DRAFT

BUSINESS PLAN

2003-2005

<u>EXECUTIVE SUMMARY</u>

9 September 2002

TABLE OF CONTENTS

INTRODUCTION

The 2003-2005 Plan includes over 100 projects for the restructuring, improvement of efficiency and modernisation of the IntesaBci Group; through this Plan the Group aims to become, within three years, one of the best performers in the banking sector in Europe.

The commitments involve the relevant improvement of operating and economic results (value creation) and the strengthening of capital ratios already by 2003, as a result of the actions undertaken to reduce costs and increase efficiency, of the enhancement of revenues and of initiatives to optimise capital allocation and asset quality.

Other crucial commitments are the improvement of service quality to clients and to the country – key condition to growth in revenue and market share –, the modernisation of infrastructures through an important investment programme, the acceleration of integration, including cultural integration, of the three banks that have formed the IntesaBci Group, the professional growth of human resources through training and development, transparency of communication.

Becoming one of the best performers in the banking sector in Europe is an achievable target within the end of Plan period because:

- All the present issues of the Group will be addressed and solved with the maximum effort. In particular we will focus on the following four issues:
    - Asset quality and risk profile.
    - Latin America.
    - Capital adequacy.
    - Value creation.

- All the strengths of the Group will be fully exploited and leveraged upon. In particular:
  - Strong geographic links and the history of success of the three banks that originated the IntesaBci Group, which have allowed the Group to become a national leader with respect to: number of branches, deposits, loans, assets under management, private banking, some investment banking products, international services. All those factors – due mainly to inevitable integration difficulties – have so far demonstrated only a minimum part of their potential. However, thanks to the acceleration that the Plan will provide to the integration process, such factors will become a "success multiplier".
  - High level of personal resources and professional competencies in each business unit.

In particular, the turnaround will be successful because the actions undertaken to restructure and rationalise the Group will be coupled with a brave **growth strategy**, that will leverage on the **massive improvement in customer service**, perceived today as one of the main weaknesses of the Group. Customer service improvement should quickly become one of the main strengths of the Group and be considered as the project underlying all other projects of the Plan.

The continuous improvement of customer service in both Retail and Corporate sectors will obviously be the result of a mix of actions aimed at improving efficiency and innovating organisational structure, processes and products.

Even though the most complex phase of the integration process is almost over, its completion within a limited time frame is of fundamental importance: the mostly inevitable inefficiencies related to the delays in the Group's integration so far have been a relevant obstacle to growth.

The fast unification of the ICT systems of the Group, the simplification and the reliability of the internal procedures, large investments for machine upgrades, the reorganisation of the branch network – also via the restructuring of each single branch by applying a new, innovative and more functional layout and through a better geographic coverage – are among the key actions aimed at achieving a better customer service.

The increased skills of the Group labour force (influenced by the long-term plan aimed at training all the employees and based on rules and actions which will target the full valorisation of the "talents" and the assignment of clear responsibilities to each employee) will have an equally important role.

Moreover product offers will be repositioned: while these will be simplified and made consistent (rapidly eliminating the overlap generated by keeping unchanged almost all products offered by the three banks that formed the Group), the product range will also be broadened and tailored on the needs of more and more differentiated client segments. The improvement in client service will be also realised through communication: this will have to be complete, easy to understand and not pursued in a bureaucratic way – for example, by handing out regulations and prospectuses – but must always constitute the basis for informed decisions by the client. In the education in "consumerism" therefore, the intensification in relationships with consumer associations will have a key role.

Becoming the “simple and transparent” bank “that makes people’s and companies’ life easy”, the bank that makes the client feel “at the centre”, is one of the key commitments to its client made by the IntesaBci Group in the Plan.

The Group will also commit all of its effort to improve its quality of service to corporate clients, leveraging on the professional skills present in this sector, in particular in Investment Banking.

All the actions and the more than 100 projects included in the Plan will be realised with resources already available, without the need of a capital increase. This is another strong commitment of the 2003-2005 Plan.

Therefore, the Group – thanks to the launch of the 2003-2005 Business Plan – addresses and provides solutions to the main issues of the Group, exploits its great, still underleveraged potential, ensures a positive turnaround in results already in 2003, permitting the Bank to reach satisfactory results certainly within 2005, but possibly by 2004.

The 2003-2005 Plan is, more than anything else, a **plan of turnaround** that will accelerate the improvement and efficiency of the Group, in order for our customers, investors and employees to take advantage of such an improvement.

The 2003-2005 Plan is also **realistic,** since it takes into account both internal key issues and difficulties and uncertainties in the economic, political and financial environment. Therefore, even if it is the intention of the Group to monitor all the potential opportunities for growth, an equal or even higher focus will be put on the necessity to bring our costs to the level of the best performers. Such alignment with best performers in terms of cost/income is very important to us and will be rigorously achieved: the higher the revenue growth, the lower will be action required on cost base to reach this target. Revenue growth, in such a highly competitive and continuously changing financial market, will largely depend on the improvement of the quality of the offer (products, distribution channels, services, professional skills) and also on pricing competition (deriving from the competitiveness of the costs of the Group).The IntesaBci Group means to work on this aspect. If, as previously mentioned, Group experiences a lower than expected revenue growth, we will be ready to reduce the cost base more heavily.

Furthermore, in order to assure and accelerate the relaunch, the starting situation must be freed by all current hindrances. It has been decided to concentrate in 2002 all the provisioning related to the problematic loans, to the Put Warrant, to the extraordinary charges foreseen in order to exit from non–strategic areas (such as Latin America) and to the other restructuring costs (e.g. redundancy costs).

Such actions will be coupled with the **elimination of key issues** that have so far encumbered the Group.

In order to improve the asset quality and reduce the risk profile of the Group (the first key issue), we will dramatically change the asset mix: the weight of retail, which includes small and medium enterprises (sector covered by the Retail Division and the Italian Banks Division will become bigger), and the presence in Italy will be increased relative to the presence abroad. In the meantime, the strategy to reduce exposure to international markets implies a rapid exit from **Latin America** (the second key issue to be dealt with). Such strategies, coupled with a relevant strengthening of all internal systems of credit granting and monitoring of the Credit

Department and Risk Management Department of the Group, will produce a sharp reduction in NPLs. Over three years they will have to decrease by more than one third. Both reduction of exposure to Corporate – especially Large Corporate – and the exit from Latin America should not be considered as a total relinquishment of the inheritance of the Group: a relevant part of the assets of the IntesaBci Group is dedicated to large corporate and the international dimension (both in terms of supply and sale markets and in terms of location of production process segments) is a natural "vocation" for Italian companies. The foreign network of the Group will continue supporting such vocation of Italian companies and motivating foreign companies to move to the Italian market. Such a strategy should rather be considered a manifestation of careful attention to risk reduction and a confirmation of the commitment to serve clients more and more efficiently by developing expertise (the restructuring, the specialisation and the development of the Corporate Division are aimed at achieving this goal), alliances and partnerships.

This constitutes the basis for the solution of the third key issue: capital base. Assets rationalisation, exit from Latin America and non strategic areas, disposal of treasury shares from the exercise of the Put Warrant and earnings retention will produce an improvement in capital ratios.

Eventually new issues should be prevented from arising: in the constitution of the new bank's new culture, in each area of responsibility and in each Business Unit great attention will be paid to both the calculation of capital allocated, and value creation; for evaluating value creation emphasis will be placed on EVA® performance measurement system.

The main objective of the Plan is to allow the Group to become, by 2005, a best performer in terms of value creation by leveraging on the relevant non-exploited potential of the Group, on its leading position in Italy and on its human resources.

The first step in this direction has been the introduction of the **new organisational structure**, which has confirmed the rationale of the old divisional model but has also significantly simplified and strengthened it.

The new structure (launched over the last two months) is based on two well-defined principles:

- Unity in strategy and in decision-making. The introduction of a single CEO brings the Group back to unity, ensures clarity in decision-making and accelerates the integration of all the components of the organisation.
- Simplification and definition of areas of responsibility, for external and internal clients with determined division of targets and duties. The organisational structure is currently divided into: four main Business Divisions (Retail, Italian Banks, the new Corporate Division under way, Foreign Banks) that are responsible for all the clients of the Group through careful and clear segmentation; Product Companies (Nextra, IntesaBci Leasing, IntesaBci Mediocredito, Mediofactoring, Banca CIS, Sirefid, Setefi, Esattorie, etc.) that will support the Business Divisions, but will also broaden further the market presence of the Group; Central Functions (Head Office Departments and Service Companies) that, besides their specific assignments and responsibilities, also have specified targets in terms of quality, growth and profitability.

For each of the key components mentioned responsibilities, projects to be undertaken and closed, timetables, targets to be achieved, quality levels, profitability and capital allocation have been defined.

In summary, through all projects of the Plan, the IntesaBci Group aims to achieve by 2005 approximately €1.5bn additional revenues relative to 2001 (excluding disposals and 2001 Huit dividends) and approximately €1.5bn reduction in costs and provisions.

All the initiatives for re-orientation, reorganisation and relaunch, directed to the strict execution of the commitments of the 2003-2005 Plan, are linked to strong actions in four areas: human resources, investments, communication and alliances.

Human Resources. This is considered the most important aspect of the whole company management. The competencies, skills and principles together with the motivation and valorisation, will be crucial for the success of the 2003-2005 Plan. The quality and responsibility of all resources will play a primary role, in particular the strong improvement of services to clients.

The first objective is to accelerate integration, leading the different cultural models – which represent success stories of the original banks – to identify with the Plan's cultural model and in its values: target orientation, focus on client, operating excellence, economies of scale and scope, responsibility, integration, teamwork, leadership, uprightness and integrity. To this end, internal communication will play a key role and will need to be constant, transparent and to extend across the Central Functions and the operating units.

The abilities and competencies on which the professional skills will be based are: managerial and operative autonomy, capability to adopt decisions quickly and coherently with the role, capability to develop relationships, ability to learn and work in groups and fix and achieve targets, familiarity to cope with innovation. The enhanced average personnel quality will be the result of the following two processes.

- A massive investment in training (over 800,000 working days in the three years of the Plan), adequate to IntesaBci Group's situation, in which many different professional figures co-exist and are integrated. It is therefore fundamental to provide specific training, to create high profile professionals in each sector – especially in terms of technical, commercial and management skills. Training will play a key role in promoting cultural change and support the process of service innovation and improvement.
- Development intended as identification, promotion and motivation of talents within the Group, to ensure coverage of key roles and to offer to everybody professional growth opportunities through a system of clear and transparent rules in order to reward merit, measured by the results achieved (individually, as a team, as a company).

In the Human Resources area there is a strong issue regarding the heavy impact of personnel expenses on revenues and the high pro-capite expenses, which compare unfavourably to best performers and to market in general.

This issue will require tough decisions, even if the Group does not have the intention to pursue radical solutions.

Therefore, several actions will be undertaken: freezing of turnover, redundancies management, overtime reductions, wider use of part-time and other flexible work time, etc. The restructuring and turnaround of the IntesaBci Group moreover require an ongoing and transparent discussion with Trade Unions on the Plan’s targets, and on actions needed to achieve them, to reconcile employment and company development needs, respectful of contracts and different roles.

Investments. In order to achieve a sharp and fast improvement in customer services in all sectors, an innovation programme is set spreading throughout the whole Group. Over the 2003-05 period, €1.2bn will be invested, most of which will be dedicated to modernisation and efficiency of IT systems, network modernisation and development, introduction of the new branch layouts, etc.

Communication. One of the principles of the Plan is **transparency**. The Plan itself – with a careful analysis of key issues, the statement of strategic choices, the definition of targets and of results the Group is committed to, the actions and timetables to reach such actions and results – is an example of how the Group intends to achieve a clear quality improvement in internal and external communication. The market, the financial community and public opinion will be timely informed on the plans and results of each Group unit, the communication with top management will be frequent and open, the Investor Relation function will have an even more constant presence.

