

The main consolidated balance sheet and statement of income data of Gruppo Intesa as at June 30, 1999 is examined below.

Loans to customers

Loans	June 30, 1999 (A)	December 31, 1998 (B)	June 30, 1998 (C)	Lire (in billions)	
				Changes %	
				A/B	A/C
Lending transactions	174,803	168,810	162,695	3.6	7.4
Repurchase agreements	2,279	4,309	10,084	(47.1)	(77.4)
Total	177,082	173,119	172,779	2.3	2.5

In the six month period ended June 30, 1999, loans to customers registered a 2.3% increase compared to December 31, 1998, increasing with respect to the data registered for the six month period ended December 31, 1998, when the aggregate had remained stable.

Save for repurchase agreements, which were carried out mostly with financial counterparts and registered a substantial decrease compared to the previous reference dates, loans to ordinary customers increased respectively by 3.6% and 7.4%.

Loans to customers were granted mainly by banking subsidiaries (65% of the total) which registered a 2.5% growth rate and reduced its impact on total loans by one percentage point. Some 35% of loans to customers were granted by the financial subsidiaries, in particular by factoring companies, which recorded a 19.2% rise.

For the banking subsidiaries, loans to customers increased by 3.2% compared to December 31, 1998, which is mostly attributable to the rise in lending carried out by the Italian branches of the banks constituting Gruppo Intesa, which recorded a 2.3% increase which was further improved by the loans granted by foreign banks and branches (up 12.6%).

Real estate lending registered a satisfactory expansion: loans to customers amounted to Lire 30,333 billion, as at June 30, 1999, with an increase of Lire 1,154 billion (up 4%) compared to as at December 31, 1998. Total disbursements during the semester amounted to Lire 3,701 billion (compared to Lire 2,634 billion for the corresponding period in 1998).

Specialised loans in favour of medium- and small-sized enterprises (20,910 billion), lending to the public sector (Lire 6,778 billion) and agricultural lending (Lire 2,354 billion), remained basically constant.

Analysis of ordinary loans by contract type

Loans	June 30, 1999 (A)	December 31, 1998 (B)	June 30, 1998 (C)	Lire (in billions)	
				Changes %	
				A/B	A/C
Current accounts	38,022	37,509	37,593	1.4	1.1
Mortgages	70,451	66,276	64,020	6.3	10.0
Advances	9,429	10,041	10,311	(6.1)	(8.6)
Other loans	40,670	39,402	35,909	3.2	13.3
Non-performing loans	9,892	9,741	9,556	1.6	3.5
Portfolio risk	6,339	5,841	5,306	8.5	19.5
Repurchase agreements	2,279	4,309	10,084	(47.1)	(77.4)
Total	177,082	173,119	172,779	2.3	2.5

The breakdown of loans to customers by contract type shows, together with the above-mentioned considerable decrease in repurchase agreements, an increase in mortgages which evidently benefited by interest rate reductions more than any other loan contract types, and of other loans, which include near-banking transactions (such as factoring and leasing). On the other hand, the increase in overdrafts on current account lending was not particularly significant.

Percentage breakdown of loans to customers by economic sectors is set out in the following table:

	June 30, 1999	December 31, 1998	June 30, 1998
Governments	3.5	3.2	3.3
Other public agencies	3.7	3.7	3.8
Non-financial businesses	58.5	59.9	55.7
Financial institutions	8.0	7.8	10.4
Personal businesses	7.0	6.9	7.9
Other operators	19.3	18.5	18.9

Analysis of loan portfolio quality

Loans	June 30, 1999	December 31, 1998	June 30, 1998	Changes %	
	(A)	(B)	(C)	A/B	A/C
Doubtful loans	9,892	9,741	9,556	1.6	3.5
Non-performing loans	3,637	3,766	3,892	(3.4)	(6.6)
Restructured loans	796	819	199	(2.8)	300.0
Loans subject to Country risk	146	198	142	(26.3)	2.8
Performing loans	162,611	158,595	158,990	2.5	2.3
Total	177,082	173,119	172,779	2.3	2.5

Doubtful loans amounted to Lire 9,892 billion as at June 30, 1999, with a moderate increase, (Lire 151 billion, up 1.6%) with respect to the end of the previous year. Non-performing loans decreased from Lire 3,766 billion to Lire 3,637 billion (down 3.4%).

