

SANPAOLO IMI S.p.A.

Quarterly report as of June 30, 1999

SANPAOLO IMI

Società per Azioni

Registered office: Piazza San Carlo 156, Turin, Italy

Secondary office: Viale dell'Arte 25, Rome, Italy

Turin Company Register No. 4382/91

Parent Bank of the Sanpaolo IMI Banking Group

Member of the Interbank Deposit Guarantee Fund

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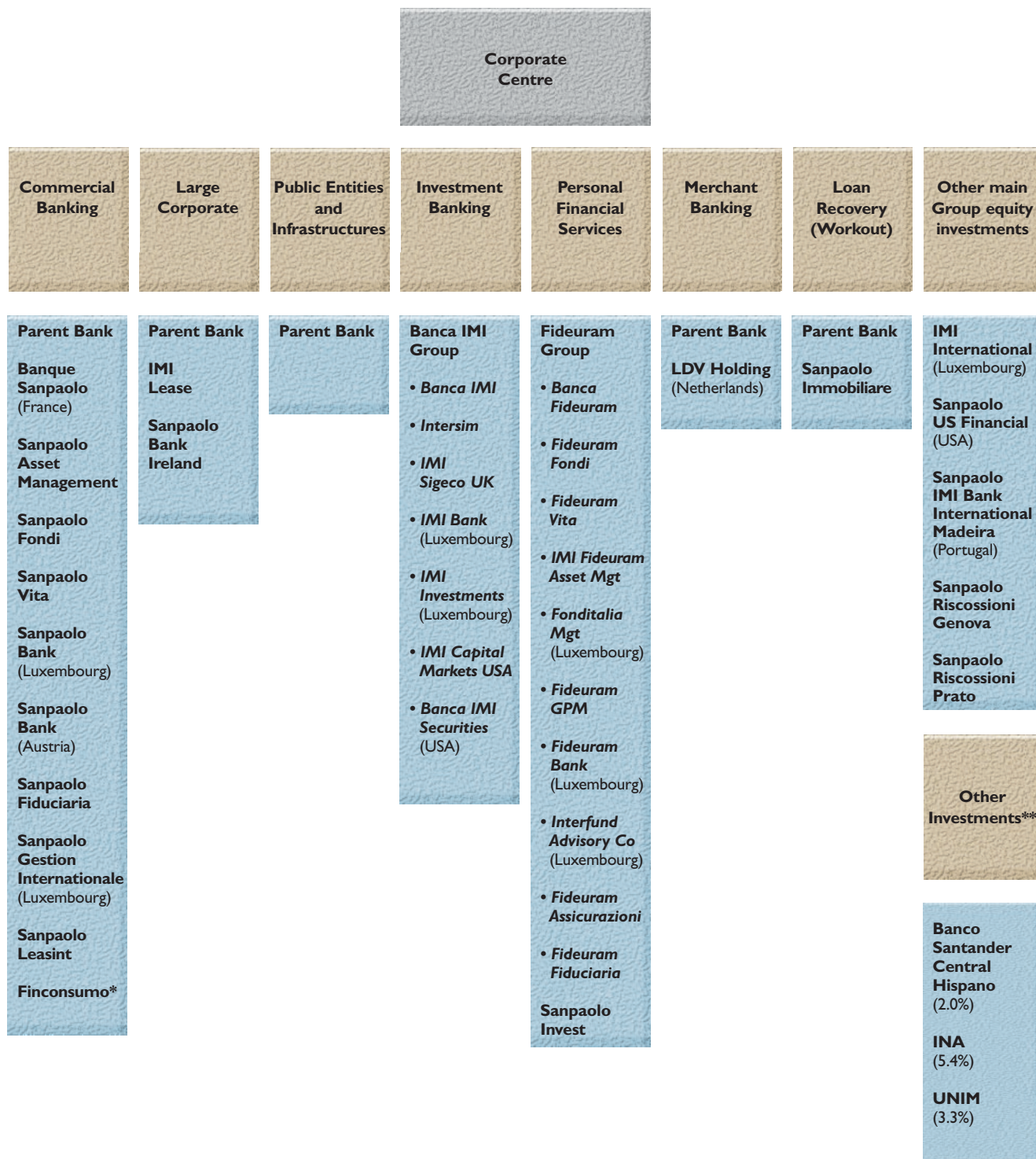
Key figures

