17.24
Fin.lavori	Sanpaolo IMI	44.22
Findirama in liquidation	Apokè Two in liquidation Uno Holding in liquidation	62.86 3.96
	Total	66.82
Finlombarda Leasing	Sanpaolo IMI	14.00
Fonti di Gaverina	Sanpaolo IMI	51.04
Ge-fi in liquidation	Beni Stabili	100.00
Giacinto in liquidation	Sviluppi Immobiliari Apokè Two in liquidation	25.00 75.00
	Total	100.00

continued

Name	Held by	Share %
Giraudi	Beni Stabili	100.00
Guinness Peat Aviation A.T.R. Ltd	Sanpaolo Bank Ireland plc	12.50
Hantarex (bankrupt)	Sviluppi Immobiliari	20.00
Iam Piaggio	Sanpaolo IMI	10.00
	Banca Fideuram	3.86
	Total	13.86
Ianira	Beni Stabili	100.00
Il Giunco	Beni Stabili	100.00
Immobiliare Aurelia 87 in liquidation	Beni Stabili	100.00
Immobiliare Bastona 2 in liquidation	Beni Stabili	100.00
Immobiliare Capodimonte 87	Beni Stabili	100.00
Immobiliare dell'Isola Cattaneo	Sanpaolo IMI	48.57
Immobiliare Giolitti	Beni Stabili	100.00
Immobiliare Nerva in liquidation	Beni Stabili	100.00
Immobiliare Nuova	Giraudi	100.00
Immobiliare Peonia Rosa	Sanpaolo IMI	57.00
Immobiliare Pietralata 87	Beni Stabili	100.00
Immobiliare Santo Stefano	Beni Stabili	100.00
Immobiliare Senago 87	Beni Stabili	100.00
Immobiliare Stobaro 2	Beni Stabili	100.00
Impianti	Sanpaolo IMI	14.16
Iniziativa Granai di Nerva	Beni Stabili	100.00
Integrated Shipping Company -I.S.C.O.	Sanpaolo IMI	100.00
Interbank Online System limited	Sanpaolo IMI	12.50
Ittica Ugento	Sanpaolo IMI	26.96
Kish Receivables Company	Tobuk Limited	19.70
Konig	Sanpaolo IMI	20.00
Kyle Receivables Company	Tushingam Ltd	11.11
Leasarte	Sofir's	100.00
Lo.Se.Ri.	Sanpaolo IMI	18.40
Loire Immobiliere	Sviluppi Immobiliari	100.00
Lys Immobiliere	Sviluppi Immobiliari	100.00
Mang Holding Ltd	Uno Immobiliare in liquidation	50.00
Milansole	Apokè Two in liquidation	32.55
Mirna	Immobiliare Rome Laurentino	100.00
Newgrange Financial Services Company	Bonec Ltd	14.79
Nuova Valvotecnic	IMI International S.A.	16.67
Orchidee Immobiliere	Sviluppi Immobiliari	100.00
Pantecna (bankrupt)	Sanpaolo IMI	15.50
Receivables Servicing Company	Lackenstar Ltd	15.76
Rhin Immobiliere	Sviluppi Immobiliari	100.00
Rhône Immobiliere	Sviluppi Immobiliari	100.00
S.A. Immobiliere de Construction de Monteclin in liq.	Banque Sanpaolo S.A.	11.30
S.C.I. Balcons Sainte Marie	Banque Sanpaolo S.A.	18.00

continued

Name	Held by	Share %
S.C.I. la Source de Saint Hilarie	Société Immobiliere d'Investissement	98.00
S.C.I. le Chevalier	Société Immobiliere d'Investissement Société Fonciere d'Investissement	99.00 1.00
	Total	100.00
S.C.I. le Clos de Noyer in liquidation	Banque Sanpaolo S.A.	15.00
S.C.I. les Balcons du Drac	Banque Sanpaolo S.A.	13.88
S.C.I. les Jardin de Farnese in liquidation	Sanpaolo Gestion Immobiliere	11.11
S.C.I. Plein Ciel	Banque Sanpaolo S.A.	12.00
S.C.I. Praly III	Banque Sanpaolo S.A.	12.00
S.C.I. Pre Longe	Banque Sanpaolo S.A.	13.00
S.C.I. Rognac – Nord	Société Fonciere d'Investissement	50.00
S.G.R. Società Gestione per il Realizzo	Sanpaolo IMI Banca Fideuram	9.48 0.63
	Total	10.11
Sago (**)	Sanpaolo IMI	26.67
Sazic S.A.	Société Fonciere d'Investissement Société Immobiliere d'Investissement	99.00 1.00
	Total	100.00
Seliport	Sviluppi Immobiliari	100.00
Serdi et Compagnie	Société Immobiliere d'Investissement Société fonciere d'Investissement	99.00 1.00
	Total	100.00
Società Nazionale Finanziaria	Sofir's	15.25
Società Nazionale Officine Savigliano	Sanpaolo IMI	44.96
Sofir's	Uno Holding in liquidation	100.00
Sogepi et C.ie le Fournas snc	Banque Sanpaolo S.A.	12.50
Sovigest-soc. Valorizzazioni Immobiliari e Gestioni	Imigest Immobiliare	32.00
Sport Garden 90	Beni Stabili	100.00
Stare	Apokè Two in liquidation	92.77
Sure Immobiliere	Sviluppi Immobiliari	100.00
Sviluppi Immobiliari Parmensi	Sviluppi Immobiliari	100.00
Talia Beta	Sviluppi Immobiliari	68.00
Tecno Idro Meteo (**)	Sanpaolo IMI	36.00
Tecnoalimenti (**)	Sanpaolo IMI	30.00
Tecnobiomédica (**)	Sanpaolo IMI	26.32
Tecnocittà srl	Sanpaolo IMI	12.00
Tecnofarmaci (**)	Sanpaolo IMI	20.50
Tecnogen (**)	Sanpaolo IMI	29.96
Tecnotessile (**)	Sanpaolo IMI	40.00
Torsyl S.A. in liq.	IMI International S.A.	15.79
Unionvita	IMI Fideuram Asset Management SIM	15.00
Uno Broker in liquidation	Sofir's	100.00
Uno Holding in liquidation	Apokè Two in liquidation Findirama in liquidation	68.39 3.50
	Total	71.89

continued

Name	Held by	Share %
Uno Immobiliare in liquidation	Uno Holding in liquidation	56.95
	Apokè Two in liquidation	7.08
	Total	64.03
Wobco Holding	Ged. I. T. – Gedeam Investissements	100.00
Zwhalen & Mayr S.A.	IMI International S.A.	12.96
1650 Mission Associates limited Partnership	SPB 1650 Van Ness Corporation	13.75
1650 Mission Corporation General Partner	SPB 1650 Van Ness Corporation	13.89

(*) The list does not include the equity investments already listed in Section 3 of these consolidated notes.

(**) Equity investments deriving from transactions under Law no. 1089 of October 25, 1968 (Applied Research Fund).

Consolidated financial statements in euro

Consolidated balance sheet

	<i>millions of euro</i>		
ASSETS	6/30/1999	12/31/1998 pro forma	6/30/1998 pro forma
10. Cash and deposits with central banks and post offices	431	421	329
20. Treasury bills and similar bills eligible for refinancing with central banks	5,096	5,931	8,067
30. Due from banks:	20,005	22,458	29,752
a) repayable on demand	4,691	3,622	4,649
b) other deposits	15,314	18,836	25,103
40. Loans to customers	71,963	72,968	76,585
including:			
- loans using public funds	56	67	75
50. Bonds and other debt securities	15,780	16,774	18,127
a) public entities	10,527	11,396	12,203
b) banks	3,327	3,713	4,554
including:			
- own bonds	1,016	1,182	1,544
c) financial institutions	279	278	367
including:			
- own bonds			
d) other issuers	1,647	1,387	1,003
60. Shares, quotas and other equities	4,431	1,196	2,827
70. Equity investments	1,716	1,292	1,144
a) carried at equity	442	579	442
b) other	1,274	713	702
80. Investments in Group companies	635	380	365
a) carried at equity	635	380	360
b) other			5
90. Goodwill arising on consolidation	9	11	32
100. Goodwill arising on application of the equity method	36	48	97
110. Intangible fixed assets	267	296	257
including:			
- start-up costs	2	2	1
- goodwill	26	35	
120. Tangible fixed assets	1,475	1,606	1,703
140. Own shares (par value Euro 11 million)	45	5	6
150. Other assets	13,254	13,707	12,216
160. Accrued income and prepaid expenses	3,588	4,431	5,914
a) accrued income	3,264	4,217	5,588
b) prepaid expenses	324	214	326
including:			
- discounts on bond issues	10	13	4
Total assets	138,731	141,524	157,421

millions of euro

Liabilities and shareholders' equity	6/30/1999		12/31/1998 pro forma		6/30/1998 pro forma	
10. Due to banks		25,679		25,141		36,987
a) repayable on demand	6,379		3,501		5,522	
b) time deposits or with notice period	19,300		21,640		31,465	
20. Due to customers		45,514		45,057		44,326
a) repayable on demand	31,622		27,301		27,698	
b) time deposits or with notice period	13,892		17,756		16,628	
30. Securities issued		35,947		39,373		43,211
a) bonds	24,389		25,897		26,525	
b) certificates of deposit	8,923		11,761		13,809	
c) other	2,635		1,715		2,877	
40. Public funds administered		59		69		77
50. Other liabilities		15,503		14,543		14,845
60. Accrued expense and deferred income		4,286		5,078		6,310
a) accrued expense	3,965		4,755		5,990	
b) deferred income	321		323		320	
70. Provision for termination indemnities		434		431		428
80. Provisions for risks and charges		1,146		1,619		975
a) pensions and similar commitments	65		66		58	
b) taxation	727		1,178		618	
c) other	354		375		299	
90. Reserve for possible loan losses		21		19		14
100. Reserve for general banking risks		359		359		355
110. Subordinated liabilities		1,346		1,382		1,523
120. Negative goodwill arising on consolidation		14		14		15
130. Negative goodwill arising on application of the equity method		238		166		195
140. Minority interests		170		145		192
150. Capital		4,345		4,345		4,345
160. Additional paid-in capital		-		-		142
170. Reserves		3,065		2,874		3,010
a) legal reserve	869		869		503	
b) reserve for own shares	45		5		6	
c) statutory reserves	-		-		295	
d) other reserves	2,151		2,000		2,206	
190. Retained earnings		-		-		22
200. Net income for the period		605		909		449
Total liabilities and shareholders' equity		138,731		141,524		157,421

millions of euro

Guarantees and commitments	6/30/1999		12/31/1998 pro forma		6/30/1998 pro forma	
10. Guarantees given:		12,134		11,465		12,494
Including:						
- acceptances	144		154		208	
- other guarantees	11,990		11,311		12,286	
20. Commitments		24,996		18,355		28,088

Consolidated statement of income

	<i>millions of euro</i>		
	1st half 1999	1998 pro forma	1st half 1998 pro forma
10. Interest income and similar revenues <i>including from:</i>			
- loans to customers	2,201	5,671	2,994
- debt securities	498	1,610	1,000
	3,042	8,642	4,653
20. Interest expense and similar charges <i>including on:</i>			
- deposits from customers	-402	1,593	929
- securities issued	-1,026	2,637	1,526
	-2,010	-6,219	-3,396
30. Dividends and other revenues	112	143	113
a) from shares, quotas and other equities	99	118	98
b) from equity investments	13	25	15
c) from investments in Group companies	-	-	-
40. Commission income	1,223	2,227	1,134
50. Commission expense	-255	-473	-261
60. Profits (losses) on financial transactions	45	198	139
70. Other operating income	103	225	114
80. Administrative costs	-1,211	-2,466	-1,238
a) payroll <i>including:</i>	-765	-1,526	-767
- wages and salaries	-545	-1,091	-546
- social security charges	-183	-364	-183
- termination indemnities	-36	-69	-37
- pensions and similar commitments	-1	-2	-1
b) other	-446	-940	-471
90. Adjustments to intangible and tangible fixed assets	-134	-302	-140
100. Provisions for risks and charges	-31	-100	-30
110. Other operating expenses	-21	-51	-21
120. Adjustments to loans and provisions for guarantees and commitments	-406	-779	-467
130. Writebacks of adjustments to loans and provisions for guarantees and commitments	239	254	137
140. Provisions to the reserve for possible loan losses	-3	-6	-51
150. Adjustments to financial fixed assets	-27	-67	-37
160. Writebacks of adjustments to financial fixed assets	1	-	1
170. Income (losses) from investments carried at equity	56	148	66
180. Income from operating activities	723	1,374	716
190. Extraordinary income	332	176	44
200. Extraordinary expenses	-31	-56	-23
210. Extraordinary items, net	301	120	21
230. Change in reserve for general banking risks	-	-8	-4
240. Income taxes	-398	-534	-262
250. Minority interests	-21	-43	-22
260. Net income for the period	605	909	449

**FIRST HALF REPORT
1999**

Reclassified statement of income

	1st half 1999		1st half 1999	1998	Change (%) 6/99-6/98
	Euro/mil	L/bln	pro forma L/bln	L/bln	
Interest income and similar revenues	2,610	5,054	7,831	14,409	-35.5
Interest expense and similar charges	-1,731	-3,354	-5,750	-10,399	-41.7
NET INTEREST INCOME	878	1,700	2,081	4,010	-18.3
Net commissions and other dealing revenues	645	1,249	1,113	2,254	+12.2
Profits (losses) on financial transactions and investment income	88	171	318	385	-46.2
Dividends on equity investments	274	531	494	747	+7.5
NET INTEREST AND OTHER BANKING INCOME	1,885	3,651	4,006	7,396	-8.9
Administrative costs	-969	-1,876	-1,963	-3,904	-4.4
- payroll costs	-630	-1,220	-1,246	-2,490	-2.1
- other administrative costs	-269	-520	-568	-1,131	-8.5
- indirect duties and taxes	-70	-136	-149	-283	-8.7
Other operating income, net	84	162	157	327	+3.2
Adjustments to tangible and intangible fixed assets	-84	-163	-164	-346	-0.6
OPERATING INCOME	916	1,744	2,036	3,473	-12.9
Provisions for risks and charges	-25	-49	-44	-148	+11.4
Adjustments to loans and provisions for guarantees and commitments	-163	-315	-702	-894	-55.1
Writedowns of financial fixed assets, net	-27	-52	-82	-175	-36.6
INCOME BEFORE EXTRAORDINARY ITEMS	701	1,358	1,208	2,256	+12.4
Net extraordinary income	354	685	1	105	n.s.
INCOME BEFORE TAXES	1,055	2,043	1,209	2,361	+69.0
Income taxes	-422	-817	-501	-925	+63.1
NET INCOME	633	1,226	708	1,436	+73.2

Pro-forma figures for the first half of 1998 and the full year have been reclassified for consistency with those for the first half of 1999, in accordance with the criteria described in the Explanatory Notes.

Reclassified balance sheet

ASSETS	6/30/1999		6/30/1998 pro forma (L/bln)	12/31/1998 (L/bln)	Change (%) 6/99 - 6/98
	(Euro/mil)	(L/bln)			
Cash and deposits with central banks and post offices	339	656	533	764	+23.1
Loans	77,931	150,895	187,143	162,926	-19.4
- <i>due from banks</i>	12,241	23,702	46,887	28,889	-49.4
- <i>loans to customers</i>	65,690	127,193	140,256	134,037	-9.3
Dealing securities	9,623	18,633	35,151	27,639	-47.0
Fixed assets	6,098	11,808	12,612	12,116	-6.4
- <i>investment securities</i>	867	1,678	3,117	2,894	-46.2
- <i>equity investments</i>	3,753	7,269	6,381	6,279	+13.9
- <i>intangible fixed assets</i>	175	338	403	371	-16.1
- <i>tangible fixed assets</i>	1,303	2,523	2,711	2,572	-6.9
Other assets	12,283	23,784	27,971	25,703	-15.0
Total assets	106,274	205,776	263,410	229,148	-21.9

LIABILITIES AND SHAREHOLDERS' EQUITY	6/30/1999		6/30/1998 pro forma (L/bln)	12/31/1998 (L/bln)	Change (%) 6/99 - 6/98
	(Euro/mil)	(L/bln)			
Payables	81,369	157,552	209,824	179,397	-24.9
- <i>due to banks</i>	21,197	41,042	72,787	47,751	-43.6
- <i>due to customers and securities issued</i>	60,172	116,510	137,037	131,646	-15.0
Provisions	1,342	2,600	2,309	3,262	+12.6
- <i>for taxation</i>	629	1,218	1,017	1,853	+19.8
- <i>for termination indemnities</i>	399	773	763	767	+1.3
- <i>for risks and charges</i>	267	517	429	547	+20.5
- <i>for pensions and similar obligations</i>	47	92	100	95	-8.0
Other liabilities	14,721	28,504	33,952	29,310	-16.0
Subordinated liabilities	1,355	2,623	2,919	2,646	-10.1
Shareholders' equity	7,487	14,497	14,406	14,533	+0.6
- <i>capital</i>	4,345	8,413	8,413	8,413	-
- <i>equity reserves</i>	2,509	4,858	5,285	4,857	-8.1
- <i>net income for the period</i>	633	1,226	708	1,263	+73.2
Total liabilities and shareholders' equity	106,274	205,776	263,410	229,148	-21.9

GUARANTEES AND COMMITMENTS	6/30/1999		6/30/1998 pro forma (L/bln)	12/31/1998 (L/bln)	Change (%) 6/99 - 6/98
	(Euro/mil)	(L/bln)			
Guarantees given	15,987	30,955	39,816	32,544	-22.3
Commitments	13,057	25,281	41,142	26,214	-38.6

Pro-forma figures as of 6/30/98 have been reclassified for consistency with those as of 6/30/99, in accordance with the criteria described in the Explanatory Notes.

Report on operations

Statement of income

Net interest income

The Bank's net interest income amounted to 1,700 billion lire, down 18.3% compared with the pro forma figure for the first half of 1998.

	1st half 1999 (L/bln)	1st half 1998 pro forma (L/bln)	1998 (L/bln)	% Change 6/99-6/98
Interest income and similar revenues	5,054	7,831	14,409	-35.5
Interest expense and similar charges	-3,354	-5,750	-10,399	-41.7
Net interest income	1,700	2,081	4,010	-18.3

Net interest income suffered from the sharp reduction in market interest rates, which reduced the yield on the Bank's free capital and caused the spread between borrowing and lending rates to narrow.

Net interest and other banking income

Net interest and other banking income totalled 3,651 billion lire, a decrease of 8.9% over the 12-month period.

	1st half 1999 (L/bln)	1st half 1998 pro forma (L/bln)	1998 (L/bln)	% Change 6/99-6/98
Net interest income	1,700	2,081	4,010	-18.3
Net commissions and other dealing revenues	1,249	1,113	2,254	+12.2
- <i>management, dealing and consultancy services</i>	804	656	1,344	+22.6
- <i>asset management</i>	674	466	1,031	+44.6
- <i>brokerage/custody of securities and currency</i>	130	190	313	-31.6
- <i>loans and guarantees</i>	158	165	325	-4.2
- <i>collection and payment services</i>	93	102	202	-8.8
- <i>deposits and current accounts</i>	172	178	340	-3.4
- <i>other banking service</i>	22	12	43	+83.3
Profits (losses) on financial transactions and dividends on shares	171	318	385	-46.2
Dividends on equity investments	531	494	747	+7.5
Net interest and other banking income	3,651	4,006	7,396	-8.9

Net commissions and other dealing revenues totalled 1,249 billion lire, up 12.2% with respect to the first half of 1998. Commissions from the sale of mutual funds, asset management and insurance policies soared 44.6% on an upturn in volume and steady unit margins.

Net profits on financial transactions and dividends on shares amounted to 171 billion lire. The decrease of 46.2% was due to changed market conditions and the close attention paid to the limitation of risk.

Operating income

Operating income was 1,774 billion lire, down 12.9%.

	1st half 1999 (L/bln)	1st half 1998 pro forma (L/bln)	1998 (L/bln)	% Change 6/99-6/98
Net interest and other banking income	3,651	4,006	7,396	-8.9
Administrative costs	-1,876	-1,963	-3,904	-4.4
- payroll	-1,220	-1,246	-2,490	-2.1
- other administrative costs	-520	-568	-1,131	-8.5
- indirect taxes	-136	-149	-283	-8.7
Other operating income, net	162	157	327	+3.2
Adjustments to tangible fixed assets	-92	-99	-202	-7.1
Adjustments to intangible fixed assets	-71	-65	-144	+9.2
Operating income	1,774	2,036	3,473	-12.9

Costs fell by 4.4% with respect to the first half of 1998. This was due to a 2.1% decline in payroll expenses (the headcount decreased by 663 during the period), and an 8.5% drop in other administrative costs.