The ratio of net doubtful loans to total loans was 5.59% (5.63% as at December 31, 1998), whereas, gross of adjustments, the ratio decreased from 9.62% down to current 9.58%.

The average percentage coverage for doubtful loans totalled 44.75%, whereas the same percentage relative to non-performing loans on average was 16.72%. Nevertheless, it must be noted that this percentage is calculated net of losses, that is adjustments on loans to customers undergoing forced liquidation procedures, which are not accounted for and are consequently, not included in gross values nor in write-downs of gross values. Provisions for the so-called generic coverage were of Lire 931 billion, 0.57% of performing loans, in line with the corresponding figure in the 1998 accounts.

Customer funds

Funding	Lire (in billions)				
	June 30, 1999 (A)	December 31, 1998 (B)	June 30, 1998 (C)	Changes %	
				A/B	A/C
Deposits	10,707	12,853	14,890	(16.7)	(28.1)
Current accounts and other accounts	93,434	85,470	80,964	9.3	15.4
Bonds	65,593	62,426	58,978	5.1	11.2
Certificates of deposit	26,089	25,716	26,939	1.5	(3.2)
Other	2,081	2,260	1,809	(7.9)	15.0
	197,904	188,725	183,580	4.9	7.8
Repurchase agreements	14,063	18,495	16,693	(24.0)	(15.8)
Public funds under administration	135	135	131	0.0	3.1
Total	212,102	207,355	200,404	2.3	5.8
Subordinated liabilities	8,181	7,505	6,331	9.0	29.2
Total direct deposits	220,283	214,860	206,735	2.5	6.6
Indirect deposits	314,722	284,948	271,659	10.4	15.9
Total deposits under administration	535,005	499,808	478,394	7.0	11.8

Total deposits under administration were Lire 535,005 billion, as at June 30, 1999, corresponding to a 7% increase when compared to Lire 499,808 billion as at December 31, 1998 and an 11.8% increase with respect to the six month period ended June 30, 1998.

Direct customer deposits – which totalled Lire 220,283 billion– registered a 2.5% increase in the semester and a 6.6% rise on an annual basis.

The significant decrease registered by repurchase agreements, particularly with respect to as at December 31, 1998 (down 24%) must be noted. This is attributable to the fact that at the end of 1998 certain Gruppo Intesa funds had used repurchase agreements to invest considerable sums. Excluding repurchase agreements (by adding up solely traditional and subordinated funding), the growth rate is of 5% with respect to as at December 31, 1998 and of 8.5% with respect to as at June 30, 1998.

Growth in bonds in issue was particularly noteworthy (up 5.1% with respect to December and up 11.2% on an annual basis), while the amount of certificates of deposit outstanding remained virtually unchanged. The slight increase (up 1.5%) compared to December 31, 1998 is a consequence of the higher issues carried out by Cariplo's foreign branches.

Subordinated deposits reached Lire 8,181 billion and registered a 9% increase compared to last December and a rise in excess of 29% compared to as at June 30, 1998. Subordinated deposits are constituted by preferred shares for Lire 678 billion, which can be accounted for as Tier 1 capital, by Lire 7,067 billion (of which Lire 2,628 billion are upper Tier 2 capital) which can be accounted for as supplementary capital and by subordinated deposits for Lire 436 billion which can be used to hedge market risks.

Subordinated liabilities issued by the Group during the six month period ended June 30, 1999 totalled Lire 755 billion.

In the six month period ended June 30, 1999 indirect customer deposits continued to increase even if at lower rates than in the recent past. This line item amounted to Lire 314,722 billion and registered a 10.4% growth rate with respect to as at December 31, 1998, and a 15.9% rise, if compared to the six month period ended June 30, 1998.