	30/6/1999		30/6/1998	31/12/1998	31/12/1998	Change
	(Euro/mil)	(L/bln)	pro forma (L/bln)	pro forma (L/bln)	(L/bln)	6/99-6/98 (%)
CONSOLIDATED STATEMENT OF INCOME						
Net interest income	1,032	1,999	2,434	4,693	5,134	-17.9
Net commissions	958	1,855	1,684	3,374	3,365	+10.2
Net interest and other banking income	2,198	4,256	4,733	9,015	9,336	-10.1
Operating income	932	1,805	2,251	4,015	4,269	-19.8
Net income before extraordinary items, income taxes and minority interest	719	1,392	1,385	2,663	2,868	+0.5
Net income	603	1,167	870	1,760	1,760	+34.1
CONSOLIDATED BALANCE SHEET						
Total assets	138,132	267,460	304,809	274,030	306,490	-12.3
Loans to customers	72,236	139,868	148,289	141,286	168,241	-5.7
Securities	25,278	48,944	56,203	46,288	49,816	-12.9
Equity investments	2,361	4,572	2,923	3,238	2,559	+56.4
Due to customers and securities issued	81,891	158,564	169,645	163,614	188,590	-6.5
Subordinated liabilities	1,348	2,611	2,948	2,675	2,925	-11.4
Shareholders' equity	8,632	16,713	16,521	16,784	16,784	+1.2
FINANCIAL ASSETS OF CUSTOMERS						
Total customer assets	242,283	469,125	435,565	452,134	467,130	+7.7
• Direct deposits	81,891	158,564	169,645	163,614	188,590	-6.5
• Indirect deposits	160,392	310,561	265,920	288,520	278,540	+16.8
• Asset administration	62,556	121,126	120,884	127,212	117,232	+0.2
• Asset management	97,836	189,435	145,036	161,308	161,308	+30.6
• Mutual funds	69,992	135,523	102,808	114,935	114,935	+31.8
• Portfolio management	18,800	36,401	30,187	31,523	31,523	+20.6
• Insurance	9,044	17,511	12,041	14,850	14,850	+45.4
PROFITABILITY RATIOS (%)						
Annualized RoE (Net income/Average Shareholders' Equity, excluding net income of period)		14.1	10.7	11.3	11.3	
Cost / Income ratio		57.6	52.4	55.5	54.3	
Net commissions/Net interest & other banking income		43.6	35.6	37.4	36.0	
CREDIT QUALITY RATIOS (%)						
Net non-performing loans / Total net customer loans		2.6	3.3	2.7	2.3	
Net problem loans and loans being restructured / Total net customer loans		1.9	2.1	2.2	1.9	
CAPITAL ADEQUACY RATIOS (%)						
Tier I capital / Risk-weighted assets		n.a.	n.a.	n.a.	9.7	
Total capital / Risk-weighted assets		n.a.	n.a.	n.a.	11.1	
SHARES						
Number of shares (millions)		1,402	1,402	1,402	1,402	-
Share 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)	0.430	832	621	1,256	1,256	+34.1
Dividend per share (euro; lire)	-	-	-	900	900	-
Dividend / average price for year (%)	-	-	-	3.6	3.6	-
Net assets per share (euro; lire)	6.157	11,921	11,784	11,971	11,971	+1.2
ORGANIZATION						
Employees		24,224	24,603	24,299	24,527	-1.5
Domestic branches		1,351	1,342	1,346	1,346	+0.7
Foreign branches and representative offices		76	75	75	75	+1.3
Financial consultants		4,642	4,175	4,473	4,473	+11.2

The pro forma data for the period to 30/6/98 and to 31/12/98 have been restated according to the same standards of those to 30/6/99, as explained in the explanatory notes attached to the present report.

