

A black and white photograph of a person's face reflected in water. The person is smiling and has their hands near their face. The reflection is clear and centered in the lower half of the image. The background above the water is dark and textured, resembling a close-up of a surface or a sky with light streaks. The overall mood is contemplative and serene.

Notes to the Consolidated Financial Statements



Introduction

Consolidated financial statements structure

1999 consolidated financial statements have been prepared in compliance with the provisions contained in Legislative Decree 87 of 27th January 1992 and in the instructions of the Governor of the Bank of Italy of 16th January 1995, and subsequent amendments, the last of which was issued on 7th August 1998.

Consolidated financial statements are made up of the consolidated balance sheet, the consolidated statement of income and these Notes to the consolidated financial statements; the consolidated Report on operations has also been included.

The Notes to the consolidated financial statements include all information required by current regulations and by the Bank of Italy and all other information deemed to be necessary in order to give a true and fair representation of the Group's situation.

Accounting principles and valuation criteria used in the preparation of consolidated financial statements as at 31st December 1999 are changed with respect to those used the previous year.

Modification of the accounting principles

Valuation of trading portfolio's securities traded on regulated markets

Securities which are part of the trading portfolio and are traded on regulated markets are valued according to the "market value" criterium, instead of the "lower between cost and market value" criterium; the latter had been used so far in the 1998 financial statements and, again, in the Half-Year Report as at 30th June 1999.

The market value criterium is provided for by Art. 20 of Legislative Decree 87/92 as an alternative to the lower between cost and market value criterium.

The market value of securities traded on regulated markets is represented, like in the past, by the average market price for the last month of the year.

The modification of the valuation criterium leads to both a greater alignment in book values and values used in financial management and a greater consistency with derivative transactions which are valued according to market value, especially with regard to complex financial portfolios composed of securities and derivative contracts. Furthermore, the new criterium leads to a greater alignment with international accounting principles used for the securities portfolio and with the accounting practice of the most important Italian and foreign competitors.

Lastly, management and monitoring of portfolio risk as well as performance control at Group level require accounting using market values.

On the other hand, unlisted securities which are part of the trading portfolio continue to be valued using the lower between purchase cost and market value, as provided for by Art. 20 of Legislative Decree 87/92.

The effect of the changes in accounting principle applied to listed securities on this year's statement of income is not divided in "past" effects and "current" effects, that is effects matured in the year, since it was not possible to redetermine the final book values starting from the initial book values as at 1st January 1999 with the new criterium. Therefore, the impact on 1999 consolidated statement of income was accounted for into "Profits (Losses) on financial transactions".

The change in the evaluation criterium applied to securities in the trading portfolio and, consequently, on the corresponding hedging transactions led to report greater capital gains on securities amounting to 293 billion lire and higher capital losses on derivatives held for hedging purposes of 207 billion lire.



Valuation of off-balance sheet transactions

For consistency purposes the change in the evaluation criterium applied to securities in the trading portfolio led to the change in the criterium used for certain types of off-balance sheet transactions. In particular:

- dealing securities traded on regular markets to be delivered or received in relation to completed contracts that have not been settled at balance-sheet date are considered as a part of the trading portfolio and are always valued consistently with the criterium used for the portfolio to which they refer, which is now accounted for according to market value. For securities to be delivered, the forward sale price contained in the contract is also considered;
- options on dealing securities traded on regular markets are also valued consistently with the valuation of listed securities which, starting with the 1999 financial statements, are accounted for at market value.

The change in the valuation criterium applied to these off-balance sheet transactions did not have a significant impact on the 1999 statement of income.

Preference shares

Preference shares, which last year had been accounted for in minority shareholders both in the balance sheet and in the statement of income, are now included in subordinated liabilities and related interest is also reported.

Classification of accruals on zero-coupon securities

Differently from the previous year, accruals on zero-coupon securities were not accounted for in the subcaption "accrued income", but directly in the items to which they refer. In order to ensure comparability, the previous year's figures have been reclassified.

Classification of integration charges

Provisions for future integration expenses have been made in order to sustain the charges related to the completion of the reorganisation of companies in the integration within Gruppo Intesa. Considering their non-recurring nature, such provisions have been accounted for in the caption "Extraordinary charges". Similarly, provisions made in 1998 have been reclassified from "Allowances for risks and charges" to "Extraordinary charges".