Asset management, in its different forms, was particularly noteworthy.

Asset management	Lire (in billions)				
	June 30, 1999 (A)	December 31, 1998 (B)	June 30, 1998 (C)	Changes %	
				A/B	A/C
Individual portfolio management	104,055	96,103	75,536	8.3%	37.8%
Assets managed by mutual funds	139,317	118,352	97,393	17.7%	43.0%
Funds from individual portfolios placed in mutual funds	(56,400)	(54,147)	(39,052)	4.2%	44.4%
Total	186,972	160,308	133,877	16.6%	39.7%

With regard to as at December 31, 1998, traditional individual portfolio management schemes increased by 8.3%, whereas assets managed by Gruppo Intesa's mutual funds increased by 17.7%. As a portion of individual portfolio management schemes are invested in mutual funds, Gruppo Intesa's managed funds totalled Lire 186,972 billion, with a 16.6% increase compared to as at December 31, 1998, slightly lower than the increase registered in the six month period ended December 31, 1998. With regard to the end of the six month period ended June 30, 1998, the overall annual increase was of 39.7%.

The positive performance registered in the six month period ended June 30, 1999 by the subsidiary Carivita must be noted, even if the latter is not included in the consolidation areas. Carivita's technical reserves reached Lire 7,028 billion as at June 30, 1998, corresponding to a 34.4% increase when compared to as at December 31, 1998, with collected premiums of Lire 1,605 billion.

Interest margin

	Lire (in billions)			
	June 30, 1999	June 30, 1998	amount	%
- Interest income and similar revenues:				
. loans to customers	5,000	6,431	(1,431)	(22.3)
. debt securities	1,731	1,716	15	0.9
. other	1,257	1,617	(360)	(22.3)
Total	7,988	9,764	(1,776)	(18.2)
- Interest expense and similar charges:				
. customer deposits	(970)	(1,772)	(802)	(45.3)
. securities issued	(2,360)	(2,728)	(368)	(13.5)
. other	(1,335)	(1,933)	(598)	(30.9)
Total	(4,665)	(6,433)	(1,768)	(27.5)
- Dividends and other revenues	70	32	38	118.8
Total	3,393	3,363	30	0.9

Breakdown of interest margin	Lire (in billions)			
	June 30, 1999	June 30, 1998	Changes	
			amount	%
Business with customers	1,670	1,931	(261)	(13.5)
Securities	1,731	1,716	15	0.9
Interbank business	(394)	(338)	56	16.6
Other	316	22	294	1,336.4
Dividends and other revenues	70	32	38	118.8
Total	3,393	3,363	30	0.9

Interest margin for the six month period ended June 30, 1999 was Lire 3,393 billion, with a Lire 30 billion increase (up 0.9%) when compared to Lire 3,363 billion as at December 31, 1998, which reflected the rise in dividends distributed by non-consolidated companies.

The balance between interest income and interest expense remained virtually unchanged (down Lire 9 billion).

In particular, with regard to the margin relative to customer relationships, which registered a 13.6% reduction (down Lire 262 billion), compared to as at June 30, 1998, in the six month period ended June 30, 1999, there was an average increase in loans to customers of 9.8% and a 2.33 percentage point reduction in the average interest rate and an increase in customer deposits of 8.7% and a 1.84 percentage point decrease in interest rates.

The 48 basis point drop in the overall interest rate differential is mainly attributable to short-term operations, whereas medium- and long-term interest rate differential remained virtually unchanged.

The countervalue of interest on the security portfolio remained virtually unchanged (up 0.9%), since interest rate reduction (on average 2.1 percentage points) was neutralised by the increase in volumes (which totalled on average 34.58%). Lastly, interests on interbank transactions showed an increase in the net negative balance (Lire 394 billion compared to Lire 338 billion) which reflects the rise in Gruppo Intesa's debt position.