The data for the period to 30/6/99 and the pro forma data to 30/6/98 and to 31/12/98 have not been audited.

Group structure



* Company controlled with Banco Santander Central Hispano S.A.
 ** Shares held by the Group at the end of July

Reclassified consolidated statement of income

	1st half 1999 (Euro/mil)	1st half 1998 (L/bln)	1st half 1998 pro forma (L/bln)	Full year 1998 pro forma (L/bln)	Full year 1998 (L/bln)	Change 1st half 99/98 (%)
NET INTEREST INCOME	1,032	1,999	2,434	4,693	5,134	-17.9
Net commissions and other net income	958	1,855	1,684	3,374	3,365	+10.2
Profits (losses) on financial transactions and dividends on shares	141	273	458	612	628	-40.4
Profits of companies carried at net equity and dividends on equity interests	67	129	157	336	209	-17.8
NET INTEREST AND OTHER BANKING INCOME	2,198	4,256	4,733	9,015	9,336	-10.1
Administrative costs	-1,214	-2,350	-2,397	-4,774	-4,832	-2.0
• <i>personnel costs</i>	-766	-1,482	-1,485	-2,954	-2,988	-0.2
• <i>other administrative costs</i>	-365	-707	-736	-1,489	-1,511	-3.9
• <i>indirect taxes and duties</i>	-83	-161	-176	-331	-333	-8.5
Other income, net	83	161	187	358	359	-13.9
Adjustments to tangible and intangible fixed assets	-135	-262	-272	-584	-594	-3.7
OPERATING INCOME	932	1,805	2,251	4,015	4,269	-19.8
Net adjustments to loans and provisions	-187	-363	-795	-1,223	-1,271	-54.3
Net adjustments to financial fixed assets	-26	-50	-71	-129	-130	-29.6
INCOME BEFORE EXTRAORDINARY ITEMS, INCOME TAXES AND MINORITY INTERESTS	719	1,392	1,385	2,663	2,868	+0.5
Extraordinary income, net	303	587	41	232	308	n.s.
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	1,022	1,979	1,426	2,895	3,176	+38.8
Income taxes for the period	-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	603	1,167	870	1,760	1,760	+34.1

The *pro forma* income statements for the period to 30/6/98 and to 31/12/98 have been restated according to the same standards of those to 30/6/99, as explained in the explanatory notes attached to the present report.

The income statement for the period to 30/6/99 and the *pro forma* data to 30/6/98 and to 31/12/98 have not been audited.

Quarterly consolidated statement of income analysis

	Financial year 1999		Financial year 1998			
	II quarter 99 (L/bln)	I quarter 99 pro forma (L/bln)	IV quarter 98 pro forma (L/bln)	III quarter 98 pro forma (L/bln)	II quarter 98 pro forma (L/bln)	I quarter 98 pro forma (L/bln)
NET INTEREST INCOME	1,008	991	1,130	1,129	1,226	1,208
Net commissions and other net income	937	918	862	828	905	779
Profits (losses) on financial transactions and dividends on shares	97	176	78	76	184	274
Profits of companies carried at net equity and dividends on equity interests	64	65	89	90	88	69
NET INTEREST AND OTHER BANKING INCOME	2,106	2,150	2,159	2,123	2,403	2,330
Administrative costs	-1,200	-1,150	-1,191	-1,186	-1,225	-1,172
• <i>personnel costs</i>	-749	-733	-734	-735	-740	-745
• <i>other administrative costs</i>	-369	-338	-379	-374	-393	-343
• <i>indirect taxes and duties</i>	-82	-79	-78	-77	-92	-84
Other income, net	80	81	88	83	97	90
Adjustments to tangible and intangible fixed assets	-127	-135	-170	-142	-140	-132
OPERATING INCOME	859	946	886	878	1,135	1,116
Net adjustments to loans and provisions	-162	-201	-181	-247	-418	-377
Net adjustments to financial fixed assets	-50	-	-58	-	-21	-50
INCOME BEFORE EXTRAORDINARY ITEMS, INCOME TAXES AND MINORITY INTERESTS	647	745	647	631	696	689
Extraordinary income, net	579	8	179	12	27	14
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	1,226	753	826	643	723	703
Income taxes for the period	-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	725	442	498	392	437	433

The pro forma quarterly results have been restated according to the principles adopted for the second quarter of 1999 as detailed in the explanatory notes attached to the present report.