Income before extraordinary item

Income before extraordinary items was 1,358 billion lire, a rise of 12.4% over the year.

	1st half 1999 (L/bln)	1st half 1998 pro forma (L/bln)	1998 (L/bln)	% Change 6/99-6/98
Operating income	1,774	2,036	3,473	-12.9
Provisions for risks and charges	-49	-44	-148	+11.4
Adjustments to loans and provisions for guarantees and commitments, net	-315	-702	-894	-55.1
- net writedowns and losses	-484	-819	-1,138	-40.9
- writebacks following collections	169	117	244	+44.4
Adjustments to financial fixed assets, net	-52	-82	-175	-36.6
- net writedowns of equity investments	-20	-31	-125	-35.5
- net writedowns of investment securities	-32	-51	-50	-37.3
Income before extraordinary items	1,358	1,208	2,256	+12.4

Provisions and net adjustments to loans and financial fixed assets were 50% lower than in the first half of 1998, at 416 billion lire.

Adjustments included 134 billion lire to write down unsecured loans and investment securities relating to customers in the Russian Federation. As a result, the coverage of this exposure has been raised from 60% to 90% of nominal value.

Net income

Net income was 1,226 billion lire, up 73.2%.

	1st half 1999 (L/bln)	1st half 1998 pro forma (L/bln)	1998 (L/bln)	% Change 6/99-6/98
Income before extraordinary items	1,358	1,208	2,256	+12.4
Extraordinary income, net	685	1	105	n.s.
Income before income taxes	2,043	1,209	2,361	+69.0
Income taxes	-817	-501	-925	+63.1
Net income	1,226	708	1,436	+73.2

Net extraordinary income of 685 billion lire included 248 billion lire from the sale to the Dexia Group of a 20% stake in Crediop and 417 billion lire following acceptance of Olivetti's public offer for shares in Telecom Italia.

Operating volumes and organization

Deposits

Customer funds deposited with the Bank exceeded 326,000 billion lire at the end of June. The increase of 2.1% over the 12-month period was due to an upturn in managed savings.

	6/30/1999		6/30/1998 pro forma		12/31/1998		% Change 6/99-6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Direct customer deposits	116,510	35.7	137,037	42.9	131,646	40.2	-15.0
- <i>customer deposits</i>	63,068	19.3	71,517	22.4	71,389	21.8	-11.8
- <i>securities issued</i>	53,442	16.4	65,520	20.5	60,257	18.4	-18.4
Indirect customer deposits	209,589	64.3	182,326	57.1	196,258	59.8	+15.0
- <i>managed savings</i>	110,764	34.0	80,349	25.2	92,840	28.3	+37.9
- <i>administered savings</i>	98,825	30.3	101,977	31.9	103,418	31.5	-3.1
Financial assets of customers	326,099	100.0	319,363	100.0	327,904	100.0	+2.1

Direct deposits

Direct deposits amounted to 116,510 billion lire, a decrease of 15% over the 12-month period and of 15,136 billion lire since the end of 1998. Most of the decline took place at foreign branches, which contracted by 34.5% compared with June 1998. Funding of the domestic network fell less dramatically (-11.8% over the year) and was caused mainly by the exodus from certificates of deposit and repurchase agreements towards managed savings. By contrast, the level of demand deposits improved.

	6/30/1999		6/30/1998 pro forma		12/31/1998		% Change 6/99-6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Deposits at Italian branches	103,834	89.1	117,699	85.9	113,056	85.9	-11.8
- <i>current accounts and savings deposits</i>	47,745	41.0	46,649	34.0	47,472	36.1	+2.3
- <i>certificates of deposit</i>	9,980	8.6	17,587	12.8	14,167	10.8	-43.3
- <i>bonds</i>	38,945	33.4	41,528	30.3	41,170	31.3	-6.2
- <i>repurchase agreements</i>	4,889	4.2	9,356	6.8	7,968	6.1	-47.7
- <i>other</i>	2,275	2.0	2,579	1.9	2,279	1.7	-11.8
Deposits at foreign branches	12,676	10.9	19,338	14.1	18,590	14.1	-34.5
Direct customer deposits	116,510	100.0	137,037	100.0	131,646	100.0	-15.0

Managed savings totalled 110,764 billion lire at the end of June, representing 34% of the Bank's total customer financial assets. This aggregate has grown by 37.9% over the 12-month period and by 17,924 billion lire since December 31, 1998.

	6/30/1999		6/30/1998 pro forma		12/31/1998		% Change 6/99-6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Managed savings	110,764	52.8	80,349	44.1	92,840	47.3	+37.9
- <i>mutual funds</i>	80,806	38.6	56,866	31.2	67,275	34.3	+42.1
- <i>portfolio management</i>	22,946	10.9	20,014	11.0	20,620	10.5	+14.6
- <i>insurance policies</i>	7,012	3.3	3,469	1.9	4,945	2.5	+102.1
Administered savings	98,825	47.2	101,977	55.9	103,418	52.7	-3.1
- <i>government stocks</i>	31,877	15.2	37,237	20.4	35,990	18.3	-14.4
- <i>other securities</i>	66,948	32.0	64,740	35.5	67,428	34.4	+3.4
Indirect customer deposits	209,589	100.0	182,326	100.0	196,258	100.0	+15.0

Mutual funds took in a net 13,531 billion lire during the period and reported total assets of 80,800 billion lire at the end of June.

The net inflow to asset management schemes was 2,326 billion lire during the first six months, due to the component invested in mutual funds; portfolio management amount to 22,946 billion lire. The underwriting reserves of the life insurance business increased by 2,067 billion lire during the period, exceeding 7,000 billion lire at the end of June.

Loans to customers

Loans to customers, net of writedowns, amounted to 127,193 billion lire as of June 30, 1999, following a decrease of 9.3% compared with June 1998 and of 6,844 billion lire since the end of last year.

	6/30/1999		6/30/1998 pro forma		12/31/1998		% Change 6/99-6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Short-term loans	47,405	37.3	56,588	40.0	52,841	39.4	-16.2
Medium- and long-term loans	76,586	60.2	80,420	56.9	77,656	58.0	-4.8
Non-performing loans	3,202	2.5	4,404	3.1	3,540	2.6	-27.3
Less: IMI provisions and reserves	-	-	-1,156	-	-	-	-
Customer loan portfolio	127,193	100.0	140,256	100.0	134,037	100.0	-9.3

Short-term loans suffered the greatest decline (-16.2%), caused primarily by the reduction in repurchase agreement business at foreign branches.

Medium- and long-term loans, which account for over 60% of the total, fell by a more moderate 4.8% because of a decline in industrial loans. There was an increase in property loans, especially to households.

	6/30/1999		6/30/1998 pro forma		12/31/1998		% Change 6/99-6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Loans to households	19,324	15.2	18,164	12.8	18,262	13.6	+6.4
- Loans by Italian branches	19,254	15.1	18,092	12.7	18,257	13.6	+6.4
- current accounts	1,313	1.0	1,417	1.0	1,252	0.9	-7.3
- personal loans	1,020	0.8	856	0.6	889	0.7	+19.2
- mortgage loans	15,906	12.5	14,653	10.3	15,000	11.2	+8.6
- non-performing loans	666	0.5	725	0.5	671	0.5	-8.1
- other	349	0.3	441	0.3	445	0.3	-20.9
- Loans by foreign branches	70	0.1	72	0.1	5	0.0	-2.8
Family businesses, companies, governments, public bodies and others	107,869	84.8	123,248	87.2	115,775	86.4	-12.5
- Loans by Italian branches	98,155	77.2	108,902	77.0	104,428	77.9	-9.9
- mortgage loans	53,251	41.9	66,059	46.7	56,314	42.0	-19.4
- current accounts	15,934	12.5	17,600	12.4	15,935	11.9	-9.5
- advances under reserve	4,284	3.4	5,297	3.7	4,738	3.5	-19.1
- repurchase agreements	1,435	1.1	971	0.7	3,473	2.6	+47.8
- non-performing loans	2,529	2.0	3,675	2.6	2,862	2.1	-31.2
- import/export loans	2,775	2.2	3,796	2.7	2,632	2.0	-26.9
- portfolio risk	1,567	1.2	1,531	1.1	1,551	1.2	+2.4
- other	16,380	12.9	9,973	7.1	16,923	12.6	+64.2
- Loans by foreign branches	9,714	7.6	14,346	10.2	11,347	8.5	-32.3
Less: IMI provisions and reserves	-	-	-1,156	-	-	-	-
Loans to customers	127,193	100.0	140,256	100.0	134,037	100.0	-9.3

Doubtful loans

Non-performing, problem and restructured loans, loans being restructured and unsecured loans to residents of countries at risk totalled 6,348 billion lire after writedowns, a decrease of 9.9% since the start of the year.

	6/30/1999		6/30/1998 pro forma		12/31/1998		% Change 6/99-6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Non-performing loans	3,202	2.5	4,404	3.1	3,540	2.6	-27.3
Problem and rescheduled loans and those being rescheduled	2,809	2.2	3,162	2.2	3,109	2.3	-11.2
Loans subject to country risk - customers	169	0.1	353	0.2	186	0.1	-52.1
Performing loans	121,013	95.2	133,493	94.4	127,202	95.0	-9.3
Less: IMI provisions and reserves	-	-	-1,156	-	-	-	-
Total customer loans	127,193	100.0	140,256	100.0	134,037	100.0	-9.3
Non-performing and problem loans - banks	1		3		6		-66.7
Loans subject to country risk - banks	167		256		203		-34.8

Net non-performing loans to customers decreased by 9.5% with respect to the end of 1998, and represent just 2.5% of total net customer loans. The coverage of writedowns, including amounts already written-off, is 69.5%.

Net problem loans, rescheduled loans and loans being rescheduled with customers have decreased by 9.6% since the start of the year. The coverage, including amounts already written off, is 36.7%.

Net loans to customers and banks subject to country risk have decreased by 13.6%, mainly because the writedown of loans to Russia was raised from 60% to 90% of nominal value. The overall coverage of loans subject to country risk is 52.9%.

Operations in the financial markets

The Bank's securities portfolio amounted to 20,311 billion lire at the end of June, a decrease of 46.9% compared with June 1998 and of 10,222 billion lire since the start of the year. This follows the decision to centralize brokerage activities at the subsidiary Banca IMI. Operations in derivatives fell sharply, with notional values down 41% on June 1998 and 19% since the end of last year.

	6/30/1999		6/30/1998 pro forma		12/31/1998		% Change 6/99-6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Investment securities	1,678	8.3	3,117	8.1	2,894	9.5	-46.2
Dealing securities	18,633	91.7	35,151	91.9	27,639	90.5	-47.0
Total portfolio	20,311	100.0	38,268	100.0	30,533	100.0	-46.9
Medium/long-term loans to banks	2,653		1,082		2,539		+145.2
Funding from banks	7,911		8,647		8,412		-8.5
Medium/long-term loans from banks	9,530		12,378		10,850		-23.0
Net short-term interbank position	-2,552		-5,957		-2,139		-57.2
Derivatives and forward forex transactions (notional value)	375,746		634,671		464,029		-40.8

Treasury activities were geared toward maintaining a low risk profile. Special care was taken in the management of fixed-rate positions, as long-term interest rates rose gradually throughout the period.

Equity investment

The Bank's equity investments increased by 990 billion lire during the period, to 7,269 billion lire.

	6/30/1999		6/30/1998 pro forma		12/31/1998		% Change 6/99-6/98
	Amount (L/bln)	%	Amount (L/bln)	%	Amount (L/bln)	%	
Equity investments	7,269	100.0	6,381	100.0	6,279	100.0	+13.9
- in Group companies	4,603	63.3	4,888	76.6	4,691	74.7	-5.8
- other	2,666	36.7	1,493	23.4	1,588	25.3	+78.6

The main investments were as follows:

- an increase from 0.4% to 1.43% in the Bank's direct interest in Banco Santander Central Hispano, with an outlay of 716 billion lire;
- an increase from 3% to 3.72% in the holding in INA, with an investment of 114 billion lire.

Disposals during the period totalled 1,500 billion lire and generated a pre-tax profit of 720 billion lire. The more important disposals were as follows:

- the sale of a 20% stake in Crediop to the Franco-Belgian Dexia Group, for 422 billion lire, which generated a gross capital gain for statutory reporting purposes of 248 billion lire;
- acceptance of Olivetti's public offer for shares in Telecom Italia, with the sale of a 0.75% stake for 868 billion lire and a gross capital gain of 417 billion lire.

The branch network

During the period the Bank began preparatory work on a project to strengthen its network by opening 130 new branches over a 24-month period. Action to specialize by market segment and to increase the productivity of branches has continued.

	6/30/1999	6/30/1998 pro forma	12/31/1998	% Change 6/99-6/98
Banking branches and area offices	1,302	1,298	1,300	+0.3
- Italy	1,291	1,287	1,289	+0.3
- Abroad	11	11	11	-
Representative offices	12	12	12	-

Employees

By streamlining central functions, the Bank has been able to reduce its workforce by 663 employees since June 1998 and by 230 since the start of the year.

	6/30/1999		6/30/1998 pro forma		12/31/1998		Change 6/99-6/98
		%		%		%	
Period-end headcount	20,280	100.0	20,943	100.0	20,510	100.0	-3.2
- Executives	191	0.9	219	1.0	204	1.0	-12.8
- Managers	3,368	16.6	3,534	16.9	3,427	16.7	-4.7
- Other employees	16,721	82.5	17,190	82.1	16,879	82.3	-2.7
Average headcount	20,395		21,121		20,904		-3.4

Capital and reserves

Shareholders' equity

Shareholders' equity in the Bank was 14,497 billion lire as of June 30, 1999. Movements during the period are summarized below:

	<i>billions of lire</i>
Shareholders' equity as of January 1, 1999	14,533
Decreases	
- Dividends	-1,262
Increases	
- Net income for the period	1,226
Shareholders' equity as of June 30, 1999	14,497

After the real estate spin-off, shareholders' equity will be reduced by 1,302 billion lire.

The Bank did not trade in own shares during the period, and owned no such shares as of June 30, 1999.

Regulatory capital and capital adequacy

ANPAOLO IMI meets the solvency requirements set by the Bank of Italy.

	<i>billions of lire</i>
	6/30/1999
Regulatory capital	
Tier 1 capital	13,340
Tier 2 capital	2,229
less: prescribed deductions	-422
Total capital	15,147
Weighted assets	
Lending risk	127,343
Market risk	5,050
Total assets	132,393
Capital adequacy ratios	
Tier 1 ratio	10.08%
Total capital ratio	11.44%

Considering the forthcoming reduction in shareholders' equity due to the real estate spin-off, the total capital ratio as of June 30, 1999, would have been 10.5%.

Supplementary information

Intercompany and related-party transaction

Transactions between the Bank, subsidiary companies and associated companies take place in accordance with current legislation and are arranged on a mutually equitable basis.

Transactions with related parties as defined in the CONSOB Communications dated February 20, 1997 and February 27, 1998 - including those with personnel and officers of the Sanpaolo IMI Group and any companies they control - similarly comply with current legislation and are conducted on a market basis.

Assets, liabilities, income and expenses relating to companies in the Sanpaolo IMI Banking Group and to other companies subject to significant influence are detailed in the notes to the financial statements.

The euro and the year 2000

The Euro and Year 2000 projects are discussed in the report on the consolidated financial statements.

Significant events in the second half of the year

During the first eight months the decrease in Bank's net interest income was lower than that reported for the first part of the year. Commissions have grown more rapidly than during the first six months. Action to contain costs has continued, and the level of provisions and writedowns against loans has fallen.

Turin, September 21, 1999

The Board of Directors

Half-year financial statements

Balance sheet

billions of lire

ASSETS	6/30/99	12/31/98	6/30/98 pro forma	6/30/1998
10. Cash and deposits with central banks and post offices	656	764	533	531
20. Treasury bills and similar bills eligible for refinancing with central banks	5,635	8,670	14,562	14,560
30. Due from banks	23,702	28,889	46,887	41,149
a) repayable on demand	4,568	4,626	7,049	6,366
b) other deposits	19,134	24,263	39,838	34,783
40. Loans to customers	127,193	134,037	140,256	93,830
including:				
– loans using public funds	109	130	145	99
50. Bonds and other debt securities	13,233	20,625	22,130	21,940
a) public entities	8,451	15,236	15,056	14,882
b) banks	3,206	3,881	5,501	5,485
including:				
– own bonds	1,252	1,023	1,229	1,213
c) financial institutions	108	123	307	307
including:				
– own bonds	-	-	-	-
d) other issuers	1,468	1,385	1,266	-
60. Shares, quotas and other equities	1,443	1,238	1,576	1,502
70. Equity investments	2,666	1,588	1,493	619
80. Investments in Group companies	4,603	4,691	4,888	2,804
90. Intangible fixed assets	338	371	403	381
including:				
– start-up costs	-	-	-	-
– goodwill	-	-	-	-
100. Tangible fixed assets	2,523	2,572	2,711	2,198
130. Other assets	17,707	17,932	17,787	15,528
140. Accrued income and prepaid expenses	6,077	7,771	10,184	9,382
a) accrued income	5,548	7,431	9,679	8,714
b) prepaid expenses	529	340	505	668
including:				
– discounts on bond issues	8	10	13	13
Total assets	205,776	229,148	263,410	204,424

billions of lire

LIABILITIES AND SHAREHOLDERS' EQUITY		6/30/99	12/31/98	6/30/98 pro forma	6/30/1998
10.	Due to banks	41,042	47,751	72,787	43,021
	a) repayable on demand	5,040	4,989	7,618	7,201
	b) time deposits or with notice period	36,002	42,762	65,169	35,820
20.	Due to customers	62,953	71,255	71,366	69,354
	a) repayable on demand	49,058	47,919	48,770	48,342
	b) time deposits or with notice period	13,895	23,336	22,596	21,012
30.	Securities issued	53,442	60,257	65,520	46,084
	a) bonds	38,945	41,170	41,528	23,369
	b) certificates of deposit	13,652	18,466	23,239	21,962
	c) other	845	621	753	753
40.	Public funds administered	115	134	151	105
50.	Other liabilities	21,136	20,391	22,859	21,582
60.	Accrued expenses and deferred income	7,368	8,919	11,093	9,954
	a) accrued expenses	7,031	8,546	10,732	9,601
	b) deferred income	337	373	361	353
70.	Provision for termination indemnities	773	767	763	725
80.	Provisions for risks and charges	1,827	2,495	1,546	902
	a) pensions and similar commitments	92	95	100	-
	b) taxation	1,218	1,853	1,017	474
	c) other	517	547	429	428
100.	Reserve for general banking risks	650	650	650	-
110.	Subordinated liabilities	2,623	2,646	2,919	2,919
120.	Capital	8,413	8,413	8,413	8,160
130.	Additional paid-in capital	-	-	275	275
140.	Reserves	4,208	4,207	4,360	986
	a) legal reserve	1,682	1,682	806	206
	b) reserve for own shares	-	-	-	-
	c) statutory reserves	-	-	571	-
	d) other reserves	2,526	2,525	2,983	780
160.	Retained earnings	-	-	-	-
170.	Distributable net income	-	1,263	-	-
180.	Net income for the period	1,226	-	708	357
Total liabilities and shareholders' equity		205,776	229,148	263,410	204,424
GUARANTEES AND COMMITMENTS		6/30/99	12/31/98	6/30/98 pro forma	6/30/1998
10.	Guarantees given	30,955	32,544	39,816	25,907
	<i>including:</i>				
	- acceptances	276	308	403	403
	- other guarantees	30,679	32,236	39,413	25,504
20.	Commitments	25,281	26,214	41,142	35,288
	<i>including:</i>				
	- repurchase agreements	-	-	-	-

Statement of income

billions of lire					
	1st half 1999	1998	1st half 1998 pro forma	1 st half 1998	
10. Interest income and similar revenues	5,054	14,409	7,831	5,815	
<i>including from:</i>					
– loans to customers	3,957	10,295	5,474	3,614	
– debt securities	654	2,062	1,153	1,147	
20. Interest expense and similar charges	-3,354	-10,399	-5,750	-4,089	
<i>including on:</i>					
– deposits from customers	-617	-2,424	-1,404	-1,337	
– securities issued	-1,536	-4,113	-2,218	-1,547	
30. Dividends and other revenues	566	839	569	238	
a) from shares, quotas and other equities	35	92	75	72	
b) from equity investments	33	65	48	22	
c) from investments in Group companies	498	682	446	144	
40. Commission income	1,341	2,432	1,206	1,173	
50. Commission expense	-99	-192	-105	-84	
60. Profits (losses) on financial transactions	136	293	243	205	
70. Other operating income	179	356	177	149	
80. Administrative costs	-1,876	-3,904	-1,963	-1,848	
a) payroll	-1,220	-2,490	-1,246	-1,230	
<i>including:</i>					
– wages and salaries	-871	-1,783	-887	-888	
– social security charges	-287	-585	-294	-281	
– termination indemnities	-62	-121	-64	-61	
– pensions and similar commitments	-	-1	-1	-	
b) other	-656	-1,414	-717	-618	
90. Adjustments to intangible and tangible fixed assets	-163	-346	-164	-148	
100. Provisions for risks and charges	-49	-148	-44	-44	
110. Other operating expenses	-10	-15	-8	-8	
120. Adjustments to loans and provisions for guarantees and commitments	-737	-2,295	-861	-859	
130. Writebacks of adjustments to loans and provisions for guarantees and commitments	422	431	251	243	
140. Provisions to the reserve for possible loan losses	-	-	-92	-	
150. Adjustments to financial fixed assets	-54	-175	-82	-82	
160. Writebacks of adjustments to financial fixed assets	2	-	-	-	
170. Income from operating activities	1,358	1,286	1,208	661	
180. Extraordinary income	728	1,162	28	21	
190. Extraordinary expenses	-43	-87	-27	-21	
200. Extraordinary income, net	685	1,075	1	-	
220. Income taxes for the period	-817	-925	-501	-304	
230. Net income for the year	1,226	1,436	708	357	
240. Provision to reserve (art. 7.3, Law 218/90)		-173			
250. Distributable net income		1,263			

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Introduction - background information on the half-year report

Form and content of the half-year report

The report for the first half of 1999 has been prepared in accordance with Decree 87 of January 27, 1992, the CONSOB instructions approved in Resolution 8195 of June 30, 1994 (as amended by Resolution 9389 of August 1, 1995) and subsequent amendments to the above. For all matters not governed by special regulations, reference has been made to the Italian Civil Code and to national accounting standards.