The new accounting principle regarding taxes

The introduction of new accounting principle 25 issued by the National Council of Dottori Commercialisti e dei Ragionieri (Italian Accounting Profession) regarding the accounting treatment of income taxes and the related instructions issued by the Bank of Italy (Instructions issued on 3rd August 1999) and CONSOB (Communication DAC/99059010 of 30th July 1999) set forth that, starting from the financial statements as at 31st December 1999, aside current taxes due, prepaid and deferred taxes must also be accounted for.

The new accounting principle requires that taxes due for the year must consider taxes that are paid in the current year even though they refer to future years (prepaid taxes) and taxes that, though they refer to the current year, will be paid in later years (deferred taxes). Prepaid and deferred taxes derive from temporary differences in the value attributed to assets and liabilities according to the Italian Civil Code accounting regulations and correspondent values calculated for tax purposes. Such temporary differences may be divided in: deductible temporary differences, which generate assets for prepaid taxes following costs deductible in future years from those in which they are accounted for in the statement of income or following revenues which are taxed in previous years to that in which they are accounted for in the statement of income; and taxable temporary differences, which generate liabilities for deferred taxes following revenues taxed in later years than that in which they are accounted for in the statement



of income, or following costs deductible for fiscal purposes in previous years to that in which they are accounted for in the statement of income.

The accounting principle applied to income taxes adopted until last year required that the following taxes be accounted for in the statement of income: amounts deducted for taxes due for the year, amounts deducted for tax litigations and deferred taxes, normally related to realised capital gains and, obviously, consolidation operations. Prepaid taxes are accounted for in the 1999 financial statements for the first time.

Prepaid and deferred taxes were determined on the basis of all the temporary differences, without temporal limits, according to the so-called "Balance sheet liability method", which requires that both prepaid and deferred taxes which affect the statement of income and those which directly affect shareholders' equity are accounted for.

Assets related to prepaid taxes are accounted for in the balance sheet when there is a reasonable certainty that they will be recovered, whereas deferred taxes have not been accounted for if there are low probabilities that the connected liability may emerge.

With regard to prepaid taxes, the valuation of the reasonable certainty of their recovery was carried out based on past experience and proved by forecasts and in any case the reasonable forecast that the company involved will be capable of continuously producing taxable income even in particularly negative market contexts. Therefore prepaid taxes have been accounted for on all temporary deductible differences regarding, essentially, adjustments to loans and provisions to the allowances for risks and charges.

Liabilities related to deferred taxes, as already occurred in previous years, have been fully accounted for, with the sole exception of shareholders' equity reserves for which taxes are suspended, since it is reasonable to believe that no voluntary actions will be taken for the purpose of taxing such reserves. The temporary differences for which no provisions for deferred taxes have been set up are described in the Notes to the consolidated financial statements.

Assets related to prepaid taxes and liabilities related to deferred taxes have been calculated separately for Irpeg (corporate income taxes), based on the tax rate in force for 1999 (37%), and for Irap (regional tax), based on the tax rate presumably applicable in the period of settlement of the credit or debit.

Prepaid and deferred taxes have been accounted for separately in the balance sheet, respectively in the caption "Other assets" and in the caption "Allowances for risks and charges - allowance for taxation".

In the statement of income the economic effect deriving from deferred taxes matured in previous years, which summed up to 813 billion lire, was accounted for in "Extraordinary income", was split from the tax charge relative to the year which equalled 588 billion lire and was accounted for in "Income taxes for the year". No prepaid or deferred taxes have been directly expensed in the shareholders' equity captions.

Application of benefits provided for by Law 461/98 (so-called Ciampi Law)

Paragraph added following CONSOB communication 27052 of 7th April 2000.

The incentives provided for in Law 461 of 23rd December 1998 (so-called Ciampi Law) are considered in the calculation of the tax burden for the Parent Company and other Group companies.

Incentives refer to the reduction of the Irpeg rate from 37% to 12.5% on income allocated to a special reserve.

The application of the law led to a lower tax burden of 178 billion lire in the consolidated financial statements as at 31st December 1999 connected to the allocation of net income to a special reserve for a total of approximately 735 billion lire.

Considering the benefits relative to Banca Commerciale Italiana and the companies it consolidated, taxes saved totalled 238 billion lire connected to an overall reserve of just under 980 billion lire.

On 3rd April 2000, the Minister of the Treasury and the Minister of Finance diffused a Communication in which they inform that the application of the above-mentioned incentive is suspended.

The EU requested this suspension until it makes a pronouncement on the incentive's