The quarterly results have not been audited.

Reclassified consolidated balance sheet

ASSETS	30/6/99		30/6/98	31/12/98	31/12/98	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	363	703	637	815	815	+10.4
Loans	91,725	177,603	205,896	184,770	212,954	-13.7
• due from banks	19,489	37,735	57,607	43,484	44,713	-34.5
• loans to customers	72,236	139,868	148,289	141,286	168,241	-5.7
Dealing securities	23,584	45,663	51,331	41,756	45,280	-11.0
Fixed assets	5,799	11,231	11,590	11,454	10,911	-3.1
• investment securities	1,694	3,281	4,872	4,532	4,536	-32.7
• equity investments	2,361	4,572	2,923	3,238	2,559	+56.4
• intangible fixed assets	266	516	498	574	585	+3.6
• tangible fixed assets	1,478	2,862	3,297	3,110	3,231	-13.2
Differences arising on consolidation and on application of the equity method	46	90	249	113	113	-63.9
Other assets	16,615	32,170	35,106	35,122	36,417	-8.4
Total assets	138,132	267,460	304,809	274,030	306,490	-12.3
LIABILITIES AND SHAREHOLDERS' EQUITY						
	30/6/99		30/6/98	31/12/98	31/12/98	Change 6/99-6/98 (%)
	(Euro/mil)	(L/bln)	pro forma (L/bln)	pro forma (L/bln)	(L/bln)	
Payables	106,710	206,619	241,262	212,293	242,346	-14.4
• due to banks	24,819	48,055	71,617	48,679	53,756	-32.9
• due to customers and securities issued	81,891	158,564	169,645	163,614	188,590	-6.5
Provisions	1,632	3,160	2,745	4,005	4,338	+15.1
• provision for taxation	763	1,477	1,197	2,280	2,556	+23.4
• provision for termination indemnities	434	840	828	835	844	+1.4
• provision for risks and charges	372	720	607	762	810	+18.6
• provision for pensions and similar commitments	64	123	113	128	128	+8.8
Other liabilities	19,639	38,027	40,961	37,993	39,335	-7.2
Subordinated liabilities	1,348	2,611	2,948	2,675	2,925	-11.4
Minority interests	171	330	372	280	762	-11.3
Net shareholders' equity	8,632	16,713	16,521	16,784	16,784	+1.2
• equity capital	4,345	8,413	8,413	8,413	8,413	-
• reserves	3,684	7,133	7,238	6,611	6,611	-1.5
• net income	603	1,167	870	1,760	1,760	+34.1
Total liabilities and shareholders' equity	138,132	267,460	304,809	274,030	306,490	-12.3

The pro forma financial statements for the period to 30/6/98 and to 31/12/98 have been restated according to the same standards of those to 30/6/99, as explained in the explanatory notes attached to the present report.

The financial statements for the period to 30/6/99 and the pro forma data to 30/6/98 and to 31/12/98 have not been audited.

Report on Group operations

Market challenges

Shareholders,

Shares in the banking sector registered a negative trend in the first half of 1999 which had a particular effect on Sanpaolo IMI's shares.

In a sector in transition and looking for new balances of relationships, the Sanpaolo IMI Group's operations have followed the strategic guidelines established in the second half of the past year:

- containment of assets which present greater risks with respect to inadequate levels of profitability;
- strengthening of presence in the asset management sector with a view to consolidating market share;
- consistent action to contain costs;
- significant improvement in asset quality to avoid the negative effects on the profit and loss account because of high provisioning levels.