The Bank's half-year report is structured much like the annual financial statements, comprising a report on operations and the financial statements as of June 30, which are represented by the balance sheet, the statement of income and the explanatory notes. This ensures, as far as possible, the necessary continuity between the annual and half-year accounts.

As in the year-end financial statements, the report on operations describes the Bank's financial position and its performance during the half-year, both as a whole and with reference to its various sectors of activity. The notes to the half-year financial statements provide details and analyses regarding balance sheet and statement of income information.

In addition to the information required by the Bank of Italy and CONSOB, the notes and the report on operations provide all the supplementary information considered necessary, even where not specifically required by law, in order to present a true and fair view of the Bank's financial and operating position.

The amounts contained in the half-year report are stated in billions of Italian lire, as per CONSOB Resolution 11661 of October 20, 1998. In accordance with CONSOB Recommendation 98083971 of October 26, 1998, the accounting tables have also been translated into millions of euro, using the fixed exchange rate of 1,936.27 lire to the euro.

The statement of changes in shareholders' equity, the statement of changes in financial position and the financial statements in euro are provided as attachments.

The half-year report, along with the independent auditors' report, will be made available to the public by the legal deadline at the Bank's head office and at the management company for the stock exchange, in accordance with Art. 81 of CONSOB Resolution 11971 of May 14, 1999.

Audit of the half-year report

Sanpaolo IMI's half-year report has been subject to a limited audit by Arthur Andersen SpA, in accordance with CONSOB Recommendations 97001574 of February 20, 1997 and 10867 of July 31, 1997, and the shareholders' resolution of April 30, 1998.

Comparison with the financial statements as of June 30 and December 31, 1998 and criteria adopted for the preparation of pro forma information

For the sake of comparison, the results for the first half of 1999 are presented together with aggregate pro forma data for San Paolo and IMI as of June 30, 1998, and with the financial statements as of December 31, 1998. Pursuant to Bank of Italy instructions, the latter have been adjusted so that the deferred tax assets relating to deductible timing differences are classified under caption 130 "other assets", rather than caption 140.b) "prepaid expenses".

The preparation of the aggregate pro forma data as of June 30, 1998, involved making both reclassifications and adjustments to take account of differences in the formats and accounting policies adopted by the two banks.

Figures for the first half of 1998 have also been adjusted to reflect the changes in accounting policy made by Sanpaolo IMI at the end of that year.

In addition, with respect to June 30, 1998, the reclassified statement of income has been modified as follows:

1. dividends have been classified under net interest and other banking income. In particular, while dividends from equity investments are stated separately, those from dealing securities are included together with profits (losses) on financial transactions;
2. other operating income has been divided into two components: capital gains deriving from merchant banking activities are classified under net interest and other banking income, while expense reimbursements, rentals and leasing charges are classified as part of net operating income.

The adjustments made to the statement of income and balance sheet as of June 30, 1998 are summarized below.

Pro forma statement of income for the first half of 1998:

- interest expense: this has been increased by about 11 billion lire, with a corresponding reduction in net commissions on services. This change derives from a difference in the classification criteria adopted by San Paolo and IMI regarding the deferral of commissions on security placements over the economic lives of the transactions concerned;
- adjustment solely to the statutory statements: net commissions on services have been increased by 5 billion lire, with a corresponding reduction in other net operating income. This change derives from differences in the classification criteria adopted by San Paolo and IMI regarding compensation/penalties arising from the early reimbursement of loans/funding;
- payroll costs: these have been decreased by about 52 billion lire, with corresponding increases in other administrative costs (about 36 billion lire) and extraordinary expenses (about 16 billion lire). This restatement follows changes in the classification of certain costs during 1998, consistent with guidelines issued by the Italian Accounting Profession (following the introduction of the IRAP tax and regarding, for example, staff training expenses, travel and transfers) and with Bank of Italy instructions (redundancy costs);
- other administrative costs: these have been increased by about 48 billion lire, with corresponding reductions in payroll costs (about 36 billion lire) and extraordinary expenses (about 12 billion lire). These adjustments relate to the personnel expenses described above, and to the reclassification of charges incurred in support of the Interbank Deposit Guarantee Fund;
- default interest: the policy adopted by San Paolo (full reversal) has been applied, rather than that adopted by IMI (which considered a portion to be collectable). The resulting adjustments have reduced interest income by about 4 billion lire and extraordinary income by about 2 billion lire, with a corresponding decrease of about 6 billion lire in net adjustments to loans.

Pro forma balance sheet as of June 30, 1998:

- loans to customers: these have been decreased by 1,156 billion lire both as a result of the changes in accounting policy introduced in 1998 (discounting to present value and new general writedowns) and following standardization of the policy regarding default interest, as mentioned above. There has been a corresponding reduction in the provisions for loan losses;
- adjustment solely to the statutory statements: prepaid taxes have been reclassified from prepaid expenses to other assets, consistent with the policy adopted as from the 1999 half-year report;
- equity reserves: these have been decreased by about 292 billion lire to reflect latent tax charges introduced in 1998 with regard to the reserve for general banking risks and the reserve as per Law 169/83. Equity reserves have also been reduced by about 417 billion lire following cancellation of the shares in San Paolo held by IMI;
- equity investments: these have been revalued by about 125 billion lire following the translation of foreign currency balances using current exchange rates; in compliance with Art. 21 of Decree 213/98, this adjustment has increased equity reserves by about 79 billion lire and the provision for deferred taxation by about 46 billion lire;
- pro forma share capital: the post-merger amount has been reported, after cancellation of the shares in San Paolo held by IMI (417 billion lire); the resulting changes have adjusted the reserves.

The adjustments required to determine the aggregate pro forma figures of San Paolo IMI for the first half of 1998 are presented below in both the statutory and reclassified formats.

Translation into English

The financial statements have been translated into English from the original version in Italian. They have been prepared in accordance with the accounting principles established by the Italian law related to financial statements, which may not conform with generally accepted accounting principles in other countries.

Determination of the SANPAOLO IMI pro forma reclassified statement of income for 1st half 1998

	San Paolo	IMI	Accounting adjustments	Sanpaolo IMI pro forma
				<i>billions of lire</i>
Interest income and similar revenues	5,815	2,020	-4	7,831
Interest expense and similar charges	-4,089	-1,650	-11	-5,750
NET INTEREST INCOME	1,726	370	-15	2,081
Net commissions and other dealing revenues	1,089	13	11	1,113
Profits (losses) on financial transactions and investment income	276	42		318
Dividends received from:	167	327		494
- <i>Group companies</i>	145	301		446
- <i>other equity investments</i>	22	26		48
NET INTEREST AND OTHER BANKING INCOME	3,258	752	-4	4,006
Administrative costs	-1,848	-119	4	-1,963
<i>of which:</i>				
- <i>payroll costs</i>	-1,230	-68	52	-1,246
- <i>other administrative costs</i>	-476	-44	-48	-568
- <i>indirect duties and taxes</i>	-142	-7		-149
Other net operating income	141	16		157
Adjustments to tangible and intangible fixed assets	-148	-16		-164
OPERATING INCOME	1,403	633	-	2,036
Provisions for risks and charges	-44			-44
Adjustments to loans	-616	-92	6	-702
Adjustments to financial fixed assets, net	-82			-82
INCOME BEFORE EXTRAORDINARY ITEMS	661	541	6	1,208
Extraordinary income, net		7	-6	1
INCOME BEFORE INCOME TAXES	661	548	-	1,209
Income taxes	-304	-197		-501
NET INCOME FOR THE PERIOD	357	351	-	708

Determination of the SANPAOLO IMI pro forma reclassified balance sheet as of June 30, 1998

	<i>billions of lire</i>			
Assets	San Paolo	IMI	Accounting adjustments	San Paolo IMI pro forma
Cash and deposits with central banks and post offices	531	2		533
Loans	134,979	53,320	-1,156	187,143
- loans to customers	93,830	47,582	-1,156	140,256
- due from banks	41,149	5,738		46,887
Dealing securities	34,906	245		35,151
Fixed assets	9,098	3,806	-292	12,612
- investment securities	3,096	21		3,117
- equity investments	3,423	3,250	-292	6,381
- intangible fixed assets	381	22		403
- tangible fixed assets	2,198	513		2,711
Other assets	24,910	3,061		27,971
Total assets	204,424	60,434	-1,448	263,410
Liabilities and shareholders' equity	San Paolo	IMI	Accounting adjustments	San Paolo IMI pro forma
Payables	158,563	51,261	-	209,824
- due to banks	43,021	29,766	-	72,787
- due to customers and securities issued	115,542	21,495	-	137,037
Other liabilities	33,165	3,914	-818	36,261
of which				
- provision for other risks and charges (lawsuits etc)	429	-	-	429
- provision for guarantees and commitments	32	-	-	32
- provision for other personnel charges	181	101	-	282
- provision for taxation	474	205	338	1,017
- reserve for possible loan losses		1,156	-1,156	0
Subordinated liabilities	2,919	-	-	2,919
Shareholders' equity	9,777	5,259	-630	14,406
of which				
- shareholders' equity	8,160	3,000	-2,747	8,413
- reserves	1,260	1,258	2,117	4,635
- reserve for general banking risks	-	650	-	650
- net income for the period	357	351	-	708
Total liabilities and shareholders' equity	204,424	60,434	-1,448	263,410
	San Paolo	IMI	Accounting adjustments	San Paolo IMI pro forma
Guarantees given	25,907	13,909	-	39,816
Commitments	35,288	5,854	-	41,142

Determination of the SANPAOLO IMI pro forma balance sheet as of June 30, 1998

	<i>billions of lire</i>			
Assets	San Paolo	IMI	Adjustments	Sanpaolo IMI pro forma
10 Cash and deposits with central banks and post offices	531	2		533
20 Treasury bills and similar bills eligible for refinancing with central banks	14,560	2		14,562
30 Due from banks	41,149	5,738	-	46,887
a) Repayable on demand	6,366	683		7,049
b) other deposits	34,783	5,055		39,838
40 Loans to customers	93,830	47,582	-1,156	140,256
<i>including</i>				
- <i>loans using public funds</i>	99	46		145
50 Bonds and other debt securities	21,940	190		22,130
a) public entities	14,882	174		15,056
b) banks	5,485	16		5,501
<i>including</i>				
- <i>own bonds</i>	1,213	16		1,229
c) financial institutions	307			307
<i>including</i>				
- <i>own bonds</i>	-	-		-
d) other issuers	1,266	-		1,266
60 Shares, quotas and other equities	1,502	74		1,576
70 Equity investments	619	1,291	-417	1,493
80 Investments in Group companies	2,804	1,959	125	4,888
90 Intangible fixed assets	381	22		403
<i>including</i>				
- <i>start-up costs</i>	-	-		-
- <i>goodwill</i>	-	-		-
100 Tangible fixed assets	2,198	513		2,711
130 Other assets	15,528	1,954	305	17,787
140 Accrued income and prepaid expenses	9,382	1,107	-305	10,184
a) accrued income	8,714	965		9,679
b) prepaid expenses	668	142	-305	505
<i>including</i>				
- <i>discounts on bond issues</i>	13			13
Total assets	204,424	60,434	-1,448	263,410

billions of lire

Liabilities and shareholders' equity	San Paolo	IMI	Adjustments	Sanpaolo IMI pro forma
10 Due to banks	43,021	29,766		72,787
a) repayable on demand	7,201	417		7,618
b) time deposits or with notice period	35,820	29,349		65,169
20 Due to customers	69,354	2,012		71,366
a) repayable on demand	48,342	428		48,770
b) time deposits or with notice period	21,012	1,584		22,596
30 Securities issued	46,084	19,436		65,520
a) bonds	23,369	18,159		41,528
b) certificates of deposit	21,962	1,277		23,239
c) other securities	753			753
40 Public funds administered	105	46		151
50 Other liabilities	21,582	1,277		22,859
60 Accrued expenses and deferred income	9,954	1,139		11,093
a) accrued expenses	9,601	1,131		10,732
b) deferred income	353	8		361
70 Provision for termination indemnities	725	38		763
80 Provisions for risks and charges	902	306	338	1,546
a) pensions and similar commitments		100		100
b) taxation	474	205	338	1,017
c) other	428	1		429
90 Reserves for possible loan losses		1,156	-1,156	-
100 Reserve for general banking risks		650		650
110 Subordinated liabilities	2,919			2,919
120 Capital	8,160	3,000	-2,747	8,413
130 Additional paid-in capital	275			275
140 Reserves	986	1,257	2,117	4,360
a) legal reserve	206	600		806
b) reserve for own shares				-
c) statutory reserves		571		571
d) other reserves	780	86	2,117	2,983
150 Revaluation reserves	-	-		-
180 Net income for the period	357	351		708
Total liabilities and shareholders' equity	204,424	60,434	-1,448	263,410

Guarantees and commitments	San Paolo	IMI	Adjustments	Sanpaolo IMI pro forma
10 Guarantees given	25,907	13,909		39,816
including				
- acceptances	403			403
- other guarantees	25,504	13,909		39,413
20 Commitments	35,288	5,854		41,142
including				
- repurchase agreements	-	-		-

Determination of the SANPAOLO IMI pro forma statement of income for 1st half 1998

	San Paolo	IMI	Adjustments	Sanpaolo IMI pro forma
10 Interest income and similar revenues	5,815	2,020	-4	7,831
<i>including from:</i>				
- loans to customers	3,614	1,860		5,474
- debt securities	1,147	6		1,153
20 Interest expense and similar charges	-4,089	-1,650	-11	-5,750
<i>including on:</i>				
- deposits from customers	-1,337	-67		-1,404
- securities issued	-1,547	-660	-11	-2,218
30 Dividends and other revenues	238	331	-	569
a) from shares, quotas and other equities	71	4		75
b) from equity investments	22	26		48
c) from investments in Group companies	145	301		446
40 Commission income	1,173	18	15	1,206
50 Commission expense	-84	-22	1	-105
60 Profits (losses) on financial transactions	205	38		243
70 Other operating income	149	47	-19	177
80 Administrative costs	-1,848	-119	4	-1,963
a) payroll	-1,230	-68	52	-1,246
<i>including</i>				
- wages and salaries	-888	-51	52	-887
- social security charges	-281	-13		-294
- termination indemnities	-61	-3		-64
- pensions and similar commitments		-1		-1
b) other	-618	-51	-48	-717
90 Adjustments to intangible and tangible fixed assets	-148	-16		-164
100 Provisions for risks and charges	-44			-44
110 Other operating expenses	-8	-14	14	-8
120 Adjustments to loans and provisions for guarantees and commitments	-859	-4	2	-861
130 Writebacks of adjustments to loans and provisions for guarantees and commitments	243	4	4	251
140 Provisions to the reserve for possible loan losses		-92		-92
150 Adjustments to financial fixed assets	-82			-82
170 Income from operating activities	661	541	6	1,208
180 Extraordinary income	21	9	-2	28
190 Extraordinary expenses	-21	-2	-4	-27
200 Extraordinary income	-	7	-6	1
220 Income taxes for the period	-304	-197		-501
230 Net income for the period	357	351	-	708

billions of lire

Part A - Accounting policies

Section 1 - Description of accounting policies

The half-year report as of June 30, 1999, has been prepared using the accounting policies adopted in relation to the financial statements as of December 31, 1998. The half-year accounts have been prepared using the discrete approach, by which the reference period is considered to be an independent financial year. Accordingly, the half-year statement of income reflects both the ordinary and extraordinary components of income pertaining to the period, in accordance with the accrual principle.

In compliance with the Bank of Italy's instructions on deferred taxation, which were issued on August 3, 1999 and which will take effect from the 1999 financial statements, the treatment of deferred tax assets has been changed. In particular, where deductible timing differences exceed taxable timing differences, the net tax effect is now classified under caption 130 "other assets" (with a credit to income taxes), rather than under caption 140.b), "prepaid expenses."

Loans, guarantees and commitments

Loans

Loans, comprising principal not yet due and principal and interest due but not yet collected, are stated at their estimated realizable value, taking account of the solvency of borrowers in difficulty and any debt-servicing problems faced by individual industrial sectors or the countries in which borrowers are resident. The assessment performed also takes into consideration any guarantees received, market prices (where applicable) and general difficulties experienced by the different categories of borrower. Estimated realizable value is determined following a detailed review of loans outstanding at period-end, considering the degree of risk associated with the various forms of lending and the risk of default inherent in loans that are currently performing normally. The estimated realizable value of doubtful loans (non-performing, problem and restructured loans, loans being restructured and loans to companies under observation, assessed on a case-by-case basis) takes into consideration not only the likelihood of eventual recovery, but also the financial cost of delayed repayments and any total or partial failure to generate income. In particular:

- non-performing loans, being loans to borrowers in a state of insolvency or similar, are valued on a case-by-case basis;
- problem loans, being loans to borrowers in temporary difficulties, are valued on a case-by-case basis;
- restructured loans, being loans for which a syndicate of banks (or a single bank) reschedules the repayment of principal or re-negotiates the applicable terms at lower-than-market rates, are valued on a case-by-case basis;
- loans being restructured, being loans for which the borrower has applied for consolidation to a variety of banks within the past 12 months, are valued on a case-by-case basis;
- loans exposed to "country risk", being loans to borrowers resident in countries with debt-servicing difficulties, are normally adjusted on a general basis by applying writedown percentages that are not lower than those specified by the banking association. In addition, specific positions are assessed on a case-by-case basis, using objective criteria, with reference to the category of risk concerned;
- performing loans, being loans to borrowers who, at this time, do not present specific insolvency risks, are valued on a general basis, except for the positions of certain companies under observation, which are assessed on a case-by-case basis. General adjustments to performing loans are calculated on a historical-statistical basis, taking into consideration the net average total of previously performing loans which became problem or non-performing loans during the last three years, and applying to this total the average percentage writedowns relating to each risk category.

The present value adjustments reflect the difference between book value and:

- estimated realizable value; or
- the discounted present value of future financial flows (principal and interest) or NPV.

The discounted present value of financial flows is determined by reference to expected cash receipts, the timing of such receipts and the applicable discounting rate.

The timing and extent of expected cash receipts are determined by the department responsible for the evaluation of lending, whose work includes reference to estimates and general statistics deriving from historical data and studies of the business sectors concerned.

With regard to the discounting rate, the Bank has used a reference rate of 5.96%, as applied at the end of 1998, since this reflects the best approximation of the average yield on the loan portfolio – considering the contractual rates currently applied by the Bank and the returns expected over the medium term.