Communication will also play an important role in monitoring the improvements that the Group is committed to achieve in service quality: in this sector long-term relationships with consumers’ associations will be established (with a perspective of permanent monitoring of service quality and education to “consumerism” also in order to identify, develop and launch products and services ever more in line with clients’ needs). Furthermore, surveys and other instruments of verification of customer satisfaction will be used in a co-ordinated manner. Advertisement will be used to support the restructuring and increase the activities of the Group, especially in the retail sector.

Eventually, the logo of the Group will be reviewed: the name IntesaBci has proved difficult to pronounce and does not emphasise the contribution of Comit nor the mission of the Group: to be above all a bank. For these reasons, the logo Banca Intesa seems to be more appropriate; actions will be also taken to give more visibility to the Banca Commerciale Italiana brand.

Partnerships. In the current market context – and even more in the future – partnerships have a key role for the achievement of critical mass and the exploitation of the best economies of scale and scope, to support relevant investments and to play a leading role on the international financial and banking markets. Three important partnerships are already included in the Plan: with Crédit Agricole Group – in the new Private Bank, in Consumer Credit and in Bancassurance – with the Assicurazioni Generali Group, in Bancassurance and in the pension funds business, and with the Lazard Group in Advisory business (M&A and Equity Origination).

***

The IntesaBci Group is already one of the major assets of the Italian financial system. The Plan aims at strengthening this role of "bank for the country". This in particular means:

- Following and supporting stronger than before the development of Italian companies willing to grow, both in Italy and abroad, thanks to a more integrated and active presence in local markets, through products and services created for enterprises (especially for small and medium ones), but also and above all through the development of specialised skills. This implies a significantly improved generation of local expertise, with advantages also in terms of improved risk profile and profitability.

- Making the citizens' lives easier and improving the efficiency of the public sector, by offering increasingly competitive and innovative product range and services.
- Improving the competitiveness of the country through the modernisation of a significant portion of the Italian banking and financial system – thereby contributing to the general growth of the efficiency of the system – and also through partnerships and initiatives aimed at supporting the creation and renewal of big Italian infrastructures, at supporting the growth of excellent Italian companies and ensuring a sustainable and well balanced development. The IntesaBci Group will also give its contribution to the improvement of Italy's competitiveness through careful and specialised support to all companies' – small and mid –, projects and initiatives aimed at accelerating growth in Southern Italy and in general in areas still far from the level of economic development of the most advanced regions of the country.

***

A strict execution of the 2003-2005 Plan (articulated in over 100 specific projects) can be achieved by the IntesaBci Group. It will be a challenging task which will take the next three years. Results and improvements however must be already tangible in 2003 for continuous monitoring by the market and public opinion during the whole period of the Plan.

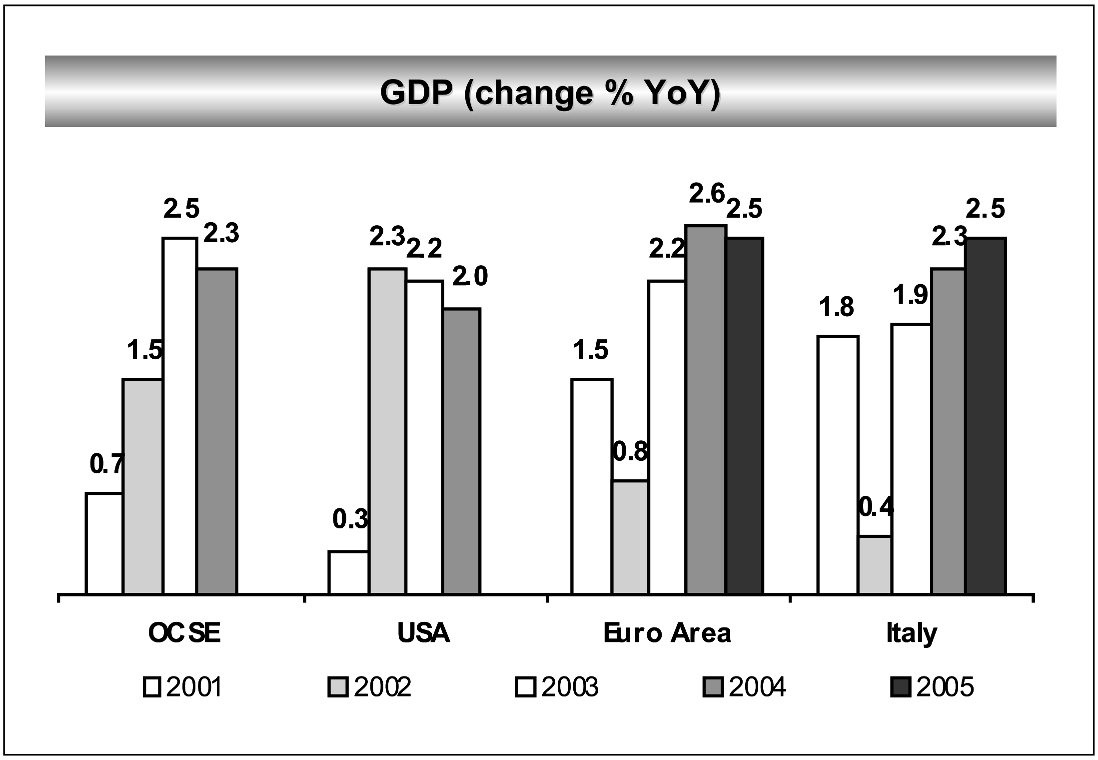
.

PLAN BACKGROUND

The plan is **realistic, prudential and transparent**:

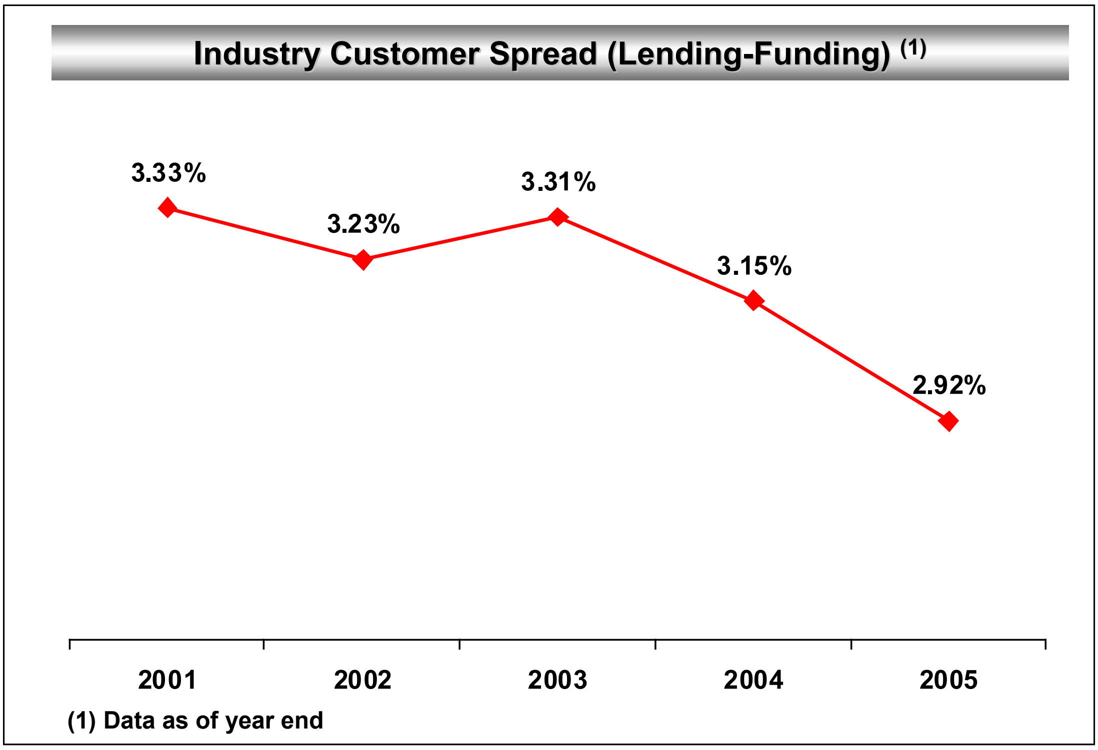
- It is realistic in terms of underlying macroeconomics: the assumptions on domestic and international economic growth are in the lower end of the range of forecasts provided by the main independent research institutions. In fact, the prolonged uncertainty on international stock markets, the economic crisis in some emerging countries and the international geo-political scenario do not allow much optimism.

Table 1. GDP Forecasts



- It is also realistic with respect to the banking sector scenario: the expected evolution of key macroeconomic indicators suggests a limited loans growth over the forthcoming years (short-term loans growth at approximately 4.5% each year and long-term loans growth at approximately 5%). Eventually, even without assuming a complete alignment with other European banking systems, a reduction in margins is expected in Italy.

Table 2. Expected Spread on Customer Loans



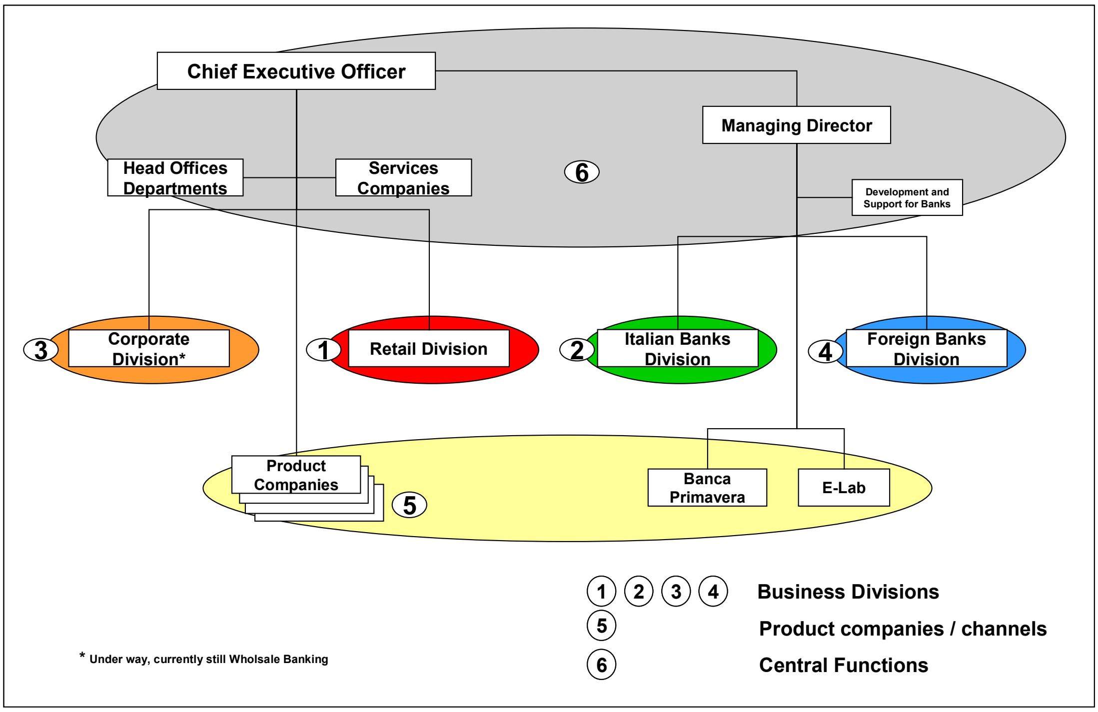
➢ The Plan is transparent since it allows to analyse the IntesaBci Group in all its components, in order to evaluate the contribution of each components to the Group results and to assess the effectiveness of the actions planned for each area.