Sanpaolo IMI well knows how necessary it is to be ready for the new competitive challenges and has launched important initiatives in the first half of the year. Some of these have not been completed. Others have been successfully completed or are in course of completion: the proposed spin-off of a large part of the Bank's property portfolio has been arranged; a specialized merchant banking company will be created with assets that will put it in the major league in that sector; and important international strategic alliances have been consolidated.

Sanpaolo IMI believes in the need to reinforce further its position in terms of both size and operations. Therefore, the growth objective of the Group remains confirmed – it is essential to respond adequately to the competitive forces that will characterize the European banking market in the next decade.

Operational performance

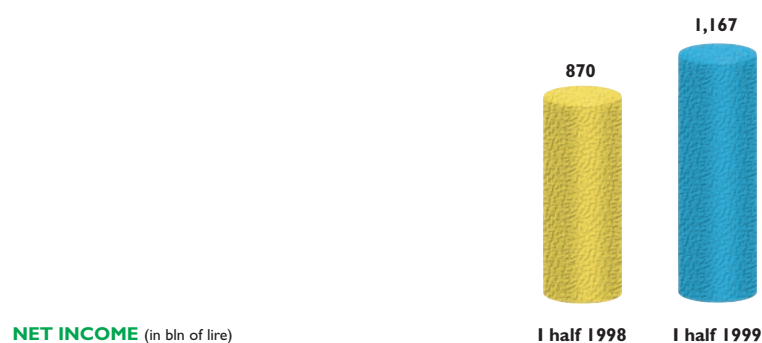
The results for the first half reflect the Group's strategic decisions. The growth in commissions from services (+10.2%), the reduction in administrative costs (-2%) and, above all, the substantial fall in adjustments to loans (-54.3%), as a result of the improvement in asset quality, have in fact compensated for the fall in net interest income (-17.9%) and profits from financial trading activities (-40.4%). In total, profit before tax and extraordinary items amounted to 1,392 billion lire, an increase of 0.5% on the pro forma results for the first half of 1998 as restated according to the criteria explained in detail in the explanatory notes appended to this report.

The contribution of extraordinary income has been considerable and amounted to 587 billion lire (41 billion lire in the first half of 1998). The sale of the 20% stake in Crediop to Dexia, the Franco-Belgian Group, has in fact contributed

to pre-tax gains of 181 billion lire while the acceptance of the public offer by Olivetti for Telecom Italia produced gross gains of 417 billion lire on the 0.75% held by Sanpaolo IMI in the telecommunications company. Group net income amounted to 1,167 billion lire, an increase of 34.1% compared to the first half of 1998.

Analysis of results

Looking at these figures in further detail, the fall interest rates which characterized the whole of 1998 and has continued in the early part of 1999 has had a significant effect on the Group's net interest income: it now stands at 1,999 billion lire, a 17.9% decrease on an annual basis. The transformation that has taken place on the market following the arrival of the single European currency has seen the average three month interbank rate come down from 5.59% to 2.87%, making a large difference between the two periods compared here.

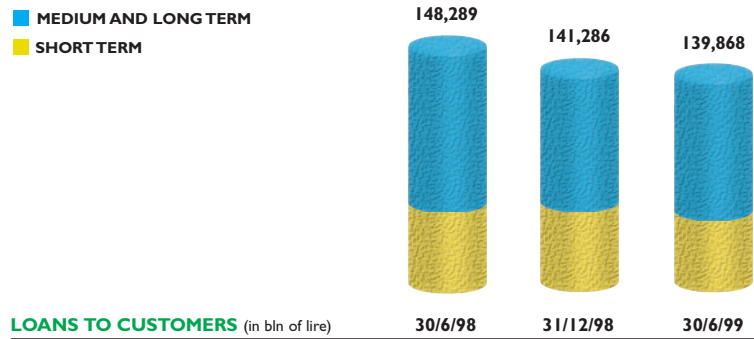


The lower interest rates also meant that the Group's liquid funds, the difference between interest bearing assets and interest bearing liabilities, yielded less. Secondly, it has meant that the spread in rates applied to customers has fallen by around 95 basis points on average, in relation to lira transactions entered into by the Italian branches of the parent company.