For the purpose of classifying loans as non-performing, problem, restructured, in course of restructuring or exposed to “country-risk”, the Bank has made reference to current Bank of Italy regulations on the subject. These have been supplemented by specific and detailed internal instructions regarding, in particular, aspects of implementation and the introduction of rules for the automatic transfer of loans between the various risk categories.

Doubtful loans are classified to the various risk categories (non-performing, problem, restructured and being restructured) by the Branches and Area Management, working together with the central functions responsible for the supervision of lending.

Following a review by the central functions responsible for the control and recovery of loans, the resulting estimated realizable values are formally approved by the committees and other levels within the organization empowered to take such decisions.

Default interest accrued during the period is eliminated from the statement of income since, for the sake of prudence, collection is considered unlikely.

Writedowns, both specific and general, are made by an adjustment to reduce the value of the asset recorded in the balance sheet on the basis discussed above. The original values may be reinstated by means of writebacks, should the reasons for any writedowns cease to apply.

The discounting process automatically means that there will be writebacks to discounted loans: in fact, the mere passage of time, with the consequent approach of the expected collection deadlines, implies an automatic reduction in the implicit financial charges previously deducted from the value of the loans.

Loans deriving from financing and deposit contracts

These are recorded at the amount disbursed. The difference between the amount of the loan granted to a customer and the amount actually disbursed is credited to the statement of income in accordance with the loan repayment plan. Loans backed by discounted notes, acquired within the scope of lending activities, are recorded in the financial statements at their nominal value, while the portion pertaining to future years is recorded among deferred income.

Reverse repurchase agreements on securities

Reverse repurchase agreements that require the holder to resell securities when the agreement matures are treated as lending transactions. The amounts disbursed in this way are therefore recorded as loans. Income from lending, comprising interest coupons on securities and the differential between the spot and forward prices for such securities, are recorded on an accruals basis as interest in the statement of income.

Loan of securities

Transactions involving the loan of securities guaranteed by funds freely available to the lender, are treated in the same way as repurchase agreements on securities. Securities loaned, not guaranteed by sums of money, are reported in the financial statements as a combination of two functionally-linked transactions: a loan to and a deposit from a third party (or vice versa). These transactions are essentially the same as repurchase agreements, which means that the securities loaned remain in the portfolio of the lender.

Guarantees and commitments

Guarantees and commitments giving rise to lending risk are recorded at the total value of the exposure, while the related risk is assessed on the basis described in relation to loans. Expected losses in relation to guarantees and commitments are covered by the related provision.

Securities and off-balance sheet transactions (other than foreign currency transactions)

Investment securities

Investment securities, due to be held long term by the Bank as stable investments, are valued at cost, as adjusted by accrued issue discounts and accrued dealing discounts (being the difference between the purchase cost of the securities and the related redemption price, net of issue discounts yet to mature).

Such securities are written down to reflect any lasting deterioration in the solvency of the issuers and the ability of the related nations to repay debt, except where suitable guarantees are available. The original value of investment securities is reinstated when the reasons for any writedowns cease to apply.

Dealing securities

Securities held for dealing and treasury purposes are stated at their average daily cost (as adjusted to reflect accrued issue discounts). Cost is determined as follows:

- securities quoted in organized markets: the official price quoted on the last trading day of the period;
- securities not quoted in organized markets: at the lower of cost or market value, determined with reference to quoted securities with similar characteristics. The original value of such securities is reinstated when the reasons for any writedowns cease to apply. Unquoted securities which are economically linked to derivative contracts are valued at market price, consistent with the accounting treatment of the contracts concerned.

Any transfers between the investment and dealing portfolios are made on the basis of the book value of the securities transferred at the time of the transaction; book value is determined using the method applicable to the originating portfolio. Securities transferred and still held at period-end are valued using the method applicable to the destination portfolio.

Commitments to buy or sell for securities transactions to be settled

Commitments to buy are valued on the basis applicable to the destination portfolio. The value of commitments to sell, on the other hand, takes into consideration the contractual forward sale price.

Equity investments

Equity investments are stated at cost, as revalued in the past at the time of transformation into a limited company or as a result of mergers, determined on a LIFO basis with annual layers. Cost is written down to reflect any permanent losses in value, taking into account any reductions in the equity value of the companies concerned and, where available, market prices. The original value of equity investments is reinstated if the reasons for any writedowns cease to apply.

Differences between the carrying value of "significant investments" and the corresponding proportion of their shareholders' equity as shown in the latest set of financial statements, if lower, represent goodwill and the higher market value of the assets owned by the companies concerned.

Dividends and the related tax credits are recorded in the period in which they are collected.

Foreign currency assets and liabilities (including off-balance sheet transactions other than derivatives)

With the introduction of the euro, the term foreign currency refers to all currencies outside the EMU area.

Assets and liabilities denominated in foreign currency

Assets and liabilities denominated in foreign currencies, or in lire indexed to foreign exchange movements, as well as financial fixed assets funded in foreign currencies, or in lire indexed to foreign exchange movements, are valued using the spot exchange rates applying at period-end. Equity investments funded in lire and denominated in foreign currencies subject to local exchange-control restrictions (non-convertible currencies) are stated at the historical rates of exchange applying at the time of acquisition.

Foreign currency costs and revenues are stated using the exchange rates applying at the time they arose.

Unsettled spot and forward currency transactions

Unsettled spot and forward currency transactions carried out for hedging purposes are valued in the same way as the assets and liabilities being hedged, whether they are recorded on or off the balance sheet.

Transactions not carried out for hedging purposes are valued:

- at period-end spot exchange rates, in the case of spot transactions still to be settled;
- at period-end forward exchange rates for the maturity dates concerned, in the case of forward transactions.

The effect of these valuations is debited or credited to the statement of income.

Introduction of the euro

Following the fixing of permanent rates for the conversion to euro of the currencies of countries adhering to the EMU, the exchange differences arising on euro-zone assets and liabilities previously held at historical cost have also become permanent. SANPAOLO IMI SpA does not hold any such assets and liabilities at historical cost; accordingly, there are no latent foreign exchange differences to be recognized.

Tangible fixed assets

Tangible fixed assets are stated at purchase cost, including related charges and the cost of improvements. In certain cases, purchase cost may have been restated in case of transformation of the Bank at the time of mergers or as a result of applying revaluation laws.

Operating assets are depreciated on a straight-line basis over their residual useful lives. Tangible fixed assets are written down in cases where there is a permanent loss in value, regardless of how much depreciation has already been accumulated. The value of such assets is reinstated in future accounting periods if the reasons for any writedowns no longer apply.

Repair and maintenance expenses that do not enhance the value of the related assets are charged against income as incurred.

Intangible fixed assets

Intangible fixed assets are stated at purchase or production cost, including related charges, and amortized over the period they are expected to benefit, as described below:

- formation and capital increase expenses and other deferred charges are generally amortized on a straight-line basis over five years;
- costs incurred for the purchase of software or for its development using external resources, are generally amortized on a straight-line basis over three years, taking account of the residual period such software is expected to benefit;
- the differences arising on the merger of Banca Provinciale Lombarda and Banco Lariano in 1993 and on the merger of Crediop - Credito per le Imprese e le Opere Pubbliche - in 1995, net of the portion allocated to more closely reflect the value of the related assets, are amortized on a straight-line basis. Amortization is provided over a period of ten years in the case of Banca Provinciale Lombarda and Banco Lariano, and over five years with regard to Crediop. These amortization periods are justifiable in view of the durability of the goodwill accumulated by the merged banks, as assessed in expert appraisals prepared for the respective mergers.

Payables

Payables are stated at their nominal value. The difference between the face value of loans received, or securities placed, and the amount actually received, is recorded in the financial statements among deferrals and released to the statement of income on an accruals basis, in accordance with the repayment plan implicit in the funding transaction. Zero-coupon securities issued are stated at their issue price plus accrued interest. Consistent with the policies described above, funding repurchase agreements that require the holder to resell the securities acquired when the agreement matures are recorded among payables, as are related securities borrowing transactions.

Provision for employee termination indemnities

The provision for employee termination indemnities represents the total liability due to each employee in accordance with current legislation and payroll agreements.

Provisions for risks and charges

Provisions for risks and charges cover known or likely liabilities whose timing and extent cannot be determined at period-end or at the time the financial statements are prepared.

Pensions and similar commitments

The accumulated provisions under this heading relate to supplementary pensions for the retired employees of former IMI SpA. The contingency arising in this connection is assessed on the basis of independent actuarial appraisals, in order to determine the provisions to technical reserves needed to cover future pensions.

Taxation

The provision for taxation covers income taxes (IRPEG) and the regional tax on business activities (IRAP), taking account of taxes applicable in the countries in which branches operate, deferred taxation, and outstanding or potential fiscal disputes.

Income taxes for the period are prudently determined on the basis of current fiscal legislation with reference to the expected taxable income for the full year, taking account of disallowed costs and the benefits deriving from the allocation of profits to a special reserve pursuant to Decree 153/99 issued in accordance with Law 416/98.

Deferred taxation reflects the tax effect of timing differences between the book value of assets and liabilities and their value for tax purposes, which will lead to taxable and deductible amounts in future years when there is reasonable evidence that such differences will reversal. To this end, and in compliance with international accounting standard IAS 12, taxable timing differences are defined as those which will give rise to taxable income in future years (deferred capital gains, for example); while deductible timing differences are defined as those which will give rise to deductible amounts in future years (such as provisions and costs that can be deducted for tax purposes over a period of years, e.g. loan writedowns that exceed 0.5% of total loans). If deductible timing differences exceed taxable timing differences, the net tax effect is classified under caption 130 - other assets - and against income taxes.

The deferred taxation on equity reserves that will become taxable "however used" is charged against shareholders' equity. Deferred taxation relating to revaluations arising on conversion to the euro, credited to a specific reserve pursuant to art. 21 of Decree 213/98, is charged directly against this reserve.

No provision is made for reserves subject to deferred taxation only in the event of distribution. This is because such reserves are allocated to accounts not available for distribution and because the events which would give rise to such taxation are not expected to occur.

Other provisions

Provisions for guarantees and commitments cover losses in respect of guarantees given and, more generally, the contingencies associated with the Bank's guarantees and commitments.

Other provisions for risks and charges cover estimated losses arising from legal action and, in particular, from repayments claimed by the receivers of bankrupt customers. They also cover possible charges in connection with guarantees given on the sale of equity investments, with the Bank's commitment to support the Interbank Deposit Guarantee Fund and with other potential liabilities.

The provision for other personnel charges comprises:

- provisions made on the basis of an independent actuarial report to an independent supplementary pension fund to cover unfunded pension liabilities, as well as provisions for contributions that may be due in relation to the personnel of a merged company;
- provisions made on an actuarial basis to set up the technical reserve needed to cover long-service bonuses payable when staff celebrate twenty-five and thirty-five years of employment with the Bank.

Reserve for general banking risks

This reserve covers the general business risks of the Bank and, as such, forms part of stockholders' equity in compliance with international supervisory standards and Bank of Italy instructions.

Accruals and deferrals

Accruals and deferrals are recognized in accordance with the matching principle.

Derivative contracts

Derivatives on currency, securities, interest rates, stockmarket indices or other assets

Derivative contracts are valued individually using the methods applicable to the portfolio concerned (hedging contracts and non-hedging contracts).

The values determined are recorded separately in the balance sheet without off-setting assets and liabilities. Agreements between the parties for the compensation of reciprocal receivables and payables in the case of default by one of the counterparties ("master netting agreement") is not relevant for disclosure purposes, but is taken into consideration when assessing the counterparty's lending risk.

The values determined by the contract valuation process (hedging and non-hedging) are written down on a case-by-case or a general basis, where appropriate, in order to reflect the lending risk (counterparty and/or country risk) inherent in the contracts.

Hedging contracts

These are entered into with the aim of protecting the value of individual assets or liabilities, as well as any groups of assets or liabilities, on or off the balance sheet, from the risk of market fluctuations. In the case of off-balance sheet items, the hedging objective is achieved via the use of asset and liability management techniques. A transaction is considered to be a hedge in the presence of the following documented conditions:

- a) intent to enter into a hedge; and
- b) high degree of correlation between the technical and financial characteristics of the assets and liabilities hedged and those inherent in the hedging contract.

If just one of the conditions above ceases to apply, then the contract is re-classified as "non-hedging".

Hedging derivatives are valued on a basis consistent with the assets and liabilities being hedged. The related procedures for presentation in the financial statements are summarized below:

Balance sheet: the period element of differentials or interest margins on contracts hedging the interest arising from interest-earning / bearing assets and liabilities is classified among "Accrued income" or "Accrued expenses". The period element of differentials on forward rate agreements hedging the interest arising from interest-earning / bearing assets and liabilities is classified among "Prepaid expenses" or "Deferred income". The market value of contracts hedging the risk of price fluctuations, and the effect of valuing contracts hedging the exchange risk on lending and funding activities (principal portion) using year-end spot exchange rates, are classified among "Other assets" or "Other liabilities". Contracts hedging investment securities, or total loans and deposits, are valued at cost.

Statement of income: where derivative contracts are intended to hedge the interest arising from interest-earning / bearing assets and liabilities, the related economic effect will form part of the interest margin on an accruals basis. In this case, the related differentials and margins are allocated either to interest income or to interest expense, depending on their nature. If, on the other hand, the derivative contract hedges the risk of market price or exchange fluctuations (principal portion), then the revenues or costs generated are treated as "Profits (losses) on financial transactions". More specifically, differentials and

margins earned on derivative contracts hedging dealing securities are treated as interest, if they relate to multiple-flow contracts (e.g. IRS) or to single-flow contracts where the duration of the underlying asset is less than one year (e.g. FRAs); but as profits (losses) on financial transactions, if they relate to single-flow contracts where the duration of the underlying asset is more than one year (e.g. futures and options).

Non-hedging contracts

These are valued as follows:

Contracts on securities, interest rates, stockmarket indices and other assets: contracts quoted in organized markets are stated at their market value on the last day of the period. Contracts linked to reference indicators subject to official observation are stated on the basis of their financial value (replacement cost), determined with reference to the market quotations for those indicators on the last day of the period. Other contracts are valued with reference to other elements determined on an objective and consistent basis.

Foreign currency derivatives: these are stated using the forward exchange rates ruling at period-end for the maturity dates of the transactions subject to valuation.

The related procedures for presentation in the financial statements are summarized below:

Balance sheet: the amounts determined from the valuation of non-hedging contracts are classified as "Other assets" or "Other liabilities".

Statement of income: the economic effects of non-hedging derivative contracts are classified as "Profits (losses) on financial transactions". This caption is analyzed in a specific table within the explanatory notes with regard to the portfolios in which the transactions took place (securities, currency, other financial instruments) and to the nature of the income / costs arising (from valuations or elsewhere).

Internal deals

The Bank has adopted an organizational structure based on specialized trading desks that have exclusive authorization to deal in specific derivatives. The arrangement is inspired mainly by the goals of efficiency (lower transaction costs), improved management of market and counterparty risks, and the optimal allocation of specialized human resources. These desks manage portfolios consisting of various types of derivatives (and sometimes securities); they have their own books of account and established limits on net risk, and they are responsible for their own results.

The desks serve as counterparties to other desks (which are also autonomous from an accounting point of view) that are not authorized to deal in the market, by means of internal deals in derivatives at market prices. The non-specialized desks initiate these internal deals mainly for hedging purposes.

With regard to the accounting treatment of internal deals and their effect on income, it should be noted that:

- internal deals involving derivatives held in specialized desk portfolios are stated at market value;
- internal deals involving derivatives held in non-specialized desk portfolios are treated on a basis consistent with the assets or liabilities being hedged (for example, at market value if they hedge listed dealing securities and at cost if they hedge investment securities and/or deposits).

Settlement date

Currency and security transactions, interbank deposits and loans and the bills portfolio are recorded with reference to their settlement dates.

Section 2 - Adjustments and provisions recorded for fiscal purposes

Value adjustments recorded solely for fiscal purposes

No adjustments have been recorded solely for fiscal purposes.

Provisions recorded solely for fiscal purposes

No provisions have been recorded solely for fiscal purposes.

Part B - Balance sheet

Section 1 - Loans

Due from banks (caption 30)

Amounts due from banks are analyzed below by type of counterparty and technical form:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
Due from central banks			
- compulsory reserve	273	1,043	-73.8
- other	175	5	n.s.
Due from other banks			
- repurchase agreements and securities loaned	4,719	9,191	-48.7
- current accounts	1,517	1,071	41.6
- deposits	13,839	13,943	-0.7
- loans	3,018	3,442	-12.3
- subordinated loans	101	110	-8.2
- other	60	84	-28.6
Total	23,702	28,889	-18.0

Loans to customers (caption 40)

Loans to customers are analyzed below by technical form:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
Mortgage loans	69,268	71,372	-2.9
Current accounts	17,445	17,428	0.1
Other forms of finance not in current accounts – Italian branches	14,959	14,491	3.2
Other forms of finance not in current accounts – foreign branches	8,381	5,745	45.9
Advances with recourse	4,284	4,762	-10.0
Non-performing loans	3,202	3,540	-9.5
Import-export loans	2,775	2,632	5.4
Repurchase agreements and securities loaned	2,148	8,351	-74.3
Risk on portfolio	1,855	2,005	-7.5
Factoring loans	1,741	1,422	22.4
Personal loans	1,088	964	12.9
Other loans to customers	47	1,325	-96.5
Total	127,193	134,037	-5.1

"Secured loans to customers", excluding those granted directly to State or public entities, 16,646 billion lire (16,683 billion lire as of December 31, 1998), are analyzed as follows:

Secured loans to customers

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
a) Mortgages	31,613	31,917	-1.0
b) Pledged assets:			
1. cash deposits	268	266	0.8
2. securities (*)	4,998	10,488	-52.3
3. other instruments	312	314	-0.6
c) Guarantees given by:			
1. Governments	7,131	8,540	-16.5
2. other public entities	18	23	-21.7
3. banks	2,120	2,354	-9.9
4. other operators	12,525	14,128	-11.3
Total	58,985	68,030	-13.3

(*) Including repurchase agreements and similar operations guaranteed by securities totalling 2,111 billion lire as of 6/30/99 and 8,327 billion lire as of 12/31/98.

Secured loans to customers and those granted directly to Governments or other public entities represent 59.5% of total loans to customers (63.2% as of December 31, 1998).

Degree of risk in loan portfolio

The principal and interest elements of loans are stated at their estimated realisable value by applying the policies described in detail in part A, section 1 of these notes. The related writedowns are made by directly reducing the balance sheet value of the loans concerned.

Since the introduction of the discounting technique in 1998, the estimated realizable value of problem loans takes into account not only the likelihood of recovery, but also the financial cost deriving from their total or partial failure to generate income and from the rescheduling of payments. Adjustments to discount loans to their present value as of June 30, 1999 total 733 billion lire, a decrease of 119 billion lire from 852 billion lire as of December 31, 1998. This reduction reflects writebacks of 212 billion lire, write-offs of 19 billion lire and new writedowns totalling 112 billion lire.

Analysis of loans to customers

	6/30/1999			12/31/1998		
	Gross value	Total adjustments	Net book value	Gross value	Total adjustments	Net book value
A. Doubtful loans	11,723	5,543	6,180	12,056	5,221	6,835
A.1 Non-performing loans	7,684	4,482	3,202	7,723	4,183	3,540
A.2 Problem loans	3,424	939	2,485	3,717	899	2,818
A.3 Loans currently being restructured	10	3	7	4	1	3
A.4 Restructured loans	366	49	317	351	63	288
A.5 Unsecured loans exposed to country risk	239	70	169	261	75	186
B. Performing loans	121,454	441	121,013	127,671	469	127,202
Total loans to customers	133,177	5,984	127,193	139,727	5,690	134,037

The coverage of non-performing loans, gross of write-offs, is 69.5% compared with 65.3% of the end of 1998, while the equivalent figure for problem loans has risen to 36.7% from 33.8% at the end of 1998.

Net of write-offs, the coverage of non-performing and problem loans is, respectively, 58.3% (54.2% in 1998) and 27.4% (24.2% in 1998).