Income from services

Statement of income	June 30, 1999	June 30, 1998	Lire (in billions)	
			Changes amount	%
. Commission income	2,585	2,244	341	15.2
. Commission expense	(405)	(333)	72	21.6
	2,180	1,911	269	14.1
. Other operating income	383	418	(35)	(8.4)
. Other operating expense	(77)	(105)	(28)	(26.7)
Commissions income and other operating income, net	2,486	2,224	262	11.8
. Profits on financial transactions	184	544	(360)	(66.2)
Total	2,670	2,768	(98)	(3.5)

Income from services totalled Lire 2,670 billion, with a Lire 98 billion reduction (down 3.5%) compared to the six month period ended June 30, 1998.

The result is due to a very diversified performance of operations which constitute this margin. For this reason, solely in order to better highlight them, it seemed best to indicate the profits on financial transactions figure in a specific line item of the reclassified statement of income.

Commissions showed significant improvements: commission income increased by 15.2% and commission income net of commission expense registered a 14.1% rise, whereas the difference between other operating income and expense remained virtually unchanged (down Lire 7 billion).

The breakdown of commission income shows that particularly important components were: commission income on asset management, Lire 742 billion compared to Lire 504 billion in the six month period ended June 30, 1998, with a growth rate in excess of 47%; income from other customer services, Lire 777 billion compared to Lire 608 billion in the same period of 1998, corresponding to a 27.8% increase. Commissions on securities trading decreased: for dealing (down 44.2%) and collection of orders (down 26.4%). Income from tax collection activities also

decreased (down 11.7%). The structural reasons which caused such decreases are described in greater detail in the "customer funds" paragraph included in the present examination of Gruppo Intesa's balance sheet and statement of income.

By adding the results of statement of income captions 40, 50, 70 and 110 – excluded caption 60 «Profits/losses on financial transactions» – this area registered a Lire 263 billion improvement, corresponding to an 11.8% increase.

As shown in the following table, profits on financial transactions are attributable to both a decrease in results from dealing in securities and other financials instruments and for the greater part to losses registered by almost all Gruppo Intesa companies on the securities portfolio, due to the rise in interest rates which started in late Spring.

Administrative costs

Statement of income	June 30, 1999	June 30, 1998	Changes	
			amount	%
Administrative costs				
- payroll	(2,377)	(2,377)	0	0.0
- other administrative costs	(1,269)	(1,260)	9	0.7
Total	(3,646)	(3,637)	9	0.2

Administrative costs increased slightly from Lire 3,637 billion to Lire 3,646 billion (up 0.2%). On one side, costs related to staff remained unchanged compared to the same period of last year, on the other hand, other administrative costs increased by only Lire 9 billion.

As already mentioned in the brief comments to the performance in the six month period ended June 30, 1999 contained in the first part of this report, it must be particularly appreciated that in a highly demanding period, such as the current one – in which Intesa structures and Gruppo Intesa companies are extremely busy in the integration projects and in other extremely important ones (year 2000 transition) – general costs remained virtually unchanged.

Considering the reduction in net interest and other banking income, administrative costs to net interest and other banking income ratio increased from 59.3% to 60.1%. In particular, costs related to staff absorbed 39.2% of the margin (compared to 38.8% in the six month period ended June 30, 1998).

As to Italian bank interest rates, in the first seven months of 1999 the reduction in interest rates derived from the cuts in official rates carried out in December 1998 and April 1999 seems to be over. Assuming that the European Central Bank does not decide to stiffen monetary policy before the end of the year, it is possible to presume that interest rates on deposits should remain on the same levels as in July whereas interest rates on loans could register a moderate increase following the rise in credit demand.

Therefore, the spread between short-term interest rates should currently be at minimum (3.84 points) and could slightly increase in the next few months. Considering the rise in credit demand interest margin on operations with customers should register a slight increase in the six month period ending December 31, 1999.

2. Recent performance and future projections

In the second half of 1999 the integration plan entails the merger of product companies formerly belonging to the Cariparma Group. Po Investimenti will be merged in Intesa Asset Management, Po Leasing in Intesa Leasing and Po Factoring in Mediofactoring. Mediocredito Padano, a company controlled by Cassa di Risparmio di Parma e Piacenza will be incorporated by its parent company. Furthermore, the transfer of Cariplo's equity investments (in Mediocredito Lombardo, in Intesa Asset Management, in Mediofactoring, in Intesa Leasing and in other companies which are strategically important to Gruppo Intesa) to Intesa will also begin.