The fact that interest rates for the remainder of 1999 are expected to be much closer to those seen in the second half of 1998 means that the fall in net interest income in the first half of 1999 should be partially absorbed in the second half of the year.

The fall in regarding customer loans, following the adoption of a policy which aims to give maximum consideration to risk before making a loan, has not been sufficient to offset the negative effects of lower rates and a lower spread on net interest income.

Customer loans amounted to 139,868 billion lire at June 30, 1999 and have decreased by 1% during the period. This is partly due to the downscaling of operations carried out by the overseas branches of the parent company (-13.5%) and, in Italy, to a reduced level of loans to corporate customers with an inadequate return relative to risk. Meanwhile, loans to small business and families have been increasing, especially in the mortgages market, a traditional business of the Bank, and in consumer credit.

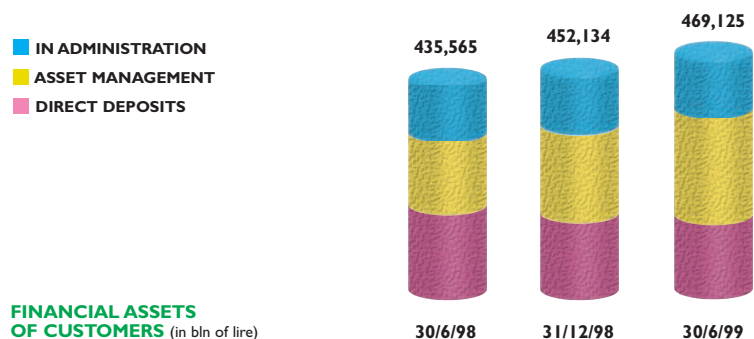


Direct customer deposits stand at Lire 158,564 billion and are also down - by 3.1% - over the six months. This is also due to the lesser activity conducted by the parent company's overseas branches (-30.6%) and to the domestic market decreases regarding certificates of deposit (-29.6%) and repurchase agreements (-38.6%). These areas have been affected by the continuing trend towards asset management. There was, however, a slight increase of 0.6% in sight deposits while bonds were affected to a lesser extent (-5.4%).

The decrease in direct deposits has been more than made up for by the strong growth in indirect deposits and in the form of asset management. At the end of June, assets under management had reached 189,435 billion lire, an increase in the period of 17.4%. Mutual funds have grown by 17.9% in the past six months, while portfolio management is up by 15.5%. The technical reserves of the Group's insurance companies amounted to 17,500 billion lire at the end of June with an inward flow of more than 2,600 billion lire during the period.

Overall, the Group has achieved further growth in total customer financial assets. At the end of June, total direct and indirect customer deposits amounted to 469,125 billion lire. This was 3.8% up in the period and the Group's market share is estimated to be around 10%.

The considerable growth in terms of mutual funds, portfolio management and insurance policies has resulted in a more than 40% increase in commissions asset management. The increase in commissions was also helped by the increasing portion of higher value added investments, for example asset allocation funds and unit linked policies, as well as by the greater importance of the equities sector.

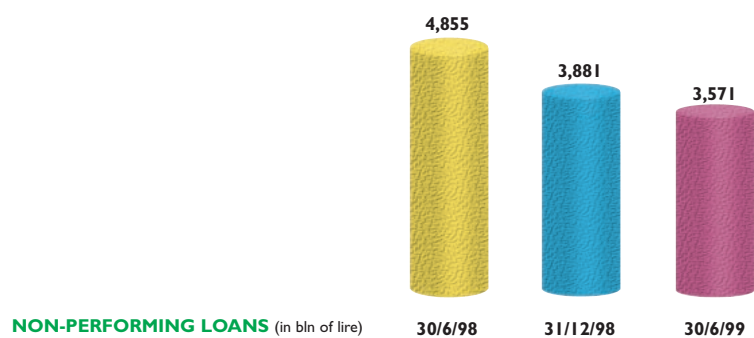


Overall, net commission income from services amounted to 1,855 billion lire, a 10.2% increase on the first half of 1998. This represents 43.6% of net interest and other banking income and covers 85% of all personnel and other administrative costs.