Analysis of loans to banks

	6/30/1999			12/31/1998		
	Gross value	Total adjustments	Net book value	Gross value	Total adjustments	Net book value
A. Doubtful loans	496	328	168	402	193	209
A.1 Non-performing loans	22	21	1	5	5	-
A.2 Problem loans	-	-	-	8	2	6
A.3 Loans currently being restructured	-	-	-	-	-	-
A.4 Restructured loans	-	-	-	-	-	-
A.5 Unsecured loans exposed to country risk	474	307	167	389	186	203
B. Performing loans	23,534	-	23,534	28,680	-	28,680
Total loans to banks	24,030	328	23,702	29,082	193	28,889

Movements in gross doubtful loans to customers

billions of lire

	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans being restructured
A. Gross value as of January 1, 1999	7,723	3,717	4	351	261
<i>A.1 including: for default interest</i>	<i>1,517</i>	<i>107</i>	<i>-</i>	<i>1</i>	<i>-</i>
B. Increases	561	902	6	68	32
B.1 transfers from performing loans	72	646	-	4	11
B.2 default interest	156	16	-	-	-
B.3 transfers from other categories of problem loan	229	40	6	41	-
B.4 other increases	104	200	-	23	21
C. Decreases	600	1,195	-	53	54
C.1 transfers to performing loans	34	121	-	5	21
C.2 write-offs	93	33	-	9	-
C.3 collections	443	766	-	28	33
C.4 disposals	-	-	-	-	-
C.5 transfer to other categories of problem loan	30	275	-	11	-
C.6 other decreases	-	-	-	-	-
D. Gross value as of June 30, 1999	7,684	3,424	10	366	239
<i>D.1 including: for default interest</i>	<i>1,604</i>	<i>94</i>	<i>-</i>	<i>1</i>	<i>-</i>

Movements in gross doubtful amounts due from banks

billions of lire

	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans being restructured
A. Gross value as of January 1, 1999	5	8	-	-	389
<i>A.1 including: for default interest</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
B. Increases during the year	17	-	-	-	120
B.1 transfers from performing loans	15	-	-	-	43
B.2 default interest	-	-	-	-	-
B.3 transfers from other categories of problem loan	2	-	-	-	-
B.4 other increases	-	-	-	-	77
C. Decreases	-	8	-	-	35
C.1 transfers to performing loans	-	-	-	-	10
C.2 write-offs	-	-	-	-	24
C.3 collections	-	6	-	-	-
C.4 disposals	-	-	-	-	-
C.5 transfer to other categories of problem loan	-	2	-	-	-
C.6 other decreases	-	-	-	-	-
D. Gross value as of June 30, 1999	22	-	-	-	474
<i>D.1 including: for default interest</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>

Movements in adjustments made to loans granted to customers

billions of lire

	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Total adjustments as of January 1, 1999	4,183	899	1	63	75	469
<i>A.1 including: for default interest</i>	1,517	107	-	1	-	9
B. Increases	609	245	2	16	11	22
B.1 Adjustments	552	217	1	3	9	11
<i>B.1.1 including: for default interest</i>	156	16	-	-	-	4
B.2 Use of reserves for possible loan losses	-	-	-	-	-	-
B.3 Transfer from other categories of problem loan	53	22	1	13	-	7
B.4 Other increases	4	6	-	-	2	4
C. Decreases	310	205	-	30	16	50
C.1 Writebacks from valuations	134	68	-	16	7	16
<i>C.1.1 including: for default interest</i>	-	-	-	-	-	-
C.2 Writebacks following collections	75	39	-	1	9	6
<i>C.2.1 including: for default interest</i>	35	21	-	-	-	1
C.3 Write-offs	88	30	-	9	-	17
C.4 Transfers to other categories of problem loan	13	68	-	4	-	11
C.5 Other decreases	-	-	-	-	-	-
D. Total adjustments as of June 30, 1999	4,482	939	3	49	70	441
<i>D.1 including: for default interest</i>	1,604	94	-	1	-	12

As already discussed, total adjustments include 733 billion lire relating to the adoption of a policy of discounting doubtful loans. Writedowns for discounting purposes total 548 billion lire on non-performing loans, 162 billion lire on problem loans and 18 million lire on restructured loans and loans being restructured, and 5 billion lire on performing loans following a specific analysis.

Performing loans include 565 billion lire specifically under observation, covered by writedowns totalling 43 billion lire (including 1 billion lire for default interest). In addition, the inherent risk associated with other performing loans totalling 120,889 billion lire is covered by a general writedown of 387 billion lire, in addition to the reversal of default interest amounting to 11 billion lire.

The contingent asset represented by the possible recovery of default interest on loan positions previously written down amounts to around 400 billion lire.

Movements in adjustments made to loans granted to banks

billions of lire

	Non- performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Total adjustments as of January 1, 1999	5	2	-	-	186	-
<i>A.1 including: for default interest</i>	-	-	-	-	-	-
B. Increases	16	-	-	-	132	-
B.1 Adjustments	3	-	-	-	110	-
<i>B.1.1 including: for default interest</i>	-	-	-	-	-	-
B.2 Use of reserves for possible loan losses	-	-	-	-	-	-
B.3 Transfers from other categories of problem loan	2	-	-	-	-	-
B.4 Other increases	11	-	-	-	22	-
C. Decreases	-	2	-	-	11	-
C.1 Writebacks from valuations	-	-	-	-	6	-
<i>C.1.1 including: for default interest</i>	-	-	-	-	-	-
C.2 Writeback following collections:	-	-	-	-	4	-
<i>C.2.1 including: for default interest</i>	-	-	-	-	-	-
C.3 Write-offs	-	-	-	-	1	-
C.4 Transfers to other categories of problem loan	-	2	-	-	-	-
C.5 Other decreases	-	-	-	-	-	-
D. Total adjustments as of June 30, 1999	21	-	-	-	307	-
<i>D.1 including: for default interest</i>	-	-	-	-	-	-

Loans to customers and banks resident in nations exposed to country risk

billions of lire

Country	Exposure as of 6/30/99					Net unsecured exposure as of 12/31/98	Change %
	Total exposure	Of which: unsecured exposure			Net exposure		
		Gross exposure	Gross weighted exposure	Total adjustments			
Brazil	205	131	77	24	107	78	37.2
Bahrain	54	54	54	8	46	-	n.s.
South Korea	43	43	43	7	36	34	5.9
Russia	1,162	334	334	300	34	114	-70.2
Qatar	104	36	36	7	29	31	-6.5
Argentina	87	27	27	5	22	22	n.s.
South Africa	19	19	19	3	16	28	-42.9
India	17	9	9	1	8	15	-46.7
Philippines	9	9	9	1	8	7	14.3
Morocco	36	9	9	2	7	7	n.s.
Tunisia	12	8	8	1	7	1	n.s.
Croatia	7	7	7	1	6	6	n.s.
Other countries	927	27	27	17	10	46	-78.3
Total	2,682	713	659	377	336	389	-13.6

Adjustments to unsecured loans exposed to country risk have been made by applying the writedown percentages agreed industry-wide by the Italian bankers' association. For loans not guaranteed to residents of the Russian Federation the amount of coverage was increased in the period from 60%, as prescribed by the Bankers' Association, to 90% in consideration of the lengthening of the financial crisis of the company. The additional writedowns following this change totalled 134 billion lire, of which 100 billion lire for loans and 34 billion lire for investment securities.

Secured loans, amounting to 1,969 billion lire, are insured by SACE, by sureties from banks operating in the OECD (1,226 billion lire) or by other forms of guarantee deemed adequate to cover the lending risk (743 billion lire). The last mentioned mainly comprise loans of 583 billion lire granted to Rao Gazprom (Russia) and of 61 billion lire granted to the National Iranian Oil Company that are guaranteed by receivables deriving from supply contracts with leading West European companies. In compliance with Bank of Italy regulations, these loans are included in the calculation of country risk, which is deducted from the Bank's capital for supervisory purposes.

Other information relating to loans

Information regarding the distribution of loans, by category of borrower, industry, geographical area, currency and liquidity, is provided in part B, section 11 of these notes.

Section 2- Securities

Securities owned by the Bank are analyzed as follows:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
Treasury bills and similar bills eligible for refinancing with central banks (caption 20)	5,635	8,670	-35.0
Bonds and other debt securities (caption 50)	13,233	20,625	-35.8
Shares, quotas and other equities (caption 60)	1,443	1,238	16.6
Total	20,311	30,533	-33.5

"Treasury bills and similar bills eligible for refinancing with central banks" represent securities that may be used for refinancing purposes but which, at the balance sheet date, had not been used for this purpose.

Investment securities

Investment securities, 1,678 billion lire, are held for the long term as a stable investment. This choice was made considering:

- the existence of related forms of funding;
- the existence of specific restrictions applied by the countries in which foreign branches operate;
- that the securities are not readily marketable because, for example, they were issued to secure loans previously granted by the Bank.

The securities concerned are highly stable and, as such, are generally held through to redemption.

	6/30/1999		12/31/1998	
	Book value	Market value (a)	Book value	Market value (a)
1. Debt securities				
1.1 Government securities				
- quoted	1,314	1,395	2,608	2,720
- unquoted	-	-	-	-
1.2 other securities				
- quoted	171	143	192	159
- unquoted	193	174	94	77
2. Equities				
- quoted	-	-	-	-
- unquoted	-	-	-	-
Total	1,678	1,712	2,894	2,956

(a) The market value of quoted securities is determined with reference to the simple average of prices over the last six months. The market value of unquoted securities is determined with reference to the quotations for securities with similar financial characteristics.

A comparison between the market value and book value of "Government securities" reveals a net unrealized, unrecorded gain of 38 billion lire on securities not hedged by derivative contracts and 43 billion lire on securities hedged by interest rate swaps. The valuation of these derivatives reveals an unrealized loss of 39 billion lire.

The difference between the market value (47 billion lire) and the book value of "other securities" relates to South American and Eastern European securities covered by a U.S. Treasury guarantee, the value of which on maturity covers 100% of the face value of the securities concerned. This caption also includes unsecured securities issued by residents in Russia that were previously written down by 60%, but are now written down by 90%, in view of the deterioration of the economic situation in that country. The additional writedown resulted in a charge of 34 billion lire to the statement of income.

No transfers were made from the investment portfolio to the dealing portfolio during the first half of 1999. On the contrary, securities totalling 94 billion lire were transferred from the dealing portfolio to the investment portfolio, in view of their illiquid nature.

The total book value of fixed-income securities held for investment purposes is 157 billion lire lower than their redemption value. This amount reflects lower redemption values compared with book value of 15 billion lire, due to issue and dealing discounts that are recognised in the statement of income on an accruals basis, and higher redemption values of 172 billion lire.

In accordance with the resolutions adopted by the Bank's Board of Directors, the limit on the investment securities portfolio is presently the lower of:

- 15% of total securities owned;
- the Bank's regulatory capital.

Both limits are considerably higher than the current total value of investment securities.

Dealing securities

These securities, held for treasury and dealing purposes, amount to 18,633 billion lire and comprise:

- L. 8,500 billion lire linked to derivative contracts;
- L. 10,133 billion lire not linked to derivative contracts.

	6/30/1999		12/31/1998	
	Book value	Market value	Book value	Market value
1. Debt securities				
1.1 Government securities				
- quoted	11,598	11,598	18,606	18,606
- unquoted	281	281	367	367
1.2 other securities				
- quoted	1,814	1,814	2,395	2,395
- unquoted	3,497	3,508	5,033	5,053
2. Equities				
- quoted	1,442	1,442	1,237	1,237
- unquoted	1	1	1	1
Total	18,633	18,644	27,639	27,659

The valuation, at the lower of cost or market, of unquoted dealing securities not linked to derivative contracts has given rise to writedowns and writebacks totalling respectively 11 billion lire and 6 billion lire. In addition, unrecorded, unrealized gains amount to 11 billion lire, while a further unrecorded gains of 1 billion lire arises from the valuation of transactions in unquoted securities still to be settled.

Own bonds held for dealing purposes amount to 1,252 billion lire, of which approximately 230 billion lire is held by the merchant banking business due to be transferred to Nuova Holding Subalpina SpA

Other information relating to securities

The composition of the securities portfolio is analyzed by geographical area, currency and liquidity in part B, section 11 of these notes.

Section 3 - Equity investments

Equity investments, reported in asset captions 70 and 80 are detailed below:

	<i>billions of lire</i>		
	6/30/1999	12/31/1998	Change %
Equity investments (caption 70)	2,666	1,588	67.9
Investments in Group companies (caption 80)	4,603	4,691	-1.9
Total	7,269	6,279	15.8

Significant investments

Significant investments held by the Bank, being those in subsidiary companies and in companies subject to significant influence, as defined in articles 4 and 19 of Decree 87/92, amount to 5,218 billion lire. They are listed in the tables below:

Significant investments

Name of company	Registered offices	Activity	Shareholders' equity (a) (L/bln)	Net income (loss) (L/bln)	Percentage ownership	Book value (L/bln)
<i>A. Subsidiary companies</i>						
Banca Fideuram SpA	Milan	lending	994	225	74.09	110
Banque Sanpaolo SA	Paris	lending	851	60	100.00	747
Beni Stabili SpA (c)	Rome	non finance	285	-4	99.99	289
Banca d'Intermediazione Mobiliare Imi SpA	Milan	lending	806	62	100.00	590
Consorzio Studi e Ricerche Fiscali	Rome	tax consultancy	1	-	50.00	-
Egida Compagnia di Assicurazioni SpA (f)	Turin	insurance	16	1	50.00	8
Finconsumo SpA	Turin	finance	62	11	50.00	25
Gedit SA	Luxembourg	holding company	-	-	90.00	-
Imi Fideuram Asset Management Sim SpA	Milan	fin. consultancy	30	7	50.00	10
Imi International SA	Luxembourg	finance	1.315	19	100.00	556
Imi Lease SpA	Rome	leasing	426	7	100.00	373
Imigest Immobiliare SpA (b)	Rome	holding company	85	-	100.00	33
Ldv Holding Bv (d)	Amsterdam	finance	143	1	100.00	141
Prospettive 2001 SpA	Milan	non finance	25	1	100.00	25
Sanpaolo Bank Ireland Plc	Dublin	lending	819	16	100.00	796
Sanpaolo Bank SA	Luxembourg	lending	84	14	100.00	79
Sanpaolo Fiduciaria SpA	Turin	trust management	3	-	100.00	2
Sanpaolo Fondi Sgr SpA	Turin	mutual funds	96	32	100.00	113
Sanpaolo Gestion Internationale SA	Luxembourg	finance	6	3	100.00	5
Sanpaolo Imi Investments SA	Luxembourg	finance	2	-	99.90	2
Sanpaolo Imi Private Equity SpA (f) (g)	Turin	finance	1	-	100.00	1
Sanpaolo Imi Us Financial Co. (l)	Wilmington	finance	-	-	100.00	-
Sanpaolo Imi Bank (International) SA (e) (h)	Madeira	lending	371	4	69.01	183
Sanpaolo Immobiliare SpA	Turin	finance	12	-1	100.00	6
Sanpaolo Invest Sim SpA	Rome	sales network management	77	13	100.00	13
Sanpaolo Leasint SpA	Milan	leasing	104	5	100.00	105
Sanpaolo Riscossioni Genova SpA	Genoa	tax collection	7	-	100.00	8
Sanpaolo Riscossioni Prato SpA	Prato	tax collection	3	1	100.00	5
Sanpaolo Services Luxembourg SA	Luxembourg	operating	1	-	99.60	1
Sanpaolo Vita SpA	Milan	insurance	195	10	100.00	384
Sep SpA	Turin	services	3	-	100.00	3
Spb 1650 Van Ness Corp.	Los Angeles	operating	-	-	100.00	-
Spb Delta Towers Llc	New York	operating	-	-	100.00	-
Sviluppi Immobiliari SpA (b) (i)	Rome	non finance	20	-	100.00	17

continued

Significant investments

Name of company	Registered offices	Activity	Shareholders' equity (a) (L/bln)	Net income (loss) (L/bln)	Percentage ownership	Book value (L/bln)
Apoké Two Srl - in liquidation	Milan	non finance	-15	1	94.67	-
Crediop Finance Plc - in liquidation	London	finance	-	-	100.00	-
Fidimi Consulting SpA - in liquidation	Rome	non finance	-	-	100.00	-
Imi Funding Corp. - in liquidation	New York	finance	-	-	100.00	-
Imifin SpA - in liquidation	Rome	finance	-	-	100.00	-
Total						4,636

(a) Including net income for the first half of 1999.

(b) Equity investments which form part of the assets to be spun off to Beni Stabili SpA. The proposed spin-off was approved at the Shareholders' meeting held on 7/28/99 and will be completed during in the second half of 1999.

(c) Consequent to the above mentioned spin-off, the interest in Beni Stabili SpA will decrease to 16.13%

(d) This investment is held by the merchant banking business due to be transferred to Nuova Holding Subalpina SpA, in which SANPAOLO IMI will hold a controlling interest.

(e) Corporate name still subject to ratification.

(f) Financial statements as of 12/31/98.

(g) Formerly Imi Abn Amro Investments SpA

(h) Formerly Imi Bank (International) SA

(i) Formerly Apoké Six Srl

(l) Formerly Sanpaolo Us Financial Co.

Significant investments

Name of company	Registered offices	Activity	Shareholders' equity (a) (L/bln)	Net income (loss) (L/bln)	Percentage ownership	Book value (L/bln)
<i>B. Companies subject to significant influence</i>						
Banca Italo-Romena SpA	Rome	lending	24	1	20.00	2
Bnc Assicurazioni SpA (b)	Rome	insurance	289	8	30.00	88
Cbe Service Sprl	Brussels	non finance	-	-	20.00	-
Consorzio Usas (b)	Turin	services	-9	-10	28.60	-
Crediop SpA	Rome	lending	1.028	55	40.00	349
Esatri SpA	Milan	tax collection	63	-	31.50	8
Eurofondo S.C.p.A.	Rome	finance	-	-	25.00	-
Finnat Investments SpA (b)	Rome	finance	2	1	20.00	-
Gedeam I.G. SA (c)	Luxembourg	holding company	355	-5	49.26	116
Inter Europa Bank Rt	Budapest	lending	89	-5	32.51	18
Società Italiana Monitoraggio SpA	Rome	non finance	2	-	20.00	-
Consorzio Bancario Sir SpA - in liquidation (b)	Rome	non finance	3	-	32.49	1
Finexpance SpA - in liquidation (b)	Chiavari	non finance	-16	-	30.00	-
Galileo Holding SpA - in liquidation	Venezia	holding company	-36	-	31.52	-
Total						582

(a) Including net income for the first half of 1999.

(b) Financial statements as of 12/31/98.

(c) Financial statements as of 12/31/97. As agreed with the parent, the investment in Gedeam I.G.SA will be transferred to the former during in the second half of 1999; at the same time, a 37% interest in Società dell'Acqua Pia Antica Marcia (SAPAM SpA) will be acquired and transferred to Beni Stabili SpA within the framework of the real estate spin-off.

As described in part A, section 1 of these notes, the difference between the book value of significant investments and the value of the Bank's share of their latest reported shareholders' equity, if lower, can generally be justified as goodwill and the higher market value of their tangible fixed assets. In particular:

- the book value of Apokè Two, formed as part of the debt restructuring of the Uno Holding group, was written off in 1995. The negative shareholders' equity resulting from the financial situation prepared as of June 30, 1999, should be reabsorbed by gains arising from the completion of the liquidation process. The restructured loans not yet repaid to the Bank are covered by specific writedowns;
- the differences relating to Sanpaolo Fondi, Sanpaolo Leasint, Sanpaolo Riscossioni Prato, Sanpaolo Riscossioni Genova, Sanpaolo Vita and Bnc Assicurazioni reflect purchased goodwill representing the income-earning potential of the individual companies. The controlling interest in Sanpaolo Vita was acquired during 1996; the higher book value with respect to its shareholders' equity reflects goodwill determined with reference to independent appraisals;
- with regard to the investment in Galileo Holding, acquired as part of the restructuring of that group, the company's equity deficit should be reabsorbed by gains arising from the completion of the liquidation process;
- concerning the investment in Beni Stabili, the loss reported for the first half of 1999 is not considered to be permanent, especially considering the gains that will be generated on completion of the real estate spin-off transaction;
- in relation to the investment in the Usas Consortium, SANPAOLO IMI's pro-rata portion of the negative shareholders' equity is covered by an adequate provision for risks and charges. The general meeting held on July 16, 1999 authorized the coverage of losses and approved the Bank's application to withdraw from the consortium;
- regarding the investment in Finexpance, the Bank's pro-rata portion of negative shareholders' equity has been covered and no further payments are foreseen.