The Plan is based on the **New Organisational Structure** of the Group, which has been introduced over the last weeks and has the following characteristics:

- Achieves unity in decision-making through the introduction of a single CEO and the integration of all the components of the organisation.
- Defines four main Business Divisions (Retail, Italian Banks, Corporate – currently Wholesale Banking - , Foreign Banks) responsible for all the clients of the Group (the new Retail Division consolidates the old Retail Division, Private Division and part of the Corporate Division covering companies with revenues lower than €25m; the new Corporate Division includes part of the old Corporate Division covering companies with revenues higher than €25m and the old Wholesale Banking Division).
- Identifies and enhances the Product Companies that will not only support the Business Divisions, but will also broaden the market leadership of the Group (IntesaBci Mediocredito, Banca Cis, Intesa Leasing, Mediofactoring, Setefi, Nextra, Banca Primavera, Esattorie, which will be soon joined by the new Life Insurance Company of the Group and the new Private Bank).
- Defines targets and responsibilities to the Central Functions (Head Office Departments and Services Companies) that have also specified targets in terms of quality, growth and profitability.

The New Organisational Structure, with its six key areas, can be summarised as follows:

Table 3 New Organisational Structure



The tables below summarise the contribution of each single area to the Group results in 2001:

Table 4. Results by Business Area as of 31/12/2001[1]

(€m)	1 Retail Division (Italian Network, Private and Corporate, Internet)	2 Italian Banks Division	3 Corporate Division	4 Foreign Banks Division	5 Product Companies	6 Central Functions (Including Igc, Treasury, Proprietary Trading and Consolidation Adj.)	Total
Total Income	4,439	1,534	1,988	1,995	1,039	333	11,328
Operating Profit	777	550	1,434	580	530	(81)	3,789
Assets (RWA)	58,273	21,291	83,039	33,849	23,800	28,205	248,457
Capital Allocated	3,620	1,277	4,982	2,031	1,769	1,694	15,373
EVA ®	(96)	202 (3)	19	(784)	65	(174) (2)	(768)

(1) Pro forma including VUB e CR Terni e Narni
(2) Including the cost related to Group excess capital, IGC provisions, Central Functions costs and Group taxation
(3) Including Euro160m pre-tax extraordinary gains for branches sold

Table 5. Results by Business Area (% as of 31/12/2001 [1])

(€m)	1 Retail Division (Italian Network, Private and Corporate, Internet)	2 Italian Banks Division	3 Corporate Division	4 Foreign Banks Division	5 Product Companies	6 Central Functions (Including Igc, Treasury, Proprietary Trading and Consolidation Adj.)	Total
Cost / Income (2)	82,5%	64,1%	27,9%	70,9%	49,0%	n.s.	66,5%
Pretax ROE (3)	8,7%	33,5%	16,2%	(29,0%)	19,5%	(59,5%)	1,9%
Total Income /RWA	7,6%	7,2%	2,4%	5,9%	4,4%	1,2%	4,6%
% Allocated Capital	23,5%	8,3%	32,4%	13,2%	11,5%	11,0%	

(1) Pro forma including VUB and CR Terni e Narni
(2) Including adjustments on tangible and intangible assets
(3) Ordinary income / allocated capital

The breakdown will be refined on an ongoing basis in order to reach an increased understanding of the operations of the company and consequently achieve the best possible capital allocation.

The likely future changes are due to the fact that the New Organisational Structure has been in place for only two months and its details are still being refined.

The new **management team** responsible for implementing the Plan is in the process of being completed. It is made up of internal high level professional competences as well as of new entries.

Over the next months the “teams” for each area will be completed. In each Area the Group aims to place the best management available on the market.

The new organisational structure grants a clear accountability for the Plan’s targets and related actions endorsed by the management of each business unit, and the achievement of these targets will be the basis for their incentives schemes.

* * *

The consolidated results and those of each area of the Group – related to year-end 2001 and half year 2002 as well as 2005 targets will be detailed in the following pages. The identified targets have been generally set for 2005, but some of them are expected to be achieved even earlier (2004). A refinement of all forecasts will be possible at the end of the budget process for 2003 and on the basis of the 2002 results.

As previously mentioned the Plan addresses and solves the **four key issues of the Group**:

- Key issue 1: Asset Quality and Risk Profile
- Key issue 2: Presence in Latin America
- Key issue 3: Capital Base
- Key issue 4: Shareholders' Value Creation

The four key issues are obviously closely related but are treated separately and as listed above since it is necessary to clarify some underlying strategies in order to solve the first three key issues before moving on to explain the strategies aimed at generating higher revenues, improving efficiency and reducing costs.

KEY ISSUE 1: ASSET QUALITY AND RISK PROFILE

The reduction of the risk profile of the Group is – together with the creation of shareholder value– the main objective of the Plan.

To achieve the targeted risk profile, several actions will be taken on the whole asset portfolio of the Group, significantly changing its mix:

- The percentage of assets (and consequently capital allocated) invested in Retail will grow compared to that invested in Corporate.
- The percentage of assets invested (and therefore capital allocated) in Italy will grow compared to that invested abroad, and the lower foreign component will be concentrated in Europe.

Mix Retail / Corporate

The strategy is to increase the percentage of assets (and therefore of capital allocated) invested in Retail (including Small and Medium Enterprises (SMEs) with revenues up to €25m).

Table 6. Breakdown of Risk Weighted Assets by Business Area

% on Total	2001	1H2002	2005E
Retail Division	23%	25%	32%
Italian Banks Division	9%	9%	12%
Corporate Division	33%	33%	28%
Foreign Banks Division	14%	13%	6%
Product Companies	10%	10%	15%
Central Functions / Other	11%	10%	7%
	100%	100%	100%
Total RWA (€bn)	248	227	211

Domestic / Foreign Mix

The strategy is to increase the percentage of assets (and therefore of capital allocated) invested in Italy. Assets outside Europe will dramatically decrease while assets invested in Eastern Europe and in the Mediterranean area will grow slightly.

Table 7. Breakdown of RWA by geographical area

% on Total	2001 [4]	1H2002	2005E
Italy [1]	71%	72%	87%
Europe [2]	15%	16%	10%
Rest of the World [3]	14%	12%	3%

(1) Retail Division, Italian Banks, Italian Corporates, Product Companies and Central Functions
(2) European Banks and European Large/Mid Corporates
(3) Sudameris, Canada and Non-European Large Corporate
(4) Pro forma including VUB and CR Terni e Narni

The main actions that will be undertaken to improve the asset mix are:

- Reduction of Large Corporate RWA by approximately €13bn by 2002 by closing down insufficient profitability positions. As of 30 June 2002 the RWA for Large Corporate has already been reduced by €5.5bn, corresponding to approximately 40% of the overall planned reduction.
- A relevant securitisation programme of approximately €10bn on several categories of assets, including €4bn Foreign Large Corporate.
- Complete exit from Foreign Mid Corporate, meaning foreign mid-corporate customers operating abroad (RWA reduction by €2.5bn) by 2003.
- Sale of all assets in Latin America (eventually the Group may consider keeping minority stakes in the local banks that will acquire them).
- Sale of other international non-core assets for at least €8bn RWA by 2003.

Subsequently further actions will be taken relative to the real estate portfolio, but such actions have not yet been included in the Plan.

Performing / Non-Performing Loans (NPLs)

As far as the loans portfolio quality is concerned, in addition to the two main strategic decisions on the asset mix (more Retail and more Italy), further actions have been planned to reach the required risk profile.

Table 8. Asset Quality

	2001 (1)	1H2002	2005E
Loan Provisions / Operating Profit	69.3%	60.3%	17.8%
Loan Provisions / Loans	1.4% (2)	0.6% (3)(4)	0.6%
NPLs / Loans (NET)	3.0% (2)	3.1% (3)	2.0%
NPLs Coverage Ratio	59.0% (2)	60.9% (3)	67.2%
Net NPLs / Core Tier 1	42.8%	43.1% (3)	20.7%

(1) Pro forma including VUB and CR Terni e Narni
(2) From 2001 Annual Report
(3) 1H results
(4) Not annualised

Over the life of the plan, we foresee a non-performing loan securitisation of approximately €1.5bn. Further actions on the NPLs portfolio may be taken, but such actions have not yet been included into the Plan.

To better understand the targets identified for 2005, it is helpful to look at the next table, excluding the impact of Latin America in 2001.

Table 9. Asset Quality (Excluding Latin America Activities)

	2001	1H2002	2005E
Loan Provisions / Operating Profit	57.5%	60.8%	17.8%
Loan Provisions / Loans	1.2%	1.1%	0.6%
NPLs / Loans (NET)	2.7%	2.8%	2.0%
NPLs Coverage Ratio	60.3%	62.5%	67.2%

An area of particular importance, due to the many "negative surprises" over the last few months, is **Foreign Large Corporate**. This is composed of 250 positions with total exposure as of 30 June 2002 (cash, non-cash, credit derivatives, structured finance and bonds) of approximately €31bn in terms of RWA and a capital absorption of approximately €1.9bn.

Gross NPLs are approximately €1.7bn, provisioning are approximately €1bn with a 61% coverage ratio (82% towards Enron, Swissair, Worldcom and Marconi UK).

Net of provisions made, the risk profile of the Foreign Large Corporate portfolio can be summarised as follows:

Table 10. Foreign Large Corporate Net of Positions at Risk

Breakdown by Country		Breakdown by Industry		Breakdown by Rating	
Europe	49.3%	Manufacturing	28.4%	Upper Investment Grade	57.9%
France	*15.9%*	Consumer Products	22.3%	Lower Investment Grade	22.1%
Germany	*13.7%*	Telecommunications	17.8%	Not Rated	14.8%
Switzerland	*2.1%*	Chemicals and Pharma	6.8%	Non Investment Grade	5.2%
Great Britain	*6.1%*	Technology	3.5%		
North America	42.4%	Aerospace / Defence	3.1%		
RoW	8.4%	Airways	1.7%		
		Power	1.6%		
		Other Sectors	14.8%		

Data as of June 2002

The **Credit Derivatives portfolio** does not show critical issues.

Table 11. Credit Derivatives: "Open Positions" as of 1H2002 (consolidated data)

(€bn)			
OPEN POSITION (SUPER SENIOR)[1]	9		
OPEN POSITION BANKING BOOK[2]	7	% maturity by 2003:	43%
OPEN POSITION TRADING BOOK[2]	1	% investment grade:	95%
TOTAL	17		

[1] "Open position (super senior)": synthetic positions with implicit rating "AAA+"
[2] "Open position": positions at risk not hedged

Besides, there is a €37bn amount of protection bought to hedge outstanding exposures

As far as Credit Derivatives are concerned:

- Risk taking activity will significantly decrease since it is not consisted with the Group's current targets while credit risk hedging will continue to be used.
- Trading activity is currently carefully monitored with a daily mark to market.
- Trading activity will make it possible to structure products such as capital guaranteed structured bonds.
- Two separate auditing procedures have been performed in this area (on both existing positions and counterparty risks), which produced satisfactory results.

The risk profile of the Group will decrease significantly, not only for the strategies and the mix changes explained above, but also for the actions planned and already started on the management of lending procedures:

- Strengthening of the Credit Department of the Group, which will be independent from the business areas and will have a key role in risk management by defining guidelines for portfolio composition by imposing specific limits (by country / by sector / by client) on Divisions / Banks, by taking decisions on credit policy and by introducing active management of the portfolio with hedging purposes.

- New Policies in terms of autonomy of granting, medium/long-term credit lines reflecting the peculiarities of each Division / Bank.
- Risk Management Systems allowing improved monitoring of credit risk, market risk, liquidity risk and foreign exchange risk.
- Group credit rating systems.

  The introduction of an integrated and structured approach to risk measurement through the implementation of a model built by IntesaBci, which will be in compliance with the Basel II recommendations, to introduce common rules of credit risk assesment within the Group and to constitute an effective and efficient support to internal processes (granting, pricing and credit control, capital management, VBM, etc.).
- Adoption of the credit risk monitoring system that between 1997 and 2000 allowed Banco Ambrosiano Veneto to reduce by over 70% the amount of new Substandard Loans and NPLs.