Intesa took part in the privatisation of Crédit Lyonnais, by purchasing a 2.75% stake and joining the voting syndicate agreement that comprises 33% of ordinary capital and includes, besides Crédit Agricole with a 10% stake, AGF – Assurances Generales de France, AXA, Commerzbank, BBV-Banco Bilbao Vizcaya and CCF – Credit Commercial de France. This investment is deemed to be strategic and pursues industrial objectives as the following significant areas of co-operation with Crédit Lyonnais have already been identified: near-banking financial services (especially leasing), asset management, capital markets and risk management.

Intesa is in the process of purchasing a 53.2% stake in Banca CIS - Credito Industriale Sardo. Banco Ambrosiano Veneto currently holds a 2.1% stake in Banca CIS. Once the transaction is completed, Intesa, already present in Sardegna through Cariplo with 28 branches, will further strengthen its presence with the 10 branches belonging to Banca CIS.

Following Cariplo's recent acquisitions, of absolute majority stakes in Cassa di Risparmio di Foligno, Cassa di Risparmio di Spoleto and Cassa di Risparmio di Rieti, a Holding company of the saving banks located in Central Italy with registered offices in Spoleto will be established. Cariplo will hold over 90% of the holding company's share capital and the latter will hold majority stakes in the three Casse mentioned above as well as in Cassa di Risparmio della Provincia di Viterbo and Cassa di Risparmio di Città di Castello which were part of Gruppo Intesa already. The holding company will boast total assets amounting to approximately Lire 8,000 billion and over 160 branches belonging to the five Casse and will be able to ensure enhanced coverage of the regions of Central Italy and benefit from the economies of scale and scope deriving from the centralisation in Intesa of typical governance functions.

The holding company's industrial plan sets out that the processes relating to strategic planning, risk management and finance will be carried out by Intesa, whereas planning, internal auditing and human resource management will be centralised in the holding company; main support functions will, instead, be outsourced.

Furthermore, the agreements for Cariplo's acquisition of a 35% stake in Cassa di Risparmio di Terni e Narni were signed and are awaiting approval by the respective competent bodies.

As part of the rationalisation of the Group's equity investment portfolio, the 20.5% Cariplo's equity investment in Banca Monte Parma was sold. Mediocredito del Sud's merger with Mediocredito Lombardo with accounting and fiscal effect as of January 1, 1999 is currently being completed. A letter of intent was signed with the insurance company INA for the sale of a 100% stake in Banca Proxima (a bank which has not yet started operations and will operate via the telephone and the Internet).

In the second half of the year Gruppo Intesa's results should be positively affected by the improvement in the general economic scenario and by the slight increase in the interest rate spread.

Commission income should register satisfactory growth rates in line with those recorded in the first half, whereas write-downs on the securities portfolio held by Group banks could negatively affect profitability considering that in the last two months interest rate rises would have required further adjustments on the securities portfolio.

Limitation of administrative costs should continue and adjustments to loans should decrease. The tax burden should also ease mostly as a result of tax incentives for bank integrations granted by the Ciampi Law.

It must also be noted that in the six months ended June 30, 1999 results reflected substantial extraordinary income which will not recur to the same extent in the second six months.

Lastly, starting from the excellent results registered in the six months ended June 30, net income for the year should be higher than that contained in budget projections which, as is generally known, totalled Lire 1,400 billion.

With regard to Intesa's financial statements it must be noted that the bank still carries out mostly holding company activities. Centralised group treasury functions will begin only in the first few months of 2000.

As dividends paid on equity investments were all collected and accounted for in the six month period ended June 30, 1999, it is possible to presume that revenues from services rendered to Gruppo Intesa companies will not be sufficient to offset interest expense and administrative costs. Therefore, net income for the year should be slightly lower than that registered as at June 30, 1999.