Other equity investments

Among the other equity investments held by the Bank, the principal in terms of their book value are listed below:

Name and location of registered offices	Activity	Percentage ownership (%)	Book value (L/bln)
Bsch SA – Madrid	lending	1.43	886
Banca Agricola Mantovana SpA – Mantua	lending	9.81	399
Ina SpA – Rome	insurance	3.72	350
Tecnost SpA – Ivrea	non finance	1.40	117
Banca d'Italia – Rome	lending	2.00	106
Snia SpA – Milan (b)	non finance	1.78	33
Banco del Desarrollo SA - Santiago del Chile	lending	16.21	31
Unim SpA – Rome (a)	non finance	2.56	30
Biat SA – Tunis	lending	6.73	15
Mediaset SpA – Milan (b)	non finance	0.16	13
Simest SpA – Rome	finance	3.31	9
Banca Mediocredito SpA – Turin	lending	1.11	8
Rimoldi Necchi Srl – Milan (b)	non finance	16.92	6
Banksiel SpA – Milan	services	7.00	6
Fata Group SpA – Turin (b)	non finance	13.17	5
Others			37
Total			2,051

(a) Equity investment forming part of the assets to be spun-off to Beni Stabili SpA.

(b) This investment is held by the merchant banking business due to be transferred to Nuova Holding Subalpina SpA, in which SANPAOLO IMI will hold a controlling interest.

Composition of investment portfolio

Analysis of caption 80 - Investments in Group companies

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
a) Investment in banks			
1. quoted	110	110	-
2. unquoted	2,395	2,806	-14.6
b) Investment in financial institutions			
1. quoted	-	-	-
2. unquoted	1,379	1,356	1.7
c) Other investments			
1. quoted	-	-	-
2. unquoted	719	419	71.6
Total	4,603	4,691	-1.9

Analysis of caption 70 - Equity investments

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
a) Investment in banks			
1. quoted	1,318	248	431.5
2. unquoted	506	161	214.3
b) Investment in financial institutions			
1. quoted	-	-	-
2. unquoted	59	66	-10.6
c) Other investments			
1. quoted	544	829	-34.4
2. unquoted	239	284	-15.8
Total	2,666	1,588	67.9

The principal transactions during the period, which resulted in a net increase in the portfolio by 990 billion lire, were:

Increases:

- Purchase of an additional 0.97% interest in BSCH SA, for 716 billion lire (total holding: 1.43%).
- Purchase of shares in Banca Agricola Mantovana SpA for 399 billion lire (9.81%) within the framework of the public offer to buy shares in that bank launched by Monte dei Paschi di Siena.
- Purchase of shares in Beni Stabili SpA from the subsidiary Sviluppo Immobiliari for 21.7 billion lire and subscription of 267 billion lire to the share capital increase of Beni Stabili SpA; these transactions were made in preparation for the real estate spin-off.
- Acquisition of a 1.4% interest in Tecnost SpA for 117 billion lire on accepting Olivetti's public offer to acquire shares in Telecom Italia SpA.
- Purchase of shares in INA SpA for 114 billion lire, thus increasing the total holding from 3% to 3.72%.

Decreases:

- Transfer at book value (31.6 billion lire) of the interest in Intersim SpA to Bim IMI SpA
- Disposal of the interest in Telecom Italia SpA within the framework of the Olivetti bid, with a capital gain of 417 billion lire.
- Disposal of a 20% interest in Crediodi SpA to the Dexia Group, with a capital gain of 248 billion lire.
- Transfer of Sanpaolo Asset Management Sim SpA to Sanpaolo Fondi SpA, with a capital gain of 41 billion lire.

The interest in ENI SpA and part of the interest held in Mediaset SpA were transferred to the dealing portfolio during the period. The disposal of part these shares and the valuation of the remainder at market value, in compliance with the valuation criteria applied to the dealing portfolio, resulted in a total capital gain of about 73 billion lire.

Amounts due to and from Group companies and non-Group companies

The following table sets out the amounts due to and from companies belonging to the SANPAOLO IMI Banking Group, as defined pursuant to article 4 of Decree 87/92, and the amounts due to and from investments that are not part of the Group:

Group companies	<i>billions of lire</i>				
	Assets (a)	Liabilities	Guarantees and commitments	Revenues (b)	Expenses
Apokè Two S.r.l. in liquidation	60	-	6	-	-
Banca Fideuram S.p.A.	58	6	-	1	-
Banque Sanpaolo S.A.	480	122	5	8	3
Bim Imi S.p.A.	1,052	237	-	24	9
Beni Stabili S.p.A.	-	118	22	-	1
Consorzio Studi e Ricerche Fiscali	-	1	-	-	1
Fideuram Bank S.A.	-	20	-	-	-
Imi Bank (Lux) S.A.	88	-	-	3	1
Imi Fideuram Asset Management Sim S.p.A.	-	-	-	1	-
Imi Lease S.p.A.	80	6	-	3	-
Imi Sigeco (UK) Ltd.	-	28	-	-	-
Imigest Immobiliare S.p.A.	90	-	-	2	-
Imitec S.p.A.	-	2	-	1	5
Immobiliare Roma Laurentina S.r.l.	13	-	-	-	-
Intersim S.p.A.	2	14	12	2	-
Leasint Servizi Integrati S.p.A.	5	-	-	-	-
Prospettive 2001 S.p.A.	-	6	-	-	-
Sanpaolo Asset Management Sim S.p.A.	-	1	-	30	-
Sanpaolo Bank Austria A.G.	-	115	-	-	2
Sanpaolo Bank Ireland Plc	546	21	-	12	1
Sanpaolo Bank S.A.	62	2,172	-	2	9
Sanpaolo Fiduciaria S.p.A.	-	1	-	-	-
Sanpaolo Fondi Sgr S.p.A.	-	208	-	569	2
Sanpaolo Gestion Internationale S.A.	-	-	-	9	-
Sanpaolo Imibank (International) S.A.	-	7,324	7,464	-	224
Sanpaolo Imi Us Financial Co.	-	2,918	-	-	49
Sanpaolo Immobiliare S.p.A.	232	2	-	1	-
Sanpaolo Invest Sim S.p.A.	-	18	-	1	4
Sanpaolo Leasint S.p.A.	1,252	1	1,410	31	3
Sanpaolo Riscossioni Genova S.p.A.	-	1,296	-	2	-
Sanpaolo Riscossioni Prato S.p.A.	-	1	15	-	-
Sanpaolo Vita S.p.A.	81	26	-	1	1
Sep S.p.A.	-	1	-	1	6
Sviluppi Immobiliari S.p.A.	245	39	-	-	-
Total Group companies	4,346	14,704	8,934	704	321
Jointly-held subsidiaries					
Egida S.p.A.	-	10	-	-	-
Finconsumo S.p.A.	83	-	90	2	-
Total	4,429	14,714	9,024	706	321

(a) Excluding the book value of the investment, if any

(b) excluding dividends received

Other significant investments	<i>billions of lire</i>				
	Assets (a)	Liabilities	Guarantees and commitment	Revenues (b)	Expenses
Banca Italo-Romena S.p.A.	40	-	-	1	-
BNC Assicurazioni S.p.A.	-	8	1	-	1
Consorzio USAS	7	-	-	-	-
Crediop S.p.A.	1,014	97	2	12	3
Esatri S.p.A.	45	-	326	4	-
Gedeam Investments Group Inc.	33	-	-	1	-
Inter-Europa Bank RT	34	-	40	-	-
Total	1,173	105	369	18	4

(a) Excluding the book value of the investment, if any

(b) excluding dividends received

Amounts due to and from Group companies

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
a) Assets			
1. due from banks	2,264	3,719	-39.1
<i>of which:</i>			
– <i>subordinated</i>	69	68	1.5
2. due from financial institutions	1,661	3,255	-49.0
<i>of which:</i>			
– <i>subordinated</i>	-	-	-
3. due from other customers	399	411	-2.9
<i>of which:</i>			
– <i>subordinated</i>	-	-	-
4. bonds and other debt securities	22	680	-96.8
<i>of which:</i>			
– <i>subordinated</i>	-	-	-
Total assets	4,346	8,065	-46.1
b) Liabilities			
1. due to banks	9,996	10,941	-8.6
2. due to financial institutions	4,494	2,212	103.2
3. due to other customers	193	8	n.s.
4. securities issued	-	-	-
5. subordinated liabilities	21	16	31.3
Total liabilities	14,704	13,177	11.6
c) Guarantees and commitments			
1. guarantees given	8,643	12,786	n.s.
2. commitments	291	155	87.7
Total guarantees and commitments	8,934	12,941	-31.0

Amounts due to and from investments (non-Group companies)

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
a) Assets			
1. due from banks (*)	1,870	1,484	26.0
of which:			
– subordinated	-	1	-
2. due from financial institutions	141	765	-81.6
of which:			
– subordinated	-	-	-
3. due from other customers	510	3,522	-85.5
of which			
– subordinated	-	-	-
4. bonds and other debt securities	496	511	-2.9
of which			
– subordinated	7	-	-
Total assets	3,017	6,282	-52.0
b) Liabilities			
1. due to banks	3,674	313	n.s.
2. due to financial institutions	190	145	31.0
3. due to other customers	101	345	-70.7
4. securities issued	-	-	-
5. subordinated liabilities	-	-	n.s.
Total liabilities	3,965	803	393.8
c) Guarantees and commitments			
1. guarantees given	500	781	-36.0
2. commitments	-	63	n.s.
Total guarantees and commitments	500	844	-40.8

(*) Including the compulsory reserve deposited with the Bank of Italy

Section 4 - Tangible and intangible fixed assets

Tangible fixed assets (caption 100)

These comprise the following:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
Property			
- operating	1,997	2,039	-2.1
- non-operating	412	424	-2.8
Furniture and installations			
- office furniture and machines	27	29	-6.9
- electronic equipment	64	54	18.5
- general and specific installations	23	26	-11.5
Total	2,523	2,572	-1.9

Advances paid for the purchase of tangible fixed assets totalled 1.5 billion lire at period-end.

The depreciation charge for the period was 52 billion lire.

Real estate spin-off transaction

The shareholders' meeting held on 7/28/1999 approved the spin-off of assets held by SANPAOLO IMI SpA totalling 1,302 billion lire to Beni Stabili SpA. These assets consist of property, equity investments in Sviluppo Immobiliari SpA, IMIGEST Immobiliare SpA and UNIM SpA, loans to Sviluppo Immobiliari SpA and IMIGEST Immobiliare SpA, liquid assets and prepaid and deferred taxes relating to the segment to be spun-off.

As of 12/31/98 the book value of the property to be spun-off was 733 billion lire, including non-operating property used by third parties (335 billion lire), property currently used by the commercial network (346 billion lire) and other property for sale, of which 36 billion lire relates to non-operating property and 16 billion lire to operating property.

Intangible fixed assets (caption 90)

These comprise the following:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
Merger differences (goodwill of merged companies)	193	228	-15.4
Software in use	39	45	-13.3
Software not yet in use	86	76	13.2
Other deferred charges	20	22	-9.1
Total	338	371	-8.9

Software in use relates to the acquisition of new programs to update the procedures used by the branch network.

Software not yet in use relates to changes and procedural work carried out in order to implement applications being developed by third parties.

Other deferred charges include leasehold improvements of 20 billion lire.

Costs incurred during the period in relation to the introduction of the euro, mainly regarding the implementation and modification of software, amounted to 12.1 billion lire. This balance was allocated to "software not yet in use", 4.2 billion lire, and "software in use", 3.1 billion lire, while the remaining 4.8 billion lire was expensed under administrative costs.

In total, software includes charges of 15.5 billion lire incurred to implement the euro. This amount is stated net of amortization totalling 5.8 billion lire, of which 3 billion lire was expensed during the period.

The costs associated with ensuring Year 2000 compliance have amounted to about 6 billion lire. Of this, 0.5 billion lire was allocated to software in use while the balance, 5.5 billion lire, was expensed under administrative costs.

The bases adopted for the analysis and accounting recognition of these charges are consistent with the Bank's accounting principles and CONSOB recommendations. In particular, amounts have been deferred as intangible fixed assets if they will benefit future years, rather than just the accounting period in which they were incurred.

No advance payments have been made for the purchase of intangible fixed assets.

Section 5 - Other assets

Asset captions 130 and 140 comprise the following:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
Other assets (caption 130)	17,707	17,932	-1.3
Accrued income and prepaid expenses (caption 140)	6,077	7,771	-21.8
Total	23,784	25,703	-7.5

Other assets (caption 130)

Analysis of caption 130 "Other assets"

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
Valuation of derivative contracts on interest rates and stockmarket indices	7,485	8,675	-13.7
Unprocessed transactions (a)	2,551	1,733	47.2
Amounts in transit between branches (a)	1,893	1,955	-3.2
Due from tax authorities	1,246	1,227	1.5
- tax credits relating to prior years	647	452	43.1
- tax withholdings overpaid during the period on bank interest income	215	124	73.4
- taxes withheld during the period	204	164	24.4
- taxes paid in advance on termination indemnities (Law 662/96)	87	86	1.2
- advance direct taxes	93	401	-76.8
Effect of currency hedges, forex swap and cross-currency swap transactions	1,099	379	190.0
Prepaid taxes	890	928	-4.1
Transactions by foreign branches	736	1,176	-37.4
Value date adjustments	193	415	-53.5
Net effect of translating funds from international agencies using current rates, with the exchange risk borne by third parties	140	93	50.5
Items relating to securities transactions	56	43	30.2
Checks and other instruments held	45	53	-15.1
Premiums paid on purchased options	13	47	-72.3
Deposits with clearing-houses to secure derivative contracts	4	42	-90.5
Other	1,356	1,166	16.3
Total	17,707	17,932	-1.3

(a) Largely allocated at the beginning of the following accounting period.

As mentioned in Section A of these notes, the criteria adopted for the disclosure of deferred tax assets has been modified in line with indications provided by the Bank of Italy. These are now classified under caption 130 – Other assets – rather than under caption 140 b) prepaid expenses.

No adjustments are required to the value of these assets.

Section 6 - Payables

Due to banks (caption 10)

Deposits taken from banks are analyzed as follows:

	6/30/1999 (L/bln)	31/12//1998 (L/bln)	Change %
Due to central banks			
- repurchase agreements and securities borrowed	3,401	-	n.s.
- other deposits from the Italian Exchange Office	150	72	108.3
- other deposits from central banks	482	379	27.2
- advances	-	46	-100.0
Due to banks			
- deposits	15,664	20,289	-22.8
- repurchase agreements and securities borrowed	2,246	6,142	-63.4
- long-term loans from international bodies	7,911	8,413	-6.0
- current accounts	1,344	1,311	2.5
- other	33	71	-53.5
- other loans	9,811	11,028	-11.0
Total	41,042	47,751	-14.0

Long-term loans from international bodies include loans used by the Bank to finance investment projects in industrial sectors and public utility services.

Due to customers and securities issued (captions 20 and 30)

Funds obtained from customers, comprising deposits and securities issued, are detailed below:

	6/30/1999 (L/bln)	12/31/19198 (L/bln)	Change %
Due to customers			
- current accounts	50,054	48,068	4.1
- repurchase agreements and securities borrowed	5,478	15,242	-64.1
- savings deposits	5,994	6,334	-5.4
- short-term payables relating to special management services carried out for the government	971	1,162	-16.4
- other	456	449	1.6
Securities issued			
- bonds	38,945	41,170	-5.4
- certificates of deposit	13,652	18,466	-26.1
- bankers' drafts	832	525	58.5
- other securities	13	96	-86.5
Total	116,395	131,512	-11.5

Securities issued comprise those due or ready for repayment totalling 18 billion lire.

There have been no issues of bonds convertible into shares of the Bank or other companies, or similar securities or bonus shares.

Public funds administered (caption 40)

Public funds administered are provided by the State and other public entities mainly to act as a source of assisted loans to customers, with the lending risk borne by the Bank. These funds are analyzed below:

	6/30/99 (L/bln)	12/31/98 (L/bln)	Change %
Funds provided by the State	21	26	-19.2
Funds provided by regional public agencies	44	49	-10.2
Other funds	50	59	-15.3
Total	115	134	-14.2
<i>of which:</i>			
<i>funds with risk borne by the government under Law 19 of 2/6/87</i>	36	42	-14.3

Other information relating to payables

Information regarding the distribution of deposits by geographical area, currency and degree of liquidity is reported in part B, section 11 of these notes.

Section 7 - Provisions

Provisions are detailed below:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
Provision for termination indemnities (caption 70)	773	767	0.8
Provisions for risks and charges (caption 80)			
- pensions and similar commitments (caption 80.a)	92	95	-3.2
- taxation (caption 80b)	1,218	1,853	-34.3
- other provisions (caption 80c)			
- <i>provisions for guarantees and commitments</i>	56	56	0.0
- <i>provisions for other risks and charges</i>	259	287	-9.8
- <i>provisions for other personnel charges</i>	202	204	-1.0
Total	2,600	3,262	-20.3

Provisions for risks and charges

Pensions and similar commitments (caption 80.a)

This provision covers charges relating to the supplementary pensions of former IMI SpA personnel that have already retired. The extent of the potential liability is determined on the basis of an independent actuarial appraisal.

Taxation (caption 80.b)

Changes in "Taxation" during the period

	Income taxes	Deferred taxation on the Reserve for General Banking Risks	Deferred taxes on the Reserve ex Law 169/83	Deferred taxes on the Reserve ex Legislative Decree 213/98	Total
Pro forma opening balance	1,515	240	52	46	1,853
Increases					
- income taxes - provision for the first half of 1999	817	-	-	-	817
- exchange differences	-	-	-	-	-
- other changes	-	-	-	-	-
Decreases					
- payment of 1998 income taxes	1,452	-	-	-	1,452
- exchange differences	-	-	-	-	-
- other changes	-	-	-	-	-
Closing balance	880	240	52	46	1,218
<i>of which:</i>					
- <i>current direct and indirect taxes</i>	794	-	-	-	794
- <i>fiscal disputes</i>	86	-	-	-	86

Current taxes cover income taxes due, including local taxes payable by foreign branches, as well as outstanding and potential fiscal disputes.

Fiscal disputes generally relate to legislative uncertainties about the definition of taxable income. The various levels of tax commission decisions have confirmed the approach taken by the Bank. The most significant dispute relates to the size and tax treatment of the difference arising on the merger of Banca Popolare dell'Agricoltura in 1986: the Turin regional tax commission has essentially confirmed the approach taken by the Bank. If this decision is accepted by the tax authorities, the total additional tax charge would amount to less than 10 billion lire. The dispute is currently pending before the High Court.

With reference to the results for the first half of 1999, a new estimate of deferred taxes has been made. This estimate takes into account the new timing differences arising between the book and fiscal value of assets and liabilities during the first six months of the year, as well as the reversal of timing differences that arose in prior years. In particular, 104 billion lire of prepaid taxes booked in 1998 were annulled, while taxes prepaid during the period amounted to 66 billion lire. Due to these movements, total prepaid taxes amount to about 890 billion lire as of June 30, 1999. They are classified among other assets.

Other provisions (caption 80.c)

<i>Analysis of caption 80.c "Provisions for risk and charges: other"</i>				<i>billions of lire</i>
	Guarantees and commitments	Other risks and charges	Other personnel charges	Total
Opening balance pro forma	56	287	204	547
Increase				
– provisions	-	37	12	49
Decrease				
– used to cover settlements disputes	-	65	-	65
– used to cover the payment of pensions and similar commitments	-	-	14	14
– exchange difference	-	-	-	-
Closing balance	56	259	202	517

Provisions for guarantees and commitments, 56 billion lire, cover expected losses in respect of guarantees given and, more generally, the contingencies associated with the Bank's guarantees and commitments.

Provisions for other risks and charges, 259 billion lire, cover expected losses deriving from legal action including, in particular, the repayments claimed by receivers of bankrupt customers, as well as charges which might arise in connection with guarantees given on the disposal of equity investments, from the Bank's commitment to the Interbank Deposit Guarantee Fund, and from other contingencies.

The provision for other personnel charges, 202 billion lire, includes:

- 186 billion lire provided, on the basis of independent actuarial appraisals, to cover the unfunded liabilities of the independent supplementary pension fund;
- 15 billion lire provided to cover long-service bonuses earned by the Bank's employees;
- 1 billion lire provided to cover contingencies relating to the renovation of the Frankfurt and New York branches.