As far as market risks are concerned, a model is used which has been developed internally based on a series of procedures, arranged on several levels of responsibility, aimed at measurement of capital at risk implicit in the positions held. In May 2001 the Bank of Italy examined and approved the internal model previously developed at Banca Commerciale Italiana, allowing IntesaBci to use such a model (instead of standard criteria) to determine regulatory capital requirements to cover market risk related to trading portfolio activities. This acknowledgement by the Bank of Italy is important not only in terms of prestige, since IntesaBci was the first Italian bank to receive approval of the internal model, but also above all in terms of capital allocation and achievement of a close relation between regulatory capital requirements and risk profile and profitability associated to daily operating activities. Following suggestions from the Bank of Italy, IntesaBci is continuing on in this direction, implementing all initiatives aimed at extending to all portfolios the risk measurement and control standards, in accordance with the expected development of the Group's operations.

As far as operating risks are concerned, a project has been launched aimed at achieving an integrated system of identification, measurement and control. The method identified includes the development of a risk management model so as to comply with the requirements of Regulators, on the basis of the rules of the Basel Committee, currently under definition, that will be in place from 2005, and also includes the implementation of internal processes aimed at improving performance through an increased awareness of any operating risks assumed. Starting from the first months of 2002, the IT system for the management of data related to operating losses has been implemented and enlarged.

KEY ISSUE 2: PRESENCE IN LATIN AMERICA

Latin America is still an outstanding key issue, particularly with respect to the risk profile of the Group, despite the restructuring efforts implemented during the last two years.

The strategy is very clear: exit completely and in a short timeframe from this geographic area, with further significant costs that are deemed necessary to fully implement the disposal programme to be charged for the main part to the 2002 results.

The Plan of the Group will treat this as a completely separate issue because it is already considered "strategically eliminated".

The current exposure of the Group to Latin America (represented by the conglomerate Sudameris and by the related investment) can be summarised as follows (consolidated figures of IntesaBci as of 30/6/2002).

Table 12. Exposure to Latin America as of 1H2002 (€m)

Country	Consolidated Carrying Value IntesaBci (1)	Intra-Group Exposure (2)
Brazil	413	514
Argentina	0	30
Peru	0	262
Others (3)	103	143
	516	949

(1) Net of write offs already carried out (data subject to changes due to exchange rates)

(2) Cash and non-cash loans net of guarantees received for country risk (Sace and/or others) and of write offs. Approximately €800m are related to commercial operations

(3) Including Paraguay, Colombia. Panama, Uruguay and Chile

The impact of Sudameris varies from country to country. Despite situations that are very likely to create further divestiture costs, there are also opportunities for extraordinary gains (Brazil).

However, neither further capital increases nor other injections of capital oriented to operating activities are planned. Furthermore, it is likely that other considerable costs may still be necessary in order to complete the disposal of the Argentinean and Peruvian subsidiaries; over the next month it will be possible to quantify such costs that will be posted to the 2002 results.

Current business conditions in the countries and the related decisions/implications are as follows:

- Argentina

  The sale of the Argentinean subsidiary of Sudameris to a local bank is being considered; in exchange, Intesa would receive a minority stake in the acquiring bank. The formal process of approval should be starting in the next few weeks with the submission of the offers to the valuation of the controlling holding companies (Sudameris Paris), in line with the local regulatory requirements, and then to the competent banking authorities with which we have so far agreed on the procedures and on the selection of select possible counterparties. The transaction, as anticipated in the last Board, could generate additional costs for the Group already partially charged in the first-half 2002 results and, in any case, to be included in the year-end results.

  Closing is expected by the end of this year, unless there are delays in obtaining the necessary authorisations.

The minority stake in the acquiring bank will neither be consolidated nor will it imply any additional responsibility for the Group related to the management of the bank.

- Brazil

  Even though Banco Sudameris Brasil still has future prospects, no longer represents a risk, the Group has decided to sell it anyway in order to pursue a complete exit strategy from Latin America. Results of the due diligence with Banco Itaú are still under discussion and negotiations will proceed according to the calendar fixed in the contract. The process could theoretically still require about three months to be closed.

  Worsening of the country’s rating will obviously cause a reduction in the expected capital gain.

- Perú

  Our local bank is one of the leading players (second for both deposits and loans) in the local market, which is characterised by a very concentrated banking system.

  We are considering, with the assistance of our advisors and the help of the new top management of the bank, possible reorganisation alternatives (bad bank) and sale options (demerger, sale of assets, etc.) that would allow the bank to be de-consolidated.

  The full audit, which is currently being performed, will be completed by the year-end and upon the basis of the results, the best disposal strategy and the possible further costs to be borne in order to exit will be evaluated by the Board.

  - Uruguay, Paraguay, Colombia, Panama, Chile

All remaining investments present size and issues significantly less critical than those indicated above.

Preliminary interests have already been received for some of them: these opportunities will be evaluated and, in the case of positive valuation, the procedure for the sale/liquidation will be promptly initiated. In relation to these entities, significant costs attributable to current year results are not expected; in addition, the sale/liquidation of these should not cause relevant extraordinary costs or gains.

KEY ISSUE 3: CAPITAL BASE

The current ratios are not satisfactory; the exercise of the Put Warrant will worsen – though only temporarily – all the ratios; the contribution from 2002 retained earnings will be substantially irrelevant.

The Plan will focus particularly on this aspect, with the commitment to bring back capital ratios to acceptable levels from 2003, and then increase them to absolutely safe levels within 2004/5.

Table 13. Capital Ratios

	2001(1)	1H2002(2)	2002E	2003E	2005E
Core Tier 1	5.3%	5.6%	5.2%	7.1%	7.7%
Tier 1	6.0%	6.4%	6.0%	8.0%	8.6%
Total Tier	9.3%	10.2%	10.0%	11.7%	11.0%
Free Capital (€m)	(854)	(848)	(980)	3,000	8,880

(1) Annual Report 2001
(2) 1H results

For 2002 parameters will take into account the exercise of the Put Warrant which will result in the buy-back of 479 million shares. Capital ratios will worsen by 50 bps.

To compensate for such negative factors, the following strategies are being implemented:

- Reduction of the credit portfolio (Foreign Large and Mid Corporate) between January 2002 and December 2003 with a downsizing of the loans in terms of RWA for €19bn (already completed for €5.5bn in the first half of 2002).
- Disposal of non-core minority interests to be currently deducted from Supervisory Capital
- Reduction of the securities portfolio
- Disposal of a first trance of the real estate portfolio with a reduction in RWA up to €500m.
- Carefully monitored capital allocation to each Business Unit, with defined absorption parameters.

In 2003, the effects of the planned reductions of “non-core” assets (credits, stakes, securities and real estate) and, above all, of the disposal of the treasury shares from the Put Warrants could be added to the benefits from the economic results and credit portfolio reductions indicated in the Plan.

- There are several possibilities for the disposal of treasury shares and could include a mix of different strategies.
-

To recover and maintain capital ratios at appropriate levels for the period covered by the Plan no capital increases are expected to take place.

As far as **Tier 2** and other hybrid instruments of capitalisation are concerned, the plan does not include any new issue, considering the adequate level of the ratios now in place.

KEY ISSUE 4: VALUE CREATION

In the last two years, the Group has not been able to create sufficient value for its shareholders, it has actually destroyed value.

Table 14. Value Creation(1)

(€m)	2000	2001	1H2002
EVA ®	459	(768)	(717)

(1) Pro forma including VUB and CR Terni e Narni

The Plan, which has been prepared with implementations already underway, enables us to forecast a strong recovery in performance starting in 2003 and the achievement of good results from 2004/5.

The Plan should not be considered as an across-the-board strategy, because each area of the Group is unique and has its own issues to deal with. Therefore, **a detailed Plan has been prepared for each single area of the Group**. The objectives and actions of the Plan for each area will be described on the following pages.

At Group level, four general objectives summarise the intentions of the Plan with regard to value creation.

Table 15. Profitability

(€m)	2001 (2)		1H2002 (2)		2005
Cost / Income	67%		67%		52%
ROE	6.7%	(1)	1.6%	(3) (4)	14.8%
Pretax ROE (5)	2%		4.0%	(4)	30%
EVA ® (5)	(768)		(717)		620
EPS	0.14	(1)	0.03	(3) (4)	0.31 - 0.35

(1) 2001 Annual Report
(2) Pro forma including VUB and CR Terni e Narni
(3) 1H results
(4) Annualised
(5) Ordinary income / allocated capital

Each area will be evaluated on the basis of Cost/Income, Pretax ROE, EVA® and on their contribution to:

- Growth.
- Risk Profile Improvement.
- Group’s Capital Strengthening.

Value Creation: Retail Division

This business division has the highest potential impact on the Group results, both in terms of growth and efficiency improvement.

Even in a scenario of low market growth, the potential for improvement in this Division is demonstrated by several facts.

- Room to increase client penetration

  Analysis of the number of products by client underlines that there is wide room for cross-selling improvement.

  For instance, over 30% of the clients in the Families category own only one product (the average of the segment is 2.4 products per client) while in the Business segment the 20% of the clients use just one product (the average of the segment is 2.8 products per client).

  By analysing volumes and revenues generated by clients, it is also evident that, for all client segments, the top 30% of clients in terms of profitability contributes over 70-90% of volumes and revenues. Therefore there is room to further increase the number of products per clients.

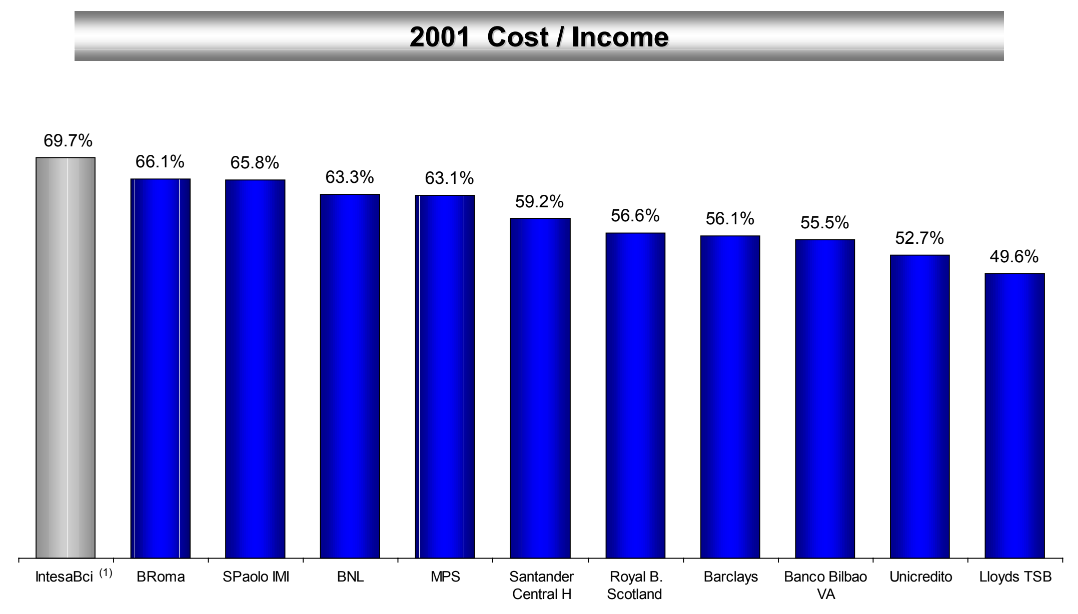
- Pricing not always efficient.

  The average spreads loans-deposits of IntesaBci are lower than the system. In particular, short-term spreads are lower by approximately 20 b.p., while medium/long-term spreads are lower by approximately 10 b.p. (June 2002).

  Moreover, unit commissions of mutual funds are on average 10 b.p. lower than the system, with peaks of 24 b.p. in Balanced Funds and 12 b.p. in Fixed Income Funds.

The potential in terms of efficiency is demonstrated by the trend in Cost / Income of IntesaBci, if compared to that of some of our competitors.

Table 16. Comparison of Cost / Income



(1) Adjusted for Huit dividend. Costs do not include goodwill amortisation. Cost/Income including Huit Dividend equal to 66.5%

The Retail Division can now take advantage of a series of very important leadership positions in the wealthiest areas of the country, which will be the basis for improving the Group's strengths.