The decision to reduce the level of risk taken by the Group, together with changes that took place in the market, are reflected in profits from financial transactions which fell by 40.4% to 273 billion lire. The overseas network's securities and derivatives operations also decreased greatly.

Administrative costs decreased by 2% to 2,350 billion lire. This was thanks to a 0.2% saving on personnel costs following staff reorganisation which saw the number of employees reduced from 24,603 to 24,224. The rationalisation programme implemented by the parent company saw its employees reduced from 20,943 to 20,280 and resulted in a 2.2% saving in personnel costs. This more than made up for the personnel increases recorded by some subsidiaries, especially those in the asset management sector. It should also be noted that the Parent Bank has taken on 450 new positions, with training contracts, as part of its territorial expansion. Other administrative expenses also continued to fall – by 3.9%.

The considerable improvement in asset quality is reflected in the large drop in net writedowns and provisions against loans and financial assets: down by 52.3% to 413 billion lire. In fact, non-performing loans have decreased by 8% during the half year to June 30, from 3,881 billion lire to 3,571 billion lire. For the parent company, non-performing loans are 69.6% covered, including writeoff.



Doubtful loans and customer loans in course of restructuring were reduced in total by 14.4% from 3,148 billion lire to 2,696 billion lire with coverage at Parent level of 36.2%. Loans to countries at risk fell by 15.9% from 421 billion lire to 354 billion lire and the coverage at Parent level was 52.8%.

Adjustments to value include 133 billion lire of writedowns of non-guaranteed loans and securities concerning Russian residents. These amounts are now 90% covered by provisions (60% before) due to the lasting economic crisis in Russia.

Significant events

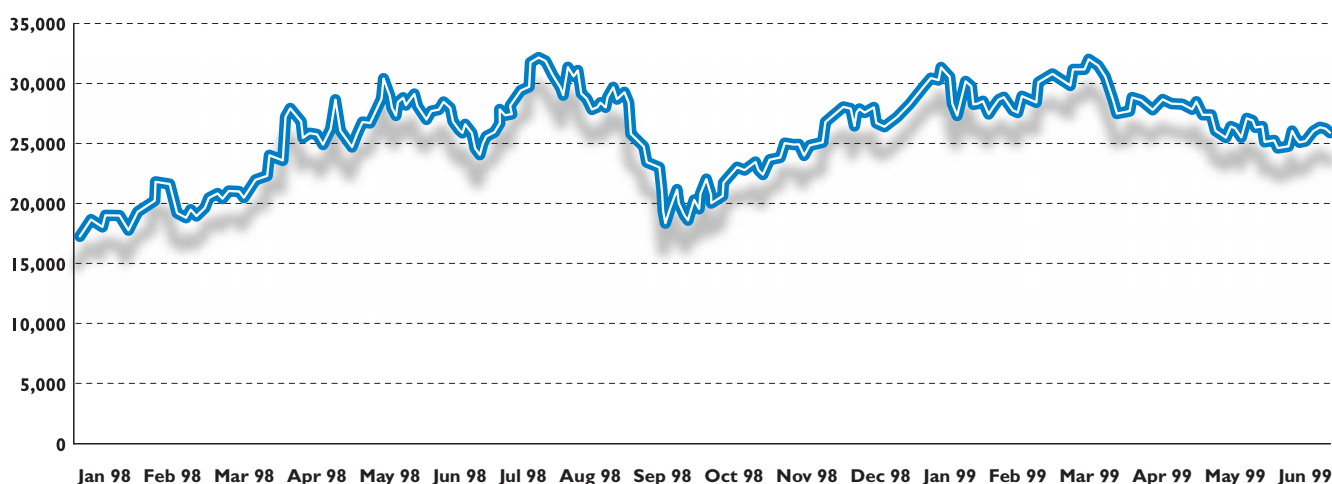
The single most significant event of the first half of 1999 is surely the sale of a 20% stake in Crediop to the Franco-Belgian Group Dexia for 422 billion lire. This operation generated a pre-tax gain of 181 billion lire. It comes under the agreements reached by Sanpaolo IMI and Dexia at the end of last year which provide that Sanpaolo IMI's entire interest in Crediop (previously 60%, now 40%) shall be sold to Dexia by 2001.