Section 8 - Capital, reserves and subordinated liabilities

Shareholders' equity is detailed below:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)
Shareholders' equity		
- capital (caption 120)	8,413	8,413
- additional paid-in capital (caption 130)	-	-
- reserve for general banking risks (caption 100)	650	650
- reserves (caption 140)		
a) legal reserve	1,682	1,682
b) reserve for own shares	-	-
c) statutory reserve	-	-
d) other reserves:	2,526	2,525
- extraordinary reserve	-	-
- reserve (art. 7.3, Law 218/90)	173	173
- reserve (art. 13.6, Decree 124/93)	2	1
- unrestricted reserve for the purchase of own shares	1,500	-
- reserve Law 169/83	139	139
- reserve Law 213/98	79	79
- merger surplus	633	2,133
- retained earnings (caption 160)	-	-
- distributable net income (caption 170)	1,226	1,263
Total shareholders' equity	14,497	14,533
Subordinated liabilities (caption 110)	2,623	2,646

Effects of the spin-off on the shareholders' equity

The spin-off of property, mentioned earlier, will reduce the book value of shareholders' equity by 1,302 billion lire, as follows:

- (a) share capital will decrease by 799 billion lire, from 8,413 billion lire to 7,614 billion lire;
- (b) the legal reserve will decrease by 160 billion lire, from 1,683 billion lire to 1,523 billion lire;
- (c) other reserves will decrease by 343 billion lire, from 2,526 billion lire to 2,183 billion lire:
 - of which : merger surplus 209 billion lire
 - reserve Law 169/83 117 billion lire
 - reserve (arts. 3 and 7 Law 218/90) 17 billion lire

Transactions in own shares

The shareholders' meeting held on April 30, 1999 authorized the allocation of a reserve for the purchase of own shares totalling 1,500 billion lire. This reserve was funded by a transfer from the merger surplus reserve that arose on the merger with the former IMI SpA. The maximum number of own shares which can be purchased, on one or more occasions over a period of 18 months from the date the resolution, is 140 million shares.

SANPAOLO IMI did not buy or sell any own shares during the first half of 1999.

Subordinated liabilities (caption 110)

Loan	Book value as of 6/30/99 (L/bln)	Original currency (L/bln)	Interest rate	Issue date	Maturity date	Book value as of 12/31/98 (L/bln)
Notes in Luxembourg francs	48	1,000	7.75%	5/26/93	5/26/00	48
Notes in Luxembourg francs	48	1,000	7.63%	7/9/93	7/9/01	48
Notes in Luxembourg francs	48	1,000	9%	2/10/92	2/10/00	48
Notes in US dollars	310	165	floating	7/30/93	7/30/03	246
Notes in US dollars	167	89	floating	9/24/93	9/24/03	147
Notes in US dollars	177	94	floating	11/10/93	11/10/05	156
Notes in US dollars	119	64	floating	8/25/95	8/25/00	132
Notes in Canadian dollars	192	151	floating	11/10/93	11/10/03	163
Notes in Italian lire	700	700,000	10.40%	6/30/94	6/30/04	702
Notes in Eurolire	198	198,000	floating	7/6/95	7/6/00	199
Notes in Eurolire	52	52,000	floating	12/30/96	12/30/01	52
Subordinated loan in Italian lire	100	100,000	5.10%	6/1/98	6/1/03	125
Subordinated loan in Italian lire	240	240,000	5.30%	1/1/98	1/1/03	300
Subordinated loan in Italian lire	224	224,000	Floating	2/1/98	2/1/03	280
Total	2,623					2,646

Subordinated liabilities not included in the calculation of capital for Bank of Italy monitoring purposes amount to 215 billion lire.

Contractually, subordinated loans may not be redeemed early, nor converted into capital or any other type of liability. In particular, such contracts lay down that:

- early redemption can only take place on the Bank's initiative and with the authorization of the Bank of Italy;
- the loan period must not be less than five years; if no maturity is stated, the contract must state that a notice period of at least five years has to be given;
- in the event that the Bank is put into liquidation, these subordinated loans can only be reimbursed once all other creditors, not similarly subordinated, have been satisfied.

Other information relating to subordinated liabilities

Information regarding the distribution of subordinated liabilities by geographical area, currency and degree of liquidity is reported in part B, section 11 of these notes.

Regulatory capital and minimum regulatory requirements

In line with Bank of Italy guidelines on disclosure of information, regulatory capital is analyzed below together with the minimum requirements for supervisory purposes.

	<i>billions of lire</i>	
	6/30/1999	12/31/1998
A. Regulatory capital		
A.1 Tier 1 capital	13,340	12,901
A.2 Tier 2 capital	2,229	2,245
A.3 Items to be deducted	422	85
A.4 Regulatory capital	15,147	15,061
B. Minimum regulatory requirements		
B.1 Lending risk	8,914	9,083
B.1 Market risk	404	902
<i>of which:</i>		
- risks on trading portfolio	370	864
- exchange risks	34	38
B.3 Other minimum requirements	-	-
B.4 Total minimum requirements	9,318	9,985
C. Risk assets and capital-adequacy ratios		
C.1 Risk-weighted assets	132,393	141,031
C.2 Tier 1 capital/risk-weighted assets	10.08%	9.15%
C.3 Regulatory capital/risk-weighted assets	11.44%	10.68%

Section 9 - Other liabilities

Liability captions 50 and 60 comprise the following:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
Other liabilities (caption 50)	21,136	20,391	3.7
Accrued expenses and deferred income (caption 60)	7,368	8,919	-17.4
Total	28,504	29,310	-2.7

Other liabilities (caption 50)

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
Valuation of derivatives on interest rates and stockmarket indices	6,186	7,722	-19.9
Unprocessed transactions (a)	3,971	3,652	8.7
Amounts available for third parties	2,629	2,152	22.2
Amounts in transit with branches (a)	1,672	709	135.8
Transactions involving foreign branches	1,441	1,438	0.2
Non-liquid balances from portfolio transactions	710	444	59.9
Due to the tax authorities	486	318	52.8
Amounts due to employees	415	440	-5.7
Items relating to securities transactions	353	2,300	-84.7
of which "short position"	194	2,205	-91.2
Value date adjustments	230	-	-
Deposits guaranteeing agricultural and construction loans	106	105	1.0
Premiums collected on options sold	16	48	-66.7
Other	2,921	1,063	174.8
Total	21,136	20,391	3.7

(a) Largely allocated at the beginning of the new period.

Section 10 - Guarantees and commitments

Guarantees given (caption 10)

Analysis of caption 10 "Guarantees given"

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	change %
a) Commercial guarantees	16,378	17,032	-3.8
b) Financial guarantees	14,524	15,443	-6.0
c) Assets lodged in guarantee	53	69	-23.2
Total	30,955	32,544	-4.9

Commitments (caption 20)

Analysis of caption 20 "Commitments"

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
a) Commitments to grant finance (certain to be called on)	4,825	4,401	9.6
b) Commitments to grant finance (not certain to be called on)	20,456	21,813	-6.2
Total	25,281	26,214	-3.6

Unused lines of credit

The Bank has unused lines of credit, excluding operating limits, as detailed below:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
a) Central banks	132	132	0.0
b) Other banks	1,714	1,807	-5.1
Total	1,846	1,939	-4.8

Forward transactions

Forward transactions, excluding transactions between the Bank's head office and foreign branches as well as those carried out within organizational units and on behalf of third parties, are detailed below:

	<i>billions of lire</i>			
	Hedging	Dealing	Other	Total
1. Purchase/sale of				
1.1 securities				
- purchases	-	1,005	-	1,005
- sales	-	1,306	-	1,306
1.2 currency				
- currency against currency	4,934	783	-	5,717
- purchases against euro	10,972	1,472	-	12,444
- sales against euro	10,974	1,191	-	12,165
2. Deposits and loans				
- to be disbursed	-	-	1,523	1,523
- to be received	-	-	3,215	3,215
3. Derivative contracts				
3.1 with exchange of capital				
(a) securities				
- purchases	-	4,106	-	4,106
- sales	822	5,465	-	6,287
(b) currency				
- currency against currency	1,450	234	-	1,684
- purchases against euro	6,936	1,527	-	8,463
- sales against euro	340	1,810	-	2,150
(c) other instruments				
- purchases	-	-	-	-
- sales	-	-	-	-
3.2 without exchange of capital				
(a) currency				
- currency against currency	-	-	-	-
- purchases against euro	998	-	-	998
- sales against euro	90	-	-	90
(b) other instruments				
- purchases	16,054	143,044	-	159,098
- sales	27,534	130,824	4,186	162,544
Total	81,104	292,767	8,924	382,795

At period end, the unrealized net loss on hedging contracts was 94 billion lire. In compliance with the accounting policies, this amount has not been recorded in the financial statements since the purpose of these derivative contracts is to hedge interest and exchange rate risks with regard to funding activities (in particular, the issue of bonds with a structured yield) and/or lending activities. The above contracts are recorded on a basis consistent with that adopted for the hedged transactions, with the identification of period-end accruals in relation to interest rate and/or exchange rate differentials. Had the hedged assets and liabilities been valued in the same way, the resulting gain would have offset the above loss.

Internal deal contracts

The nominal value of derivative contracts between Head Office, the foreign branches and the various organizational units is 56,038 billion lire. The following table provides a breakdown of internal deals, reporting the same contract under both purchases and sales.

	<i>billions of lire</i>	
	Hedging	Dealing
Derivative contracts with exchange of capital		
b) currency		
- currency against currency	62	415
- purchases against euro	1,000	1,230
- sales against euro	888	1,342
Derivative contracts without exchange of capital		
b) other instruments		
- purchases	4,796	48,774
- sales	6,006	47,564
Total	12,752	99,325

Marking to market the internal deals made to hedge assets or liabilities valued at cost gives rise to an unrealized net gain of 421 billion lire. As discussed in connection with external derivative transactions carried out on own account and in accordance with the Bank's accounting policies, this gain has not been recognized since the purpose of these derivative contracts is to hedge interest and exchange rate risks with regard to funding and/or lending activities. The above contracts are recorded on a basis consistent with that adopted for the hedged transactions, with the identification of period-end accruals in relation to interest rate and/or exchange rate differentials. Had the hedged assets and liabilities been valued in the same way, the resulting gain would have offset the above loss.

See part C, section 3 "profits (losses) on financial transactions" for the results of valuing derivative contracts.

Financial information relating to derivative contracts and forward currency purchase/sale transactions

<i>Notional amounts</i>	<i>billions of lire</i>			
	Interest rates	Currency	Stockmarket index prices	Other
OTC trading contracts				
- Forward (a)	2,557	3,445		-
- Swaps (b)	193,444	2,178	2,547	-
- Options purchased	31,270	701	2,796	-
- Options sold	29,399	692	3,044	-
Exchange traded contracts				
- Futures purchased	10,739	-	882	-
- Futures sold	5,407	-	231	-
- Options purchased	211	-	344	-
- Options sold	306	-	262	-
Total trading contracts	273,333	7,016	10,106	-
Total non-trading contracts	40,319	36,695	7,877	400
Total contracts	313,652	43,711	17,983	400

a) Including FRAs and forward currency purchase/sale transactions.

b) Mainly comprising IRS, CIRS and basis swaps.

<i>Notional amounts of OTC transactions, related market values and add on</i>	<i>billions of lire</i>			
	Interest rates	Currency	Stockmarket index prices	Other
Notional amounts	296,987	43,711	16,258	400
Market value of OTC trading contracts				
- positive	8,968	138	67	-
- negative	8,230	191	132	-
Add on	1,314	104	263	-
Market value of OTC non-trading contracts				
- positive	974	1,492	459	-
- negative	1,833	823	300	-
Add on	171	620	520	48

The market values of hedging and dealing derivative contracts arranged with third parties have been calculated using criteria established by the Bank of Italy for determining the solvency ratio. The market values identified in the table above derive from applying such criteria. In particular, they include period-end accruals and the effect of restating at spot rates the notional amounts to be exchanged on the maturity of cross-currency interest rate swaps.

<i>Residual maturity of notional amounts underlying OTC derivative contracts</i>			<i>billions of lire</i>
	Up to 12 months	Between 1 and 5 years	Beyond 5 years
Interest rate related	85,586	148,708	62,693
Exchange rate related	36,196	6,606	909
Stockmarket index related	7,102	7,219	1,937
Other contracts	400	-	-

<i>Credit quality of OTC derivative contracts, by counterparty</i>			<i>billions of lire</i>
	Positive market value	Add on	Credit risk equivalent (a) (market value)
Governments and central banks	44	2	46
Banks	9,667	2,273	11,940
Other operators	2,387	765	3,152
Total	12,098	3,040	15,138

(a) The credit risk equivalent reported in this table includes transactions with an original life not exceeding 14 days. The existence of Master Netting Agreements reduces the equivalent credit risk by 6,179 billion lire for banks and 1,259 billion lire for other operators.

The above transactions are backed by secured guarantees totalling 110 billion lire. No losses were incurred during the period on loans linked to derivatives and there are no outstanding derivative contracts have matured, but not been settled.

Other information relating to guarantees

The classification of guarantees given by category of counterparty and geographical area is provided in part B, section 11 of these notes.

Section 11 - Concentration and distribution of assets and liabilities

Significant exposures

Major lines of credit that exceed 15% of the Bank's equity and therefore defined by the Bank of Italy as "significant exposures", are as follows:

	6/30/1999	12/31/1998
a) Amount (in billions of lire)	21,038	21,390
b) Number	5	4

These positions comprise total assets at risk (loans, shares, bonds, etc.) outstanding in relation to customers and groups of related customers (including banks).

Distribution of loans to customers, by category of borrower

Loans to customers are distributed as follows:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
a) Governments	8,735	8,936	-2.2
b) Other public entities	7,911	7,747	2.1
c) Non-financial businesses	71,381	72,228	-1.2
d) Financial institutions	14,157	21,011	-32.6
e) Family businesses	4,971	5,055	-1.7
f) Other operators	20,038	19,060	5.1
Total	127,193	134,037	-5.1

Distribution of loans to resident non-financial and family businesses

The distribution of loans to non-financial and family businesses resident in Italy is detailed below, by industry:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
a) Sales and distribution services	10,632	11,104	-4.3
b) Construction and public works	7,715	8,829	-12.6
c) Commerce, salvage and repairs	9,036	8,335	8.4
d) Transport	5,575	2,873	94.0
e) Energy	5,232	6,758	-22.6
f) Other sectors	29,811	32,761	-9.0
Total	68,001	70,660	-3.8

Distribution of guarantees given, by category of counterparty

Guarantees given by the Bank are classified as follows:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
a) Governments	1	-	n.s.
b) Other public entities	234	236	-0.8
c) Banks	8,580	10,733	-20.1
d) Non-financial businesses	15,247	15,966	-4.5
e) Financial institutions	6,302	5,000	26.0
f) Family businesses	171	161	6.2
g) Other operators	420	448	-6.3
Total	30,955	32,544	-4.9

Geographical distribution of assets and liabilities

The geographical distribution of the Bank's assets and liabilities is detailed below, by reference to the countries of residence of the counterparties concerned:

	6/30/1999				12/31/1998			
	Italy	Other EU countries	Other countries	Total	Italy	Other EU countries	Other countries	Total
1. Assets								
1.1 due from banks	10,654	9,025	4,023	23,702	13,501	11,789	3,599	28,889
1.2 loans to customers	114,267	5,826	7,100	127,193	119,927	8,021	6,089	134,037
1.3 securities	17,895	1,190	1,226	20,311	26,028	2,370	2,135	30,533
Total	142,816	16,041	12,349	171,206	159,456	22,180	11,823	193,459
2. Liabilities								
2.1 due to banks	6,773	17,795	16,474	41,042	4,162	26,099	17,490	47,751
2.2 due to customers	53,133	3,490	6,330	62,953	61,833	4,199	5,223	71,255
2.3 securities issued	49,770	729	2,943	53,442	55,999	1,158	3,100	60,257
2.4 other accounts	679	2,059	-	2,738	839	1,941	-	2,780
Total	110,355	24,073	25,747	160,175	122,833	33,397	25,813	182,043
3. Guarantees and commitments	23,196	15,657	17,383	56,236	25,405	16,374	16,979	58,758

Maturities of assets and liabilities

The residual maturities of assets and liabilities are detailed in the following table

	Specified maturity							Unspecified maturity	Total
	On demand	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years		Beyond 5 years			
				Fixed rate	Indexed rate	Fixed rate	Indexed rate		
<i>billions of lire</i>									
1. Assets									
1.1 Treasury bonds eligible for refinancing	678	100	1,682	803	1,582	449	341		5,635
1.2 due from banks	5,825	11,151	4,318	797	751	304	266	290	23,702
1.3 loans to customers	23,554	22,481	16,259	17,143	21,412	11,694	10,711	3,939	127,193
1.4 bonds and other debt securities	649	3,487	2,463	1,635	2,618	898	1,483		13,233
1.5 off-balance sheet transactions	4,417	106,122	103,821	66,880	4,630	30,702	523		317,095
Total assets	35,123	143,341	128,543	87,258	30,993	44,047	13,324	4,229	486,858
2. Liabilities									
2.1 due to banks	5,775	15,140	6,825	2,902	4,416	2,256	3,728		41,042
2.2 due to customers	51,211	9,997	1,471	177	43	54			62,953
2.3 securities issued:									-
– bonds	614	1,287	3,668	10,991	12,735	5,729	3,921	-	38,945
– certificates of deposit	122	4,819	6,220	2,378	113			-	13,652
– other securities	845							-	845
2.4 subordinated liabilities		207	449	848	1,063		56		2,623
2.5 off-balance sheet transactions	3,675	100,961	112,526	55,781	10,449	31,397	1,306		316,095
Total liabilities	62,242	132,411	131,159	73,077	28,819	39,436	9,011	-	476,155

Assets and liabilities denominated in foreign currencies

The Bank's assets and liabilities denominated in foreign currencies are detailed below:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
a) Assets			
1. due from banks	6,424	4,744	35.4
2. loans to customers	12,938	11,839	9.3
3. securities	2,566	3,227	-20.5
4. equity investments	768	702	9.4
5. other accounts	77	60	28.3
Total assets	22,773	20,572	10.7
b) Liabilities			
1. due to banks	16,247	19,607	-17.1
2. due to customers	7,929	7,049	12.5
3. securities issued	3,355	3,837	-12.6
4. other accounts	1,109	845	31.2
Total liabilities	28,640	31,338	-8.6

Amounts as of 12/31/98 have been adjusted to exclude euro-zone currencies.

Section 12 - Administration and dealing on behalf of third parties

Asset management

The total market value of portfolios managed on behalf of customers is detailed below:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
Asset management	-	54,227	-100.0
1. securities issued by the Bank	-	300	-100.0
2. other securities	-	53,927	-100.0

The elimination of the assets managed directly by the Bank on behalf of customers reflects the centralization of asset management activities under Sanpaolo Asset Management Sim SpA, a subsidiary of Sanpaolo Fondi SpA.

Custody and administration of securities

The nominal value of securities held in custody and for administration, including those received as guarantees, is detailed below:

	6/30/1999 (L/bln)	12/31/1998 (L/bln)	Change %
a) Third-party securities held on deposit (excluding asset management)	304,494	288,968	5.4
1. securities issued by the Bank	32,562	40,893	-20.4
2. other securities	271,932	248,075	9.6
b) Third-party securities deposited with third parties	199,601	186,114	7.2
c) Portfolio securities deposited with third parties	15,569	17,518	-11.1

Other transactions

Fund for applied research

Sanpaolo IMI continued to perform its role of co-ordinator for the Fund for Applied Research on behalf of the Ministry for Universities and Scientific and Technological Research. Activity increased in the first half of 1999 following the start of the operational phase of Law "488/92".

In the first half of 1999, 371 applications were received, 248 preliminary inquiries were carried out, 180 contracts were signed and 308 billion lire was allocated.

Guarantee Fund for small and medium-sized undertakings in Southern Italy (Law 341/95)

By the Convention between the Italian Treasury and the Bank, dated December 21, 1995, as approved and activated by Decree of the Director-General of the Treasury dated January 5, 1996, the Bank has been granted the concession to administer this Fund established under Law 341/95.

The purpose of Law 341/95 is to help rationalize the financial situation of those small and medium-sized enterprises in Southern Italy that qualify under EU parameters. This involves measures of various types, from interest-relief grants on financing designed to convert short-term bank borrowing into long-term loans, to the granting of supplementary guarantees for participating loans, for the purchase of equity investments and for the debt consolidation described above.

As of June 30, 1999, 4,247 applications with a total value of 3,054 billion lire had been received in relation to the consolidation of short-term debt, of which 2,518 billion lire is in the process of being paid out.

Third-party portion of syndicated loans

The third-party portion of syndicated loans arranged by the Bank, without representation, totalled 1,554 billion lire at the end of June 1999 (2,704 billion lire as of December 31, 1998).

Portfolio management services rendered by third parties

As of June 30, 1999, the value of portfolio management services rendered to customers by third parties amounts to 4,222 billion lire.