Table 17. Ranking for No. of Branches (IntesaBci Group Italy as of December 2001)

# 1 in:	Lombardy Umbria
# 2 in:	Liguria Latium Sardinia
# 3 in:	Piedmont Veneto Friuli-Venezia Giulia Trentino Alto Adige Emilia Romagna Campania

The Retail Division has been significantly enhanced in the last few weeks through the integration of the three former Divisions that were separately present in Italy (Retail, Corporate and Private Division) and is today responsible for providing services to the seven main client segments assigned to the division in a specialised though integrated way:

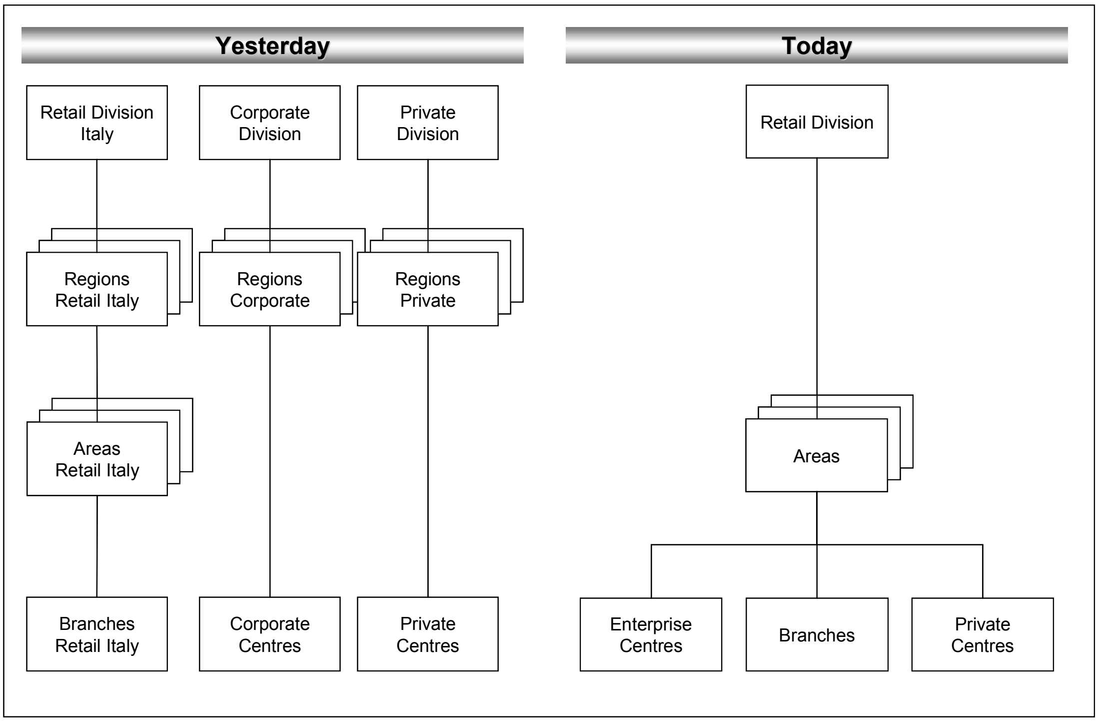
- Families: individuals with assets under €82,000.
- Premium: individuals with assets over €82,000 and under €1m.
- Private: individuals with assets over €1m.
- Small Business: firms with Revenues under €2.5m.
- Enterprises: firms with Revenues between €2.5m and €25m.
- Local Public Administration.
- Non Profit: Religious and Non-Profit Organisations.

The integration of the three former Divisions together with the strengthening of the Local Areas will allow to:

- Provide specialised, but integrated, services to clients in each geographic area.
- Solve problems that are currently being dealt with by Head Office Departments (currently a substantial disadvantage for clients).
- Have a more proactive and thorough role in the local areas (i.e. each Area will have to develop and maintain specific knowledge and capabilities in its corresponding economic sectors and districts).

The organisational model of the Division is very simple and can be compared to that of a "quasi bank" on the geographic area on behalf of the Group.

Table 18. New Retail Division Organisational Model



For clients present in the Areas but for whom the Division is not directly responsible (e.g. firms with revenues above €25m, big municipalities etc.), services are being provided by the branches of the Network, but full responsibility falls under the Enterprise Centres (Enterprise Centres represent Corporate Division in each Area).

For such an activity the branches will receive into their accounts related revenues and costs, while the Corporate Centre will keep in their accounts revenues and costs of services managed directly and margins – and related risks – of credit activity. All potential clients will have a complication-free local structure dedicated to satisfy their needs and solve their problems.

In each Area, the individuals responsible for the development of each segment are clearly identified and report directly to managers at the Division level.

Over the coming months, the Retail Division will be committed to several projects aimed at rationalising the cost structure, and developing market share with special reference to their customer base. Given the high penetration in each segment served, many projects are aimed at an increase in profitability of the relationship and at reversing the trend in churn that for the last 12 months has been negative for retail customers.

The most relevant examples of such projects are:

- **Improvement of Quality of Service to Clients**

  This is a comprehensive project that encompasses and finalises all other projects described below. The in-depth attention to the improvement in quality of service, the focus on clients and the feedback in terms of client satisfaction from such improvement will be our positive reaction to the fast "commoditisation" of most products and services. The main principles of the project “*quality of service*”, which will deeply involve all personnel, include: full integration, the fast unification of the IT systems of the Group, the simplification and reliability of procedures, improvement in personnel expertise (which is, in turn, related to a long-term training scheme involving all personnel, as well as incentives to reward talent and the accountability of each individual on results), relevant investment in infrastructure modernisation, restructuring of the Group’s network – also through the transformation of branches’ layout to a more functional and innovative structure and a better geographic coverage – and a broad offer, consistent and tailored on specific needs of increasingly diversified typologies of customers. To this end a specific credit process will be designed for each market segment (individuals, small business and enterprises) in order to optimise the procedures and to speed up answering our clients’ needs.

- **New Branches Service Model**

  Front and back office processes will be revised in depth for each segment, with specific attention – regarding innovation and service improvement - to the phases that affect customer experience. The new layout of the IntesaBci branches will be developed with a view to client service. The model will be created and progressively implemented across the whole country.

  The guiding principle in the new branch layouts will be to make the bank more accessible to clients, not only physically, but also in terms of its usage (unique contract, language simplification, transactions tracking, unified Internet and call center access codes, account nickname, etc.). There will be areas where the client will be able to execute the most common transactions himself, with a simplified access to use of direct channels with the essential assistance of the banks' personnel at his disposal.

- **Total migration towards the "Target" IT system for the Group**

  By the third quarter of 2003 also all the branches of the former Bci will work under the Group IT system ("Target"), which is currently in effect in the former BAV and Cariplo branches. Moreover, all the operating processes and organisational models of the whole network will become homogeneous; this will permit an improvement in efficiency (complete elimination of the former regional centres) and coordination among human resources local offices.

- **Development of a Multi-channel Service System**

  While the whole bank will progressively adopt the Group IT system, new typical functions of the direct channels will be integrated in order to guarantee the advantages of multi-channel services to all clients (ATM, Telephone Contact Centre, Internet Banking, Interactive TV, Mobile Banking). Even if direct channels will always be a support to the traditional channel – the branch – additional processes and applications will be developed for them, in order to serve clients at home in all cross-border transactions. As a first step two services have been created (Internet Banking and Phone Banking) integrated in the Division's organisational structure, that will operate for all market segments (Individuals, Enterprises, Public Local Administration, Religious and Non-Profit Institutions).

- **Operations Integration**

  The Division will be directly responsible for the quality of its operations and will directly organise its centralised back offices. To this end, an Operating Service Unit has been created that will be responsible for the branches' back office besides central operations. Such a structure will therefore have the resources to ensure quality in client service and will be responsible for the cost of each transaction.

- **Rationalisation of basic products and Development of Product Offer by Segment**

  Since the merger of the three banks, the three separate product ranges have survived with a series of overlapping and similar products, causing unnecessary costs and operating "diseconomies". Therefore, offer will be rationalised and developed, also through new operating solutions named Teams of Product Development – Asset Management, Credit, Payment Systems – co-ordinated by the Retail Division, which will continuously shift production closer to distribution first, and then to market.

  - Revisions of the base offer to the individual clients segment.
  - Base offer, tailored for segment, will shortly be re-unified developing typical package solutions to increase cross selling. Certain non-profitable products will not be distributed any more and an alternative substitute offer will be provided. Services of Phone Banking and Internet Banking (with technological platforms to be unified after migration to the Target

system) will be part of the base offer of every package for the retail client market.

- Revision of the base offer for the enterprise segment.
- Packaged products (already known and established in the retail market) will be specifically developed for the market of small / medium enterprises. Corporate Banking services (currently being offered to 40,000 corporate clients) will be part of the base offer.
- Revision of the base offer for the segments Public Local Administrations, Religious entities and Non-profit organisations.
- Systems dedicated to Public Local Administrations and non-profit segments will be developed using up to date Internet applications.

➢ **Enhancement of selling capabilities**

Great effort will be made to strengthen and exploit the relationships between the network and the clients. That effort will consist of new efficiency instruments (e.g. CRM, Budgeting & Control at both product and client levels), results-oriented management systems (e.g. recruiting and incentives) and, above all, a considerable investment in training, continuous learning and support on a day-to-day basis. A special attention will be dedicated to direct channels, in order to emphasise their importance among the personnel of the Retail Division.

➢ **Rationalisation of the coverage of the geographic areas**

The strategic goal is to ensure complete (efficient and effective) coverage of the whole national area over time through the IntesaBci branches and, in an integrated way, through the branches of the other Banks of the Group.

To this end the following gradual steps will be taken:

- Elimination of unnecessary overlapping and the closure of branches with a constant loss track record (approximately 150).
- Exchange of “certain” branches between IntesaBci and the Banks of the Group Italian Banks where IntesaBci market share does not allow adequate returns and credit risk control (approximately 100).
- Branches opening to better cover high potential areas with the logic of “fine mesh net cluster” to gain profitable market share and minimise credit risk. Possible openings are approximately 150 (prudentially not included in the Plan yet) that will have to be assessed with the Banks of the Group or taking into account local bank acquisitions.

The Retail Division will also be heavily involved in the development of many product categories.

➢ **Products Plans: Wealth Management**

This is one of the sectors in which the Group is particularly strong and where the unexploited growth potentials are still significant.

The main objectives of the Plan are the following:

- Increase ratio AUM/ Indirect funds from 42% to 46-48%.

- Achieve a leadership position in the growing sector of structured products with guaranteed capital, where the presence of the Group has not been adequate so far.
- Change the mix in mutual funds by increasing Equity and Balanced Products from 27% to 40% and also by slightly reviewing pricing (average commissions from 0.90% to 1.00%).
- Increase the volume of Bancassurance Products with a target market share of 16%.
- Exploit completely the growth potential of the pension fund business, even if limited in terms of market share increase, by maintaining the leadership in the sector.

The objectives of the Plan in the Wealth Management sector can be summarised as follows:

Table 19. Wealth Management Targets

		2001	1H2002	2005E
Mutual Funds	Market Share	18.4%	18.5%	19%
	Asset under Management	95,757	90,643	114,000
Bancassurance	Market Share (1)	11.3%	10.8%	16%
	Written premia	3,216	1,956	7,150
Open Pension Funds	Market Share	28.4%	28.0% (2)	30%
	AuM	257	294	1,200

(1) Calculated on branches + financial consultants

(2) As of March 2002

Two main rationalisation projects are planned from an organisational perspective: the creation of a unified bancassurance company and the creation of a Wealth Management Holding (see page 75):

- **Product Companies Plan: Credit Products**

The Retail division will manage all credit relationships of Families, Individuals, Small Businesses, Local Public Administration and Small/Medium Enterprises. In this sector IntesaBci enjoys a high penetration in Small/Medium Enterprises, holds significant leadership positions (e.g. mortgages) which could further grow and has, moreover, a big expansion opportunity – that of consumer credit in all forms – still to be exploited.