Moreover, a spin-off operation is being finalized and will be put before the Shareholders' Meeting that has been called for the end of July with the aim of completing it before the end of the year. The operation in question relates to the entire real estate portfolio not used for banking activities and some of the real estate owned by Sanpaolo IMI and used in the business. The spin-off is intended to separate real estate assets from the banking and financial assets which form the Group's core business. As a result, consolidated shareholders' equity will decrease by 1,350 billion lire.

As mentioned earlier, the project to create a new company dedicated to merchant banking has also been established. This transaction, which will give rise to one of the most important players in the market, with assets of more than 1,400 billion lire, will also involve the transfer of certain assets from Sanpaolo IMI and NHS, a subsidiary of the Compagnia di San Paolo.

Finally, we would mention the fact that the Bank's stake in Banco Santander Central Hispano has now reached 2% of share capital.

SANPAOLO IMI SHARE PRICE (in lire)



Explanatory notes

Form and content of the report

This report represents a summary of the Group accounts as of June 30, 1999. It will be followed by the full Interim Financial Statements, prepared in accordance with the reporting requirements set by Consob (National Commission for Listed Companies and the Stock Exchange).

The Balance Sheet and Statement of Income as of June 30, 1999 are presented in a reclassified format to be consistent with the year-end financial statements as of December 31, 1998. They have been prepared in the same format as the year-end financial statements and using the same accounting policies. Reference should be made to the year-end financial statements for further information. The following matters are mentioned here in summary form:

- the accounts have been prepared according to the so-called “discrete approach”, treating each period as a separate accounting period. This means that the statement of income only reflects ordinary and extraordinary costs and revenues relating to the period on a strict accruals basis;
- the accounts used for the consolidation are those prepared by the subsidiaries as of June 30, 1999, and adjusted, where necessary, to bring them into line with Group accounting policies;
- any adjustments and provisions made by consolidated companies solely for tax purposes have been reversed in the consolidation;
- significant intercompany transactions and balances have been eliminated.

The following companies have been excluded from the consolidation area:

- Crediop (and its subsidiaries Crediop BV, Crediop Overseas Bank and C.Fin): Sanpaolo IMI has lost control over this company following the sale of a 20% stake in it;
- Imigest Immobiliare (and its subsidiaries Tradital and Immobiliare Italia Gestioni) which is part of the real estate business which is currently the subject of the spin-off operation mentioned above.

As Crediop was extremely significant to the Group accounts, we have restated the Balance Sheets and Statements of Income for the previous quarters, consolidating Crediop using the net equity method rather than on a line-by-line basis. This was done so as to make comparisons between periods more meaningful.

The Balance Sheet and Statement of Income at June 30, 1999 have not been audited. Independent auditors will instead conduct a limited review of the Interim Results whose approval is expected in September:

Pro forma accounts

The pro forma accounts have been prepared as follows:

- figures as of March 31, 1999 and December 31, 1998: the pro forma accounts have been restated, excluding Crediop from the line-by-line

consolidation and including it in the consolidation using the net equity method;

- figures as of September 30, June 30 and March 31, 1998: the pro forma accounts were prepared using the information prepared by San Paolo and IMI prior to their merger, as adjusted to reflect the exclusion of Crediop from the line-by-line consolidation and to ensure that consistent accounting policies and disclosure methods were applied. In particular, writedowns of loans have been adjusted to take account of loan loss provisions made by the former IMI S.p.A. which were eliminated in the post-merger financial statements as of December 31, 1998 as part of the value adjustments of the new bank. This last adjustment entailed a reduction of 90 billion lire in aggregate net income for the first half of 1998 which makes it comparable with the result for the first half of 1999.

Turin, July 27, 1999

The Board of Directors