Part C - Statement of income

Section 1 - Interest

Interest income and similar revenues (caption 10)

Analysis of caption 10 "Interest income and similar revenues"

	1st half 1999	1998	1st half 1998 pro forma
a) On amounts due from banks <i>including:</i> - deposits with central banks	439 20	2,043 188	1,202 119
b) On loans to customers <i>including:</i> - loans using public funds	3,957 -	10,295 -	5,474 -
c) On debt securities	654	2,062	1,153
d) Other interest income	4	9	2
Total	5,054	14,409	7,831

Detail of caption 10 "Interest income and similar revenues"

	1st half 1999	1998	1st half 1998 pro forma
a) On assets denominated in foreign currency <i>including assets denominated in euro-zone currencies</i>	470 -	2,069 809	1,180 462

Default interest amounting to 176 million lire has been eliminated from the statement of income since, for the sake of prudence, collection is considered unlikely.

Interest income includes 205 billion lire relating to repurchase agreements.

Interessi passivi ed oneri assimilati (voce 20)

Analysis of caption 20 "Interest expense and similar charges"

	1st half 1999	1998	billions of lire 1st half 1998 pro forma
a) On amounts due to banks	968	3,451	1,938
b) On amounts due to customers	598	2,383	1,381
c) On securities issued	1,523	4,071	2,197
including:			
– certificates of deposit	406	1,370	779
d) On public funds administered	-	-	-
e) On subordinated liabilities	91	201	109
f) Net differential on hedging transactions	174	293	125
Total	3,354	10,399	5,750

Detail of caption 20 "Interest expense and similar charges"

	1st half 1999	1998	billions of lire 1st half 1998
		pro forma	
a) On liabilities denominated in foreign currency	545	2,827	1,511
including liabilities denominated in euro-zone currencies	-	794	420

Interest expense includes a charge of 0.3 billion lire relating to the period element of issue discounts on bonds and certificates of deposit. This caption also includes charges of 275 billion lire relating to reverse repurchase agreements.

Section 2 - Eommission

Commission income (caption 40)

Analysis of caption 40 "Commission income"

	<i>billions of lire</i>		
	1st half 1999	1998	1st half 1998 pro forma
a) Guarantees given	39	87	43
b) Collection and payment services	132	300	150
c) Management, dealing and consultancy services			
1. dealing in securities	9	16	10
2. dealing in currency	27	55	29
3. asset management	25	57	35
4. custody and administration of securities	20	34	18
5. placement of securities (a)	613	969	435
6. consultancy services			1
7. "door-to-door" sales of securities and financial products and services			
8. acceptance of instructions	70	160	107
d) Tax collection services			
e) Other services	406	754	378
Total	1,341	2,432	1,206

a) Commission received from the placement of securities includes that relating to the placement of mutual funds and insurance products amounting, respectively, to 563 billion lire and 36 billion lire as of June 30, 1999, 834 billion lire and 67 billion lire as of December 31, 1998, and 371 billion lire and 29 billion lire as of June 30, 1998.

Subcaption e) "Other services" comprises, in particular:

	<i>billions of lire</i>		
	1st half 1999	1998	1st half 1998 pro forma
Loans granted	153	264	140
Deposits and current account overdrafts	130	222	107
Current accounts	42	118	71
Banking functions in relation to mutual funds deposited	50	76	34
Loan-arrangement activities	1	6	3
Other services - Italy	23	54	16
Other services - foreign branches	7	14	7
Total	406	754	378

Commission expense (caption 50)

Analysis of caption 50 "Commission expense"

billions of lire

	1st half 1999	1998	1st half 1998 pro forma
a) Collection and payment services	39	98	48
b) Management and dealing services			
1. dealing in securities	2	7	3
2. dealing in currency	-	1	1
3. asset management	-	-	-
4. custody and administration of securities	7	10	5
5. placement of securities	-	1	1
6. "door-to-door" sales of securities and financial products and services	-	-	-
c) Other services	51	75	47
Total	99	192	105

Subcaption c) "Other services" comprises, in particular:

billions of lire

	1st half 1999	1998	1st half 1998 pro forma
Intermediation on financing transactions	4	16	10
Loans obtained	31	26	17
Guarantees received	1	3	2
Loan-arrangement activities	3	3	2
Other services – Italy	10	19	12
Other services - foreign branches	2	8	4
Total	51	75	47

Section 3 - Profits (losses) on financial transactions

Profits (losses) on financial transactions (caption 60)

Analysis of caption 60 "Profits (losses) on financial transactions"

	Security transactions	Currency transactions	Other transactions	Total
A1. Revaluations	34		3 (b)	37
A2. Writedowns	-33		-8 (b)	-41
B. Other profits and losses	-223	44 (a)	319 (c)	140
Total	-222	44	314	136
<i>of which:</i>				
1. on government securities	-201			
2. on other debt securities	168			
3. on equities	18			
4. on security derivatives	-208			

a) Net balance of losses from dealing in foreign currency, 64 billion lire, and profits from currency derivatives, 108 billion lire.

b) Effect of valuing securities and the underlying derivative contracts.

c) Net profits and losses on dealing in derivatives, other than those relating to securities and foreign currency (IRS, CIRS, FRA and IRO).

Section 4 - Administrative costs

Payroll costs (caption 80a)

	<i>in billions of lire</i>		
	1st half 1999	1998	1st half 1999 pro forma
Wages and salaries	871	1,783	887
Social security charges	287	585	294
Termination indemnities			
– provision for termination indemnities	38	75	40
– indemnities accrued and paid during the period	21	3	1
– provisions for supplementary pensions	3	43	23
Pensions and similar commitments	-	1	1
Total	1,220	2,490	1,246

Average number of employees by category

	1st half 1999	1998	1st half 1999 pro forma
a) Executives	197	215	223
b) Managers	3,398	3,541	3,594
c) Other employees	16,800	17,148	17,304
Total	20,395	20,904	21,121

Other administrative costs (caption 80.b)

	<i>in billions of lire</i>		
	1st half 1999	1998	1st half 1999 pro forma
Rental of premises	63	124	60
Consultancy services	47	108	68
Software maintenance and upgrades	38	86	30
Expenses for personnel training, travel and assignments	37	66	35
Maintenance of operating assets	33	72	36
Postage and telegraph charges	27	55	26
Power charges	25	49	26
External data processing	24	44	21
Data transmission charges	21	48	24
Telephone	21	49	24
Security services	21	46	23
Legal and judiciary expenses	21	36	17
Cleaning of premises	16	34	16
Equipment leasing charges	15	36	17
Office supplies	15	28	15
Maintenance of properties owned by the Bank	13	28	12
Advertising and entertainment	12	39	22
Databank access charges	11	23	11
Insurance premiums - banks and customers	9	30	15
Transport and counting of valuables	9	21	11
Searches/commercial information costs	9	18	9
Courier and transport services	8	17	8
Maintenance of leasehold premises	4	12	5
Contributions and membership fees to trade unions and business associations	4	9	5
Contribution to the Interbank Deposit Guarantee Fund	-	12	12
Other expenses	17	41	20
Totale	520	1,131	568
Indirect duties and taxes			
- stamp duties	103	206	102
- tax charge (Pres. Decree 601/73)	11	27	14
- local property taxes	9	20	10
- taxes on stock exchange contracts	6	12	11
- Other	7	18	12
Totale	136	283	149
Total other administrative costs	656	1,414	717

Administrative costs for the first half of 1999 include 5 billion lire relating to the "Euro project" and 5.5 billion lire regarding software maintenance and upgrade costs incurred for Year 2000 compliance.

Section 5 - Adjustments, writebacks and provisions

Adjustments to intangible and tangible fixed assets (caption 90)

Analysis of caption 90 "Adjustments to intangible and tangible fixed assets"

	1st half 1999	1998	billions of lire 1st half 1998 pro forma
Adjustments to intangible fixed assets	71	144	65
- amortization of merger differences representing goodwill of merged banks	36	71	35
- amortization of software in use	16	36	15
- amortization of software not yet in use	15	25	10
- amortization of other deferred charges	4	12	5
Adjustments to tangible fixed assets	92	202	99
- depreciation of property	52	104	54
- depreciation of furniture and installations	40	98	45
Total	163	346	164

Individual assets have been written down with reference to their remaining useful lives using, in most cases, the maximum fiscally-allowed rates, including the provision of accelerated depreciation.

Provisions for risks and charges (caption 100)

Provisions for risks and charges, 49 billion lire, include 34 billion lire to increase the cover for expected losses from legal action, 6 billion lire to cover long-service bonuses earned by employees, and 6 billion lire to cover the unfunded portion of the Bank's employee pension fund.

Adjustments to loans and provisions for guarantees and commitments (caption 120)

Analysis of caption 120 "Adjustments to loans and provisions for guarantees and commitments"

	1st half 1999	1998	billions of lire 1st half 1998 pro forma
a) Adjustments to loans	737	2,271	860
of which:			
- general adjustments for country risk	119	171	170
- other general adjustments	1	208	11
b) Provisions for guarantees and commitments	-	24	1
of which:			
- general provisions for country risk	-	-	-
- other general provisions	-	24	-
Total	737	2,295	861

In addition to the above adjustments, default interest of 176 billion lire earned during the period has been reversed from interest income.

Writebacks of adjustments to loans and provisions for guarantees and commitments (caption 130)

	1st half 1999	1998	billions of lire 1st half 1998 pro forma
Revaluation of loans previously written down	247	167	127
Revaluation of loans previously written off	5	20	7
Revaluation of provisions for guarantees and commitments	1	-	-
Collection of default interest previously written down	57	101	60
Collection of loans previously written off	35	97	34
Collection of loan principal previously written down	77	46	23
Total	422	431	251

Adjustments to financial fixed assets (caption 150)

Adjustments to investment securities

Adjustments to investment securities, 34 billion lire, reflect the writedown of certain unsecured securities issued by residents of Russia. This follows an increase in the writedown rate from 60% to 90%, in view of the continuing debt servicing difficulties experienced by that country.

Adjustments to equity investments

Adjustments to equity investments, 20 billion lire, relate mainly to the writedown of the holding in Inter Europa Bank (16 billion lire) to reflect the prices for this security on the Budapest Stock Exchange during the first half of the year, and to the writedown of the investment in Banca Italo-Romena (2 billion lire) following the losses incurred.

Section 6 - Other statement of income captions

Dividends and other revenues (caption 30)

	<i>billions of lire</i>		
	1st half 1999	1998	1st half 1998 pro forma
Shares, quotas and other equities			
- dividends	22	60	48
- tax credits	13	32	27
Equity investments			
- dividends			
- Banca Fideuram SpA	115	74	74
- Bim Imi SpA	58	37	37
- Intersim SpA	49	19	19
- Crediop SpA	36	24	24
- Sanpaolo Fondi SpA	21	9	9
- Sanpaolo Bank SA	10	7	7
- Sanpaolo Leasint SpA	9	9	9
- Sanpaolo Asset Management Sim SpA	8	1	1
- Banca Agricola Mantovana SpA	7	-	-
- Esatri SpA	7	5	5
- Imi Fideuram Asset Management Sim SpA	4	4	4
- Sanpaolo Riscossioni Genova SpA	4	2	2
- Ruegg Bank AG	3	9	9
- Sanpaolo Gestion Internationale SA	2	-	-
- Bschi SA	2	-	-
- Sanpaolo Riscossioni Prato SpA	2	1	1
- other	6	414	167
- tax credits	188	132	126
Total	566	839	569

Other operating income (caption 70)

	<i>billions of lire</i>		
	1st half 1999	1998	1st half 1998 pro forma
Expenses recovered from customers	126	256	126
- stamp duties	98	198	98
- other taxes	15	32	17
- legal costs	12	20	9
- other recoveries	1	6	2
Reimbursement of services rendered to third parties	28	49	21
Property rental income	11	23	13
Income from merchant banking activities	10	18	11
Other income	4	10	6
Total	179	356	177

Extraordinary income (caption 180)

	<i>billions of lire</i>		
	1st half 1999	1998	1st half 1998 pro forma
Out-of-period income	14	1.123	8
- income taxes paid in advance relating to prior years	-	106	-
- release of IMI's reserve for possible loan losses (item 90)	-	970	-
- collection of default interest previously considered recoverable	-	1	1
- other out-of-period income	14	46	7
Gains on:	714	39	20
- disposal of financial fixed assets - equity investments	710	23	16
- disposal of financial fixed assets - investment securities	3	-	2
- disposal of tangible fixed assets	1	16	2
Total	728	1.162	28

Income taxes for the period (caption 220)

	<i>billions of lire</i>		
	1st half 1999	1998	1st half 1998 pro forma
Income taxes for the period	749	1,442	547
Provisions against possible charges arising from disputes	25	-	15
Local taxes applicable to foreign branches	5	19	44
Prepaid taxes annulled during the period	104	111	-
Prepaid taxes for the period	-66	-647	-105
Total income taxes	817	925	501

The calculation of income taxes for the period takes into account the amount of net income to be allocated to the reserve per Law 461/98.

Attachments

Statement of changes in shareholders' equity

	<i>billions of lire</i>										
	Capital	Legal reserve	Reserve for purchase of own shares	Reserve (art. 13.6, Decree 124/93)	Reserve (art. 7.3, Law 218/90)	Merger surplus	Reserve Law 169/83	Reserve Law 213/98	Reserve for general banking risks	Net income for the period	Total
Shareholders' equity as of January 1, 1999	8,413	1,682	-	1	173	2,133	139	79	650	1,263	14,533
Allocation of 1998 net income											
- Reserve (art. 13.6 Dec. 124/93)	-	-	-	1	-	-	-	-	-	-1	-
- Dividends distributed	-	-	-	-	-	-	-	-	-	-1,262	-1,262
Creation of unrestricted reserve for the purchase of own shares	-	-	1,500	-	-	1,500	-	-	-	-	-
Net income for the period	-	-	-	-	-	-	-	-	-	1,226	1,226
Shareholders' equity as of June 30, 1999	8,413	1,682	1,500	2	173	633	139	79	650	1,226	14,497

Statement of cash flows

billions of lire

APPLICATION OF FUNDS

Use of funds generated by operations		1,374
Dividends paid	1,262	
Use of reserves for termination indemnities and pensions	33	
Use of provisions for risks and charges	79	
Increase in funds applied		1,092
Equity investments	1,010	
Intangible fixed assets	39	
Tangible fixed assets	43	
Decrease in funds taken		23,311
Due to banks	6,709	
Due to customers and securities issued	15,136	
Other liabilities	1,443	
Subordinated liabilities	23	
Total		25,777

billions of lire

SOURCES OF FUNDS

Funds generated by operations		1,843
Net income for the period	1,226	
Provision for termination indemnities	38	
Net adjustments to loans and provisions for guarantees and commitments	315	
Provisions for risks and charges	49	
Adjustments to tangible fixed assets	92	
Adjustments to intangible fixed assets	71	
Net adjustments to financial fixed assets	52	
Increase in funds taken		-
Decrease in funds applied		23,934
Cash and deposits with central banks	108	
Due from banks	5,187	
Loans to customers	6,529	
Investment securities	1,184	
Dealing securities	9,006	
Other assets	1,920	
Total		25,777

Financial statements in euro

Balance sheet

		<i>in millions of euro</i>		
Assets		6/30/1999	12/31/1998	6/30/1998 pro forma
10.	Cash and deposits with central banks and post offices	339	394	275
20.	Treasury bills and similar bills eligible for refinancing with central banks	2,910	4,478	7,521
30.	Due from banks	12,241	14,920	24,215
	a) repayable on demand	2,359	2,389	3,640
	b) other deposits	9,882	12,531	20,575
40.	Loans to customers	65,690	69,224	72,436
	<i>including:</i>			
	- loans using public funds	56	67	75
50.	Bonds and other debt securities	6,834	10,652	11,430
	a) public entities	4,364	7,869	7,776
	b) banks	1,656	2,004	2,841
	<i>including:</i>			
	- own bonds	647	528	635
	c) financial institutions	56	64	159
	<i>including:</i>			
	- own bonds	-	-	-
	d) other issuers	758	715	654
60.	Shares, quotas and other equities	745	639	814
70.	Equity investments	1,377	820	771
80.	Investments in Group companies	2,377	2,423	2,524
90.	Intangible fixed assets	175	192	208
	<i>including:</i>			
	- start-up costs	-	-	-
	- goodwill	-	-	-
100.	Tangible fixed assets	1,303	1,328	1,400
130.	Other assets	9,145	9,261	9,186
140.	Accrued income and prepaid expenses	3,138	4,014	5,260
	a) accrued income	2,865	3,838	4,999
	b) prepaid expenses	273	176	261
	<i>including:</i>			
	- discounts on bond issues	4	5	7
Total assets		106,274	118,345	136,040

millions of euro

Liabilities and shareholders' equity		6/30/1999	12/31/1998	6/30/1998 pro forma
10.	Due to banks	21,196	24,661	37,591
	a) repayable on demand	2,603	2,576	3,934
	b) time deposits or with notice period	18,593	22,085	33,657
20.	Due to customers	32,512	36,800	36,857
	a) repayable on demand	25,336	24,748	25,187
	b) time deposits or with notice period	7,176	12,052	11,670
30.	Securities issued	27,600	31,120	33,838
	a) bonds	20,113	21,262	21,447
	b) certificates of deposit	7,051	9,537	12,002
	c) other	436	321	389
40.	Public funds administered	59	69	78
50.	Other liabilities	10,916	10,531	11,806
60.	Accrued expenses and deferred income	3,805	4,606	5,729
	a) accrued expenses	3,631	4,414	5,543
	b) deferred income	174	192	186
70.	Provision for termination indemnities	399	396	394
80.	Provisions for risks and charges	944	1,289	798
	a) pensions and similar commitments	48	49	52
	b) taxation	629	957	525
	c) other	267	283	221
100.	Reserve for general banking risks	336	336	336
110.	Subordinated liabilities	1,355	1,367	1,508
120.	Capital	4,345	4,345	4,345
130.	Additional paid-in capital	-	-	142
140.	Reserves	2,174	2,173	2,252
	a) legal reserve	869	869	416
	b) reserve for own shares	-	-	-
	c) statutory reserves	-	-	295
	d) other reserves	1,305	1,304	1,541
160.	Retained earnings	-	-	-
170.	Distributable net income	-	652	-
180.	Net income for the period	633	-	366
Total liabilities and shareholders' equity		106,274	118,345	136,040

millions of euro

Guarantees and commitments		6/30/1999	12/31/1998	6/30/1998 pro forma
10.	Guarantees given	15,987	16,808	20,563
	<i>including:</i>			
	- acceptances	143	159	208
	- other guarantees	15,844	16,649	20,355
20.	Commitments	13,057	13,538	21,248
	<i>including:</i>			
	- repurchase agreements	-	-	-

Statement of income

millions of euro

	1st half 1999 pro forma	1998	1st half 1999
10. Interest income and similar revenues <i>including from:</i>	2,610	7,442	4,044
– loans to customers	2,044	5,317	2,827
– debt securities	338	1,065	595
20. Interest expense and similar charges <i>including on:</i>	- 1,732	- 5,371	- 2,970
– deposits from customers	- 319	- 1,252	- 725
– securities issued	- 793	- 2,124	- 1,146
30. Dividends and other revenues	292	433	294
a) from shares, quotas and other equities	18	47	39
b) from equity investments	17	34	25
c) from investments in Group companies	257	352	230
40. Commission income	693	1,256	623
50. Commission expense	- 51	- 99	- 54
60. Profits (losses) on financial transactions	70	151	126
70. Other operating income	92	184	91
80. Administrative costs	- 969	- 2,016	- 1,014
a) payroll	- 630	- 1,286	- 644
<i>including:</i>			
– wages and salaries	- 450	- 921	- 458
– social security charges	- 148	- 302	- 152
– termination indemnities	-	- 62	- 33
– pensions and similar commitments	- 32	- 1	- 1
b) other	- 339	- 730	- 370
90. Adjustments to intangible and tangible fixed assets	- 84	- 179	- 85
100. Provisions for risks and charges	- 25	- 76	- 23
110. Other operating expenses	- 5	- 8	- 4
120. Adjustments to loans and provisions for guarantees and commitments	- 381	- 1,186	- 445
130. Writebacks of adjustments to loans and provisions for guarantees and commitments	218	223	130
140. Provisions to the reserve for possible loan losses	-	-	- 47
150. Adjustments to financial fixed assets	- 28	- 90	- 42
160. Writebacks of adjustments to financial fixed assets	1	-	-
170. Income from operating activities	701	664	624
180. Extraordinary income	376	600	14
190. Extraordinary expenses	- 22	- 45	- 14
200. Extraordinary income, net	354	555	-
220. Income taxes for the period	- 422	- 478	- 258
230. Net income for the period	633	741	366
240. Provision to reserve (art. 7.3, Law 218/90)		- 89	
250. Distributable net income		652	