In the segment of **Small / Medium Enterprises**, loan market share will be increased through the “Enterprise Centres” (without increasing credit risk). In view of the existing high penetration, the choice of target clients will be based starting from the risk factor. On the ground of our index of risk, size and complexity of clients' needs, a personalised offer will be developed (including also all the products of the Group (leasing, factoring, risk hedging products, etc.), in order to increase the labour ratio on client, cross-selling and, subsequently, commissions.

Packaged products (already present in the retail market) will be significantly developed also for the Small / Medium Enterprises market. In the packages for Agricultural and Craftsman Firms, deposit products will also be included, e.g. Pension Fund and insurance policies for entrepreneurs' life. In certain geographic areas, IntesaBci is the leader in the credit products for craftsmen and agricultural firms (leadership achieved through the activity of several local banks). Through dedicated task forces, the best internal skills and competence levels will be implemented in all branches, to the benefit of the entire Division and supporting growth in the geographic area.

As far as the **mortgage** sector is concerned, the objectives in terms of volume and market share can be summarised as follows.

Table 20. Market Share in Residential Mortgages

	2001	2005E
Mkt Share in Residential Mortgages	15%	19%

On the other hand, the Group's role in consumer credit can be described as follows:

Table 21. Market Share Consumer Credit

	2001	2005E
Mkt Share Consumer Credit (1)	10%	13%

(1) Including Agos Itafinco

In the **revolving credit cards sector**, the Group will focus on the acquisition of relevant market share through Agos Itafinco:

Table 22. Market Share Revolving Credit Cards

	2001	2005E
Mkt Share Revolving Credit Cards (1)	13%	16%

(1) Only Agos Itafinco

The goal in this area is to reach a market share consistent with the leading position of IntesaBci in the domestic market in each subsegment. To achieve such a goal a project in joint venture with the Crédit Agricole Group has been implemented.

Agos Itafinco, in which IntesaBci already has a 30% stake, could play an increasing role and will act as the product company of the Group in this business area.

Product Companies Plan: Payment Systems

The payment systems sector offers interesting opportunities both in terms of transaction flows and efficiency of the whole system.

In this sector, the Group has a 12% market share (banking credit cards and Travel & Entertainment).

The main projects that will be implemented during the Plan are:

- Credit Cards.

  Through an effective commercial campaign driven by CRM, penetration in the debit/credit cards on clients with current account (4.2 million) must increase from 65% to 80%. At the same time, the current use rate of 40% must increase to 60%. To that extent, the entire ATM system (2,600 units) will be renovated. The issue of new cards will enable the Group to increase its current market share.

- Payments through direct channels.

  As stated above, strong effort will be put into developing systems of payment through direct channels. The Retail Division currently has one million clients of Banca Telefonica and 350,000 online clients out of 6,200,000 retail customers. The objective in the next three years is also to have more than one third of client base served by direct channels. A differentiated pricing system will be developed to promote the use of direct channels. The offer of direct payments will be increased and will be implemented on the UMTS platform of Mobile Banking.

Together will all the projects and product plans, constant and in-depth attention will be paid to **efficiency enhancement** throughout the whole period of implementation of the Plan.

The new divisional organisational model and geographic coverage, simplification of procedures and IT improvements and unification, and integration of operations and direct channels will enable the Group not only to save focus on growth, but will also reduce general operating costs by approximately €400m from 2002 to 2005, in addition to approximately €180m (realised in 2002 in comparison to the previous year). This trend includes an increase of several costs related to development, such as, more amortisation related to the creation of a new layout of the branches (in order to introduce a new model of client service), more training (with a strongly significant increase), etc.

***

The projects related to the Retail Division – though they will be only partially managed by the division – are the following:

- E-Lab and Internet channel.
- Banca Primavera (financial consultant bank).
- Banca Private.

- **E-Lab and Internet Channel**

  Over the past years, the Group has invested in substantially and can take advantage of an up-to-date and efficient technological platform. In particular the current platforms allow on-line trading and investments in mutual funds (IntesaTrade and Fundsworld), Home and Corporate-banking (InPrivato and InCorporate), e-commerce and tickets on-line (Shoplà and Charta).

  The Plan maintains and exploits such platforms by integrating them closely in the Retail Division activity (partially also in the Corporate Division) to develop in the short-term a complete multi-channel model for the clients of the Group.

  The three basic platforms of E-Lab (IntesaTrade and Fundsworld, InPrivato and InCorporate, and also Shoplà and Charta) will be managed directly by the Retail Division. InCorporate, which already manages Corporate Remote Banking (CRB) for over 50,000 companies, will become the basic platform for the whole Group.

  The integration with the Retail Division could allow the Internet channel – even on a stand-alone basis – to reach economic break-even.

- **Banca Primavera**

The Group currently has a financial consultant network of approximately 1,700 consultants and around €6bn of assets under administration.

The creation of Banca Primavera has allowed a quicker integration of the two former financial networks.

The Plan assumes that there is an interesting market for a financial consultant network – Personal Financial Advisors – which has the advantage of a bank tailored to its clients' needs.

The main features of Banca Primavera are:

- Independent channel with dedicated model for affluent and mass-affluent clients.
- Client service as a distinguishing feature of the offer.
- Multi-channel model (financial consultants, telephone banking, Internet, financial shops).
- Complete and tailored product offering supported by advanced tools (Customer Relationship Management, Personal Financial Profile, etc.).

Since this project is still being tested (the test will end in the next few months) the Plan does not include economic and financial forecasts for this initiative.

- **Private Bank**

Currently the private clients of the Group are managed by the central and local structures of the Retail Division.

This business segment has reached a relevant size in Italy (over €35bn of assets under administration and approximately 26,000 clients as of 30 June 2002), in addition to the activities and operating structures in other areas of the world (Société Européenne de Banque, Luxembourg, IntesaBci Bank Suisse, and some foreign branches of Sudameris).

The Plan includes the creation in Italy of a new Private Bank, targeted at particularly sophisticated clients. It will obviously be up to each client what structure they choose to satisfy their needs.

The new bank would be controlled by IntesaBci but possibly would form a partnership with the Crédit Agricole Group (CA).

In order to ensure the necessary presence and related international services, the present idea is to centralise commercial and/or corporate co-ordination of our current international structures through IntesaBci Bank Suisse and link the new Private Bank to the CA network.

Table 23. Current Private Banking of the Group

(Data as of June 2002 €m)	ITALY			FOREIGN			
	Private Division	Italian Banks (1)	**Total Italy**	SEB	IntesaBci Suisse	Sudameris SA (2)	**Total Foreign**
N° Clients	19,000	6,926	**25,926**	3,956	3,776	4,178	**11,910**
Administered Funds (€bn)	31	4	**35**	4	2	2	**8**
Private Bankers	367	49	**416**	32	22	20	**74**
No. of Branches	59	0	**59**	1	3	4	**8**

(1) Cariparma and Friuladria
(2) Miami, Grand Cayman, Panama and Montecarlo

The project is still being tested (tests will end in the next few months); therefore, the Plan doesn't include economic and financial forecasts but incorporates only benefits from current Private Centres of the Retail Division.

The overall targets for the Retail Division are summarised in the following table.

Table 24. Retail Division – MainTargets (Including Internet Area)

(€m)	2001	1H2002	2005E
Total Income	4,439	2,175	5,260
Operating Profit	777	433	2,200
Cost / Income	82.5%	80.1%	58.1%
Allocated Capital	3,620	3,454	4,200
Pretax ROE (1)	8.7%	9.4% (2)	39.3%
EVA ®	(96)	(49)	690

(1) Ordinary income / allocated capital

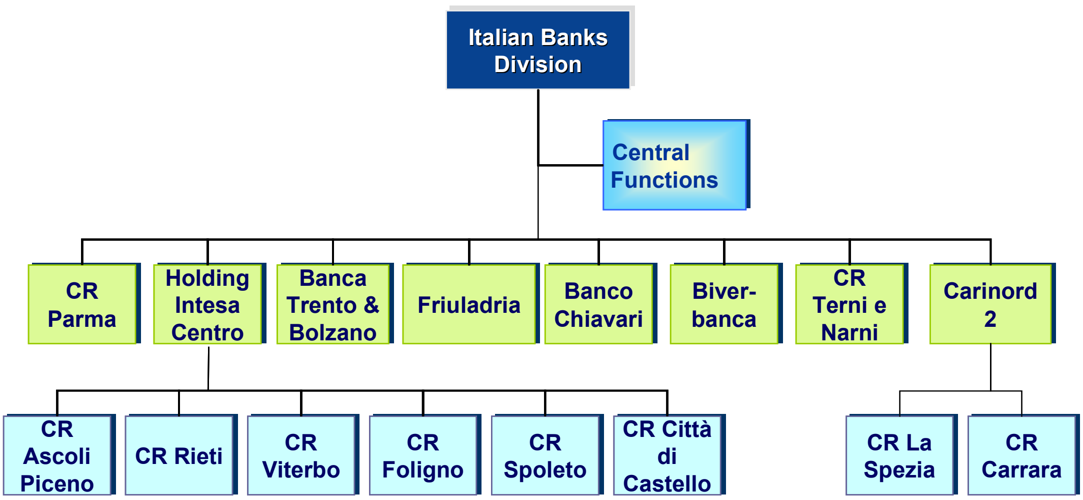
(2) Annualised

Value Creation: Italian Banks

The sector of the local banks that the Group controls in Italy presents opportunities of value creation and growth even without being totally integrated (merged) into the Parent Company.

Together with the Retail division, the above sector represents a significant portion of the presence of the IntesaBci Group in the "Retail Banking" sector in Italy. Therefore, the Italian Banks Division has to significantly contribute to reach the Group's targets in terms of profitability, value creation and quality of the services offered, other than ensuring an ever stronger local link consistent with the image and projects of the IntesaBci Group.

Table 25. Italian Banks Overview

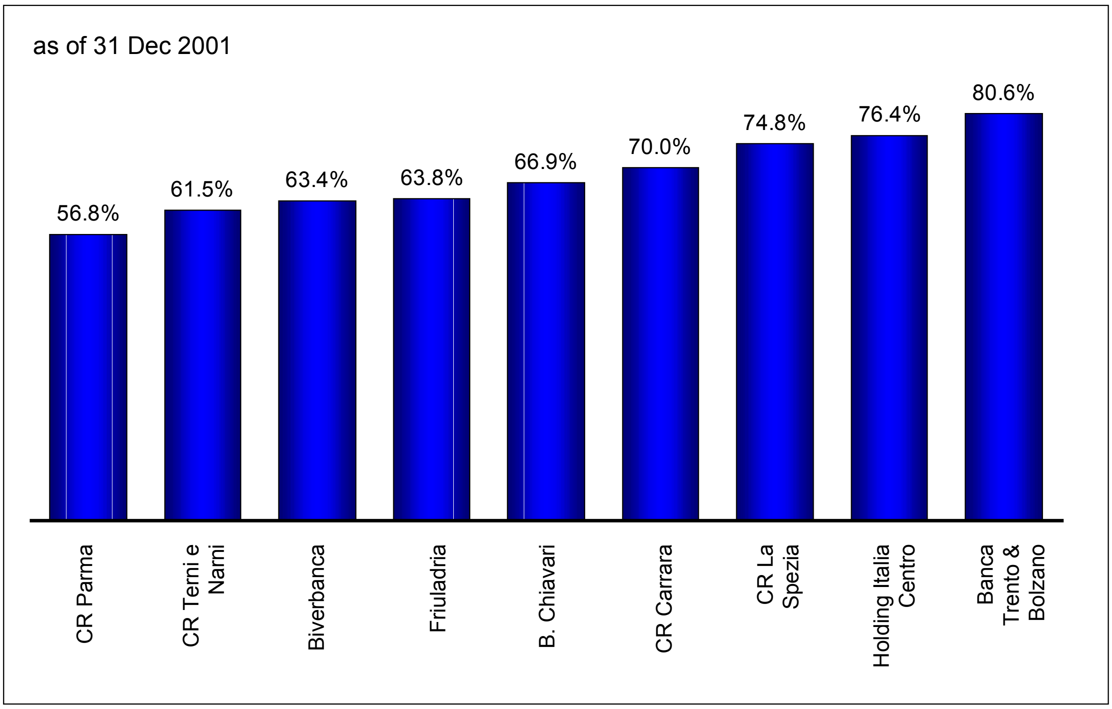


€m	Data as of June 2002
Customers Loans	20,557
Customer Deposits	25,116
Employees	10,411
Branches	1,030

In the first years of the Plan, the local banks of the Group will have to:

- Align performance with the Group's best practice, through a more accurate cost management and an significant revenue growth using the local brand strengths.

Table 26. Italian Banks Division: comparisation Cost / Income Ratios



- Improve the level of service to customers (quality of products, multi-channels etc.) and optimise the bank's geographic coverage, leveraging on both local strong relationships and on the advantages of belonging to a big banking group.

- Maximise the geographic coverage of Italy through the rationalisation – at least partially - of the branch network with IntesaBci. In the first stage about 55 branches of IntesaBci S.p.A. will be assigned to controlled Italian Banks in the areas where IntesaBci S.p.A. has limited presence.

  At the same time, approximately 45 branches of the Italian Banks Division will be assigned to IntesaBci S.p.A. following the same rationale.

  Further exchanges will be considered in order to settle the final organisation in a second stage.

- Gradually achieve commercial synergies and efficiency improvements in the following areas:
    - Standardisation of products by leveraging on the product companies of the Group (particularly funds, life and cards).
    - Application of best practice of the Group in commercial management and in support services to sales.
    - Centralisation (when feasible) of common Central Functions (Auditing, Legal, etc.) to exploit economies of scale and purchase processes of the Group.
    - Gradual integration into the Group IT systems once they have achieved the required level of quality and cost efficiency.

The Plan does not include the merger of local Italian Banks with IntesaBci. Rather, it includes the achievement of better results, higher integration and closer collaboration.

The targets of the Italian Banks Division can be summarised as follows:

Table 27. Italian Banks Division – Targets Overview

	2001	1H2002	2005E
Total Income	1,534	750	1,730
Operating Profit	550	283	850
Cost / Income	64.1%	62.3%	50.8%
Allocated Capital	1,277	1,263	1,500
Pretax ROE (1)	33.5%	39.4% (2)	46.2%
EVA ®	202 (3)	56	195

(1) Ordinary income / allocated capital

(2) Annualised

(3) Including gross extraordinary profits for Euro160mln for sale of branches

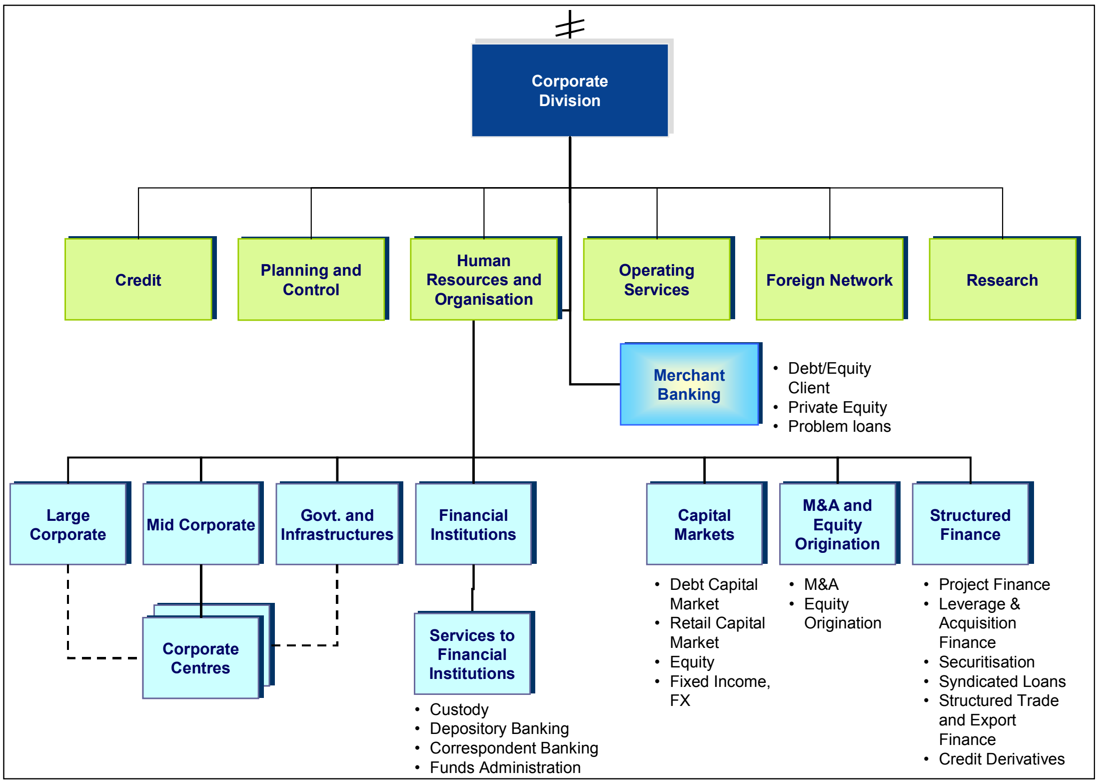
Value Creation: Corporate Division

The new Corporate Division – currently underway – will include all the activities previously carried on by the Wholesale Banking Division with the addition of Italian mid-corporate business (companies with over €25m revenues), previously managed together with companies of smaller size outside the Wholesale Banking Division.

Though this business area has recently had some problems that originated with troubled international corporate clients, it relies on its professional and commercial leadership areas to be enhanced within the whole Group.

The "new" Corporate Division will be composed of eight main commercial structures and six staff structures.

Table 28.Corporate Division – Organisational Structure Summary



The first four areas (Large Corporate, Italian Mid-Corporate, State and Infrastructure, Financial Institution) are responsible for developing long-term relationships with specific client segments. This task will be achieved through understanding and anticipating company and industry trends, anticipating service needs and maximising return in terms of profitability, risk profile and capital allocation for the Group. Great attention will be dedicated to selecting and developing “Senior Bankers” who will play a key role in the new structure.

- **Large Corporate Department**: this structure will be responsible for all domestic and big international corporations. The task assigned to this department is to sharply reduce international lending, to concentrate available capital on Italian companies or companies operating in Italy and to consolidate the several historical relationships of the Group on which to create and add the offer of advanced Investment Banking services.

Table 29. Corporate Division – Allocated Capital Recovery in the period “Jan 2002 – Dec. 2003” (including securitisation for €4bn of Foreign Large Corporate loans)

(€bn)	RWA Reduction	Capital Allocated (6%)
Foreign Large Corporate	12.5	0.8
Italian Large Corporate	4.1	0.2
	16.6 (1)	**1.0**
Foreign Mid Corporate	2.5	0.2
Total	**19.1**	**1.2**

(1) of which €13bn by 2002

- **Italian Mid-Corporate Department**: this structure is responsible for all companies operating in Italy with revenues higher than €25m. This sector (which already includes over 6,000 companies/groups) is an area of great interest and potential where the Group can play an important role in the growth and internationalisation of its clients. The department operates locally through a network of Corporate Centres (39) that covers all of Italy, usually placed in the local branches of the Retail Division. The branches of the Retail Division also provide operating activities for this client segment.

- **Foreign Mid-Corporate**: clients are currently managed by the Foreign Banks of IntesaBci. This business segment currently includes approximately 3,000 clients with a capital absorption of about €200m. The Plan provides that this activity will be closed and the whole exposure to this area in terms of traditional lending will be eliminated by 2003. Relationships will be maintained only when necessary for the implementation of the strategy of other Departments of the Division or for Trade Export Finance activities. In this case the Departments involved will manage the remaining positions. The evolution of the organisation of Foreign Banks will be treated later on in the document.
- **Public Sector and Infrastructures Department**: this structure is dedicated to a segment of increasing importance that so far has not been given the necessary attention and technical expertise. The opportunity is provided by the growing need of assistance by the public sector in all its main manifestations (big municipalities, big public institutions) to manage existing debt balances, new main infrastructure investment programmes and internal operations. This sector will also be responsible for supranational entities (other than financial ones), companies (regardless of their legal status) managing the great infrastructures of the country (transport, water, purification etc.) and those other public or quasi-public entities which can act as activity subsidiaries for the other Divisions (e.g. Category Associations). The evolution of those clients will allow this Department to focus on the development of innovative products, exploiting

the significant expertise already existing in the private sector. In particular, besides traditional banking business, the following activities will be developed:

- Project finance to support intensive public works programme both at the national level (“grandi progetti”) and at the local level (e.g. hospitals).
- Corporate derivatives to support the treasury and debt management of public entities.
- Corporate finance (M&A and equity) in the framework of privatisation programmes both at national and local levels (“municipalizzate”).
- Assets Securitisation.
- Local Bond Issuance.

The Plan foresees relevant growth in this area.

- **Financial Institutions Department**: this structure is responsible for domestic and international financial institutions (banks, Securities Houses –SIM-, Asset Management Companies –SGR-, etc.). This Department already contributes significantly to the Division’s results, thanks to a set of specialised services it offers to its counterparts (e.g. custody and securities administration). A Fund Administration service has been added to those activities – through a specialised company to be set up – to complete the range of services now required by many domestic and international operators.

The three other structures (Capital Markets, Structured Finance, M&A and Equity Origination Directions) mainly have a product focus and have the mission to consolidate their leadership in the relative sectors, principally by supporting development initiatives of both the Group and its clients, but also by pursuing independent growth opportunities.

- **Capital Markets Department**: includes Caboto and the FOREX activities of the bank. The main activities and targets of the Capital Markets Department are:

ACTIVITIES	TARGETS
Debt Capital Markets	Strengthening of current leading position by leveraging on existing relevant client relationships and by exploiting the opportunities coming from the public sector
Sales and Trading (Equity and Fixed Income)	Strengthening of the competitive present position – through the improvement of our research and execution capabilities – with particular focus on domestic markets and on the development of specific approaches for each client segment (International institutions, large Italian institutions, small and medium Italian banks)
Derivatives to Corporate Clients	Continuing the current relevant growth trend in the mid corporate, small enterprise and public sectors, leveraging on the Group's existing client relationships and on ongoing product innovation
Retail Capital Markets	Growth in the segment thanks to enhanced co-ordination with the marketing units of the Retail Division, responsible for client strategy

In some businesses, synergies and advantages arising from international co-operation are increasingly relevant. This is especially evident in brokerage, futures and research. This consideration may result in the possibility to create partnerships with leading operators in each of those businesses.

- **Structured Finance Department**: is responsible for the skills and competence relative to the following areas of high value added products:

ACTIVITIES	TARGETS
Project Finance	• Development of advising and financing projects in Italy • Support to Italian corporate clients and focus of the current foreign business on a restricted number of sectors (e.g. infrastructures, energy)
Leverage & Acquisition Finance	• Strengthening of current leadership in Italy exploiting better Group's relations (especially with mid-corporate) • Participation at senior level (arranger) in transaction at high European level with primary counterparts
Asset Backed Finance & Securitisation	• Development of opportunities especially towards corporate clients and public sector, focusing on specific geographic areas (Italy and Europe) • For asset based activities, concentration on specific classes of assets for Italian clients (and major institutions), developing advisory
Syndicated Loans & Underwriting	• Focus on roles with high return (arrangers) and limitation of the positions, to value in the context of credit exposure for each client
Structured Trade & Export Finance	• Development of business for "Core" clients and foreign clients in strategic countries, strengthening a pool of specialised resources. • Develop actions linked to project finance
Credit Derivatives	• Strengthening the use of credit derivatives for the bank's risk management • Significant decrease of risk taking activity since not consistent with the Group's current targets • Use of the credit derivatives in order to create structures with high return and low risk • Strengthening the structuring of products with prelevant lending component through trading activity

Moreover there is a unit of Corporate Structures dedicated to the offer of financial and corporate engineering for the clients of the Group, to the creation and the implementation of corporate actions, and the administrative / accounting management of the Luxembourg and non-Luxembourg companies.

Furthermore, there is a Financial Engineering unit, which, in co-ordination with the Administration Central Function, is responsible for the fiscal optimisation for the Group, through structured finance transactions. The benefits arising from such activities have not been included in the Plan for prudent reasons.

- **M&A and Equity Origination Department**: this is responsible for the skills and competence of the following high value added products:

ACTIVITIES	TARGETS
M&A	Substantial growth of current activity especially in Mid-Corporate
Equity Origination	Leveraging on current client base and strengthening of research with the aim of becoming one of the two leading operators in the Italian market

In this area, more than in any other, it is important to provide clients with a network of contacts, professional skills and international presence and it is therefore possible that international partnerships with leading players in the sector will be developed.

- The eighth Department of the Corporate Division is a cross-divisional structure and has the role of developing the **Merchant Banking** sector. Merchant Banking includes three kinds of activities:
  - Debt + Equity Relationships: companies, which currently have a lending relationship (and general service supply) with the Group, where the Group has also decided to invest its equity. In particular Olimpia and Italenergia companies, where the IntesaBci Group has invested in total around €700m, assisted by put options, belong to this category.
  - Private Equity: over time the Group has accumulated several private equity investments (worth approximately €600m), not always following a

predetermined logical approach. The Merchant Banking Department has the task of rationalising and developing selectively such business.

- Problem Loans: Merchant Banking is also responsible for pre-distressed positions which require a more entrepreneurial approach to ensure corporate restructuring or similar actions to prevent the collapse of the relationships.

The Merchant Banking Department has begun to take shape in the last few weeks, therefore the Plan is very conservative in this area, including a discount to the initial composition of the portfolio.

Among the six staff structures, three in particular will undergo important organisational changes:

➢ **Foreign Network** (already mentioned when describing the Foreign Mid-Corporate business). Core mission of the Foreign Network of the Group will be promoting internationalisation of Italian companies, supporting them in their expansion abroad and attracting foreign companies into Italy. Therefore, the same network will remain a qualified structure of the international presence of the Group: it will increasingly support Italian companies in their local foreign activities and promote business and services of the Group there. It will continue to incorporate some structures of the Structured Finance Department, the Large and Mid Corporate Departments and the Treasury and Finance. In this reorganisation, lending activity will no longer be carried out (characterised by low added value and poor margin) with foreign companies with no intention of entering the Italian market. In particular, the main actions in this area are:

- Branches (banks) kept/opened, exclusively in the main international locations or in locations of strategic importance for the Group (e.g. London, New York, Hong Kong / Shanghai and Moscow).
- Closing of branches in geographic areas non-strategic or easily manageable from Italy (e.g. Tokyo, Singapore, Los Angeles, Abu Dhabi, Madrid and Frankfurt).
- Maintenance (or, in some cases, opening) of representative offices in countries where core customers of the Group have great interest.

Table 30. Expected Foreign Network

	Foreign Branches	Representative Offices
America	New York	San Paolo
Europe	Dublin London Luxembourg (1) Moscow	Ankara Athens Belgrade Brussels Bucharest(2) Frankfurt(4) Madrid(4) Warsaw
Asia/Africa/Australia	Hong Kong Shangai	Beirut Cairo Mumbai Beijing Seoul Singapore(3) Sydney Teheran Tokyo(4) Tunis(3)

(1) Belonging to SEB Corporate Division
(2) Italian desk in HypovereinsBank
(3) Opening now
(4) To be opened following the closing of foreign branches

- **Operations**: clients of the Corporate Division will interact with the Division either in a direct or remote way. They will have the opportunity to have operating relationships through the branches of the Retail Division, but generally will be able to concentrate their interactions with the Bank through Corporate Remote Banking (CRB), a procedure integrated into the "Target" system but at the same time specialised and independent.

  The Division will have to bring such procedure to its best functionality by fine-tuning related applications, extending access to all customers and by putting together, progressively but quickly in a standard procedure, all the existing solutions still non-integrated. The management of the procedure will need to have the support of a dedicated back office, managed by the Division itself.

  The Corporate Department is also responsible for the other two large areas of applications, with related back office, that will maintain a specialisation and separation, even if integrated in "Target" and centrally co-ordinated. Such areas are:

  - Caboto capital markets procedures.
  - Services procedures dedicated to Financial Institutions.

- **Research Department**: this has a key role in forecasting and monitoring economic and financial scenarios, and will be increasingly involved in understanding and forecasting company/industry/district trends of specific interest for the commercial development of the bank.

  It will also co-operate with Caboto in the research linked to financial intermediation in capital markets.

In summary, the Research Department, while still specialised in macroeconomic trends and capital markets, will become more integrated with the business and the development of professional expertise within the Group.

* * *

The Plan's targets for the Corporate Division as a whole can be summarised as follows.

Table 31. Corporate Division– Main Targets

(€m)	2001	1H2002	2005E
Total Income			
- Total	1,988	701	1,740
- Excluding Huit	*1,468*	*701*	*1,740*
Operating Profit			
- Total	1,434	429	1,240
- Excluding Huit	*914*	*429*	*1,240*
Cost/Income			
- Total	27.9%	38.8%	28.8%
- Excluding Huit	*37.8%*	*38.8%*	*28.8%*
Capital Allocated	4,982	4,472	3,610
Pretax ROE (1)			
- Total	16.2%	(4.5%) (2)	30.3%
- Excluding Huit	*5.8%*	*(4.5%)* (2)	*30.3%*
EVA ®			
- Total	19	(280)	330
- Excluding Huit	*(290)*	*(280)*	*330*

(1) Ordinary income / allocated capital

(2) Annualised

Of course, the targets of the Division have been divided among the eight Departments that constitute the Division itself, and each is responsible for and must report on the basis of the same parameters.

* * *

The Corporate Division will become an autonomous bank in future, if it is confirmed by current evaluations that this could result in a more effective focus on its target customer base.

In that case, it would become a bank with no branches, since customers would have access to its services through direct channels or through the IntesaBci network while all services would be provided by the Central Functions of the Group.

Value Creation: Foreign Banks Division

This Division is currently responsible on the whole for significant value destruction for the Group.

The Plan includes some actions that, even without new acquisitions, will produce a positive contribution of the Division to the Group results already in 2003.

In the three years of the Plan, the Foreign Banks Division will follow these guidelines:

- Exit from Latin America, as decided in the programmes detailed previously.
- Exit from Foreign Banks operating in countries or sectors not considered strategic for the Group.
- Reduction of risk-weighted assets and increase of capital available through the disposal / rationalisation of non-strategic participation for around €8bn of RWA.
- Enhancement of the operating performance of the three controlled banks in Eastern Europe.

The targets of Foreign Banks Division can be summarised as follows:

Table 32. Foreign Banks Division – Main Targets

(€m)	2001	1H2002	2005E
Total Income			
- Total	1,995	940	830
- Excluding disposals (1)	*695*	*381*	*830*
Operating Profit			
- Total	580	350	400
- Excluding disposals (1)	*295*	*164*	*400*
Cost/Income			
- Total	70.9%	62.8%	52.5%
- Excluding disposals (1)	*57.6%*	*56.9%*	*52.5%*
Allocated Capital			
- Total	2,031 (1)	1,740	770
- Excluding disposals (1)	*607* (1)	*663*	*770*
Pretax ROE (2)			
- Total	(29)%	20.4% (3)	44.7%
- Excluding disposals (1)	*36.2%*	*41.1%* (3)	*44.7%*
EVA ®			
- Total	(784)	(171)	160
- Excluding disposals (1)	*101*	*70*	*160*

(1) Disposals (to be completed in the period 2002-2004) : Sudameris Group, and other non-core minor equity investments
(2) Ordinary Income / Allocated Capital
(3) Annualised

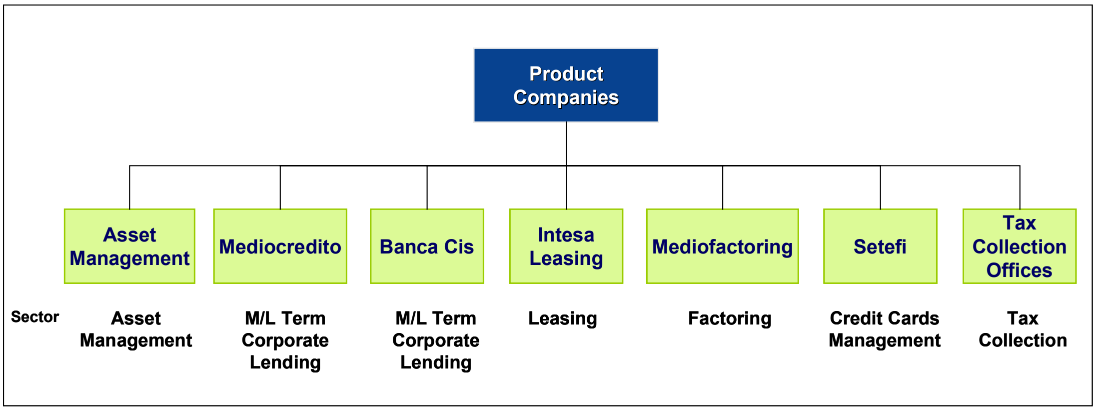
This Division will also identify – if appropriate – a development and enhancement strategy in Eastern Europe and propose selected investments consistent with overall profitability targets of the Group.

Value Creation: Product Companies

Product companies have a very important role in order to ensure the growth of the Divisions of the Group and to gain new segments of the market.

The main product companies of the Group already have already a clear leadership on the market:

Table 33. Product Companies



Each of these companies is the result of the integration of the activities in the corresponding business of the three banks merged with IntesaBci. This process, in some cases, still needs to be completed.

For the development strategy in the market of financial products for clients, two important organisational projects are being implemented: they see the creation of a unique insurance company and of a Wealth Management holding:

- Creation of a unique bancassurance company (joint venture with Generali Group and Crédit Agricole Group) which will unify all the business conducted by Carivita, Assiba, etc. and by the branch network through agreements with Alleanza, Po Vita, Venezia Assicurazioni to develop a comprehensive offer for the Group. The bancassurance company is likely to have over €15bn in mathematical reserves and annual premiums of at least €3.5bn.

- Creation of a Wealth Management holding, to which all companies in this sector (including Nextra, the future bancassurance company, and specialised companies in previdential products) will be contributed in order to achieve maximum scope and scale economies. This new Wealth Management holding will be one of the main European businesses, and the main Italian business, for Asset under Management, Mathematical Reserves and Annual Premiums.

➢ All Product Companies have developed specific projects to improve peformance: they include actions indicated in the following table:

Table 34. Main Actions to be taken by Product Companies

	Ranking	Main Actions	Targets
Asset Management	#1	• Rebalancing of asset mix (in co-ordination with the Divisions/Banks of the Group) • Increase of average pricing • Rationalisation of products range and introduction of new products (ETF, Socially Responsible funds of funds) • Increase performance thanks to development of IT supports for risk management and asset allocation • Valuation of specific opportunities "make or buy" to reduce costs	• Increase AuM/Indirect Funding from 42% to 46-48% • Increase weight of equity and balanced from 27% to 40% • Increase market share in mutual funds from 18% to more than 19% • Decrease Cost / Income from 66% to 42%
Leasing	#2	• Focus on retail, in particular on instrumental leasing • Strengthening of the sales mechanism for the Retail network • Cost reduction	• Increase market share from 8% to 9% • Decrease Cost / Income from 42% to 41%
Factoring	#1	• Increase presence in retail • Increase penetration in the Mid-Corporate business • Enhancement of the risk valuation methodologies • Cost reduction	• Increase market share from 26% to 31% • Increase penetration of corporate customers from 5% to 10% • Decrease of Cost / Income from 33% to 31%
Corporate Lending (1)	#1	• Increase spreads in new issues • Better co-ordination with the Retail and Mid Corporate Division (mainly Banca CIS) • Revision of lending policies	• Increase market share in M/L term credit from 2.2% to 2.4% • Decrease Cost / Income from 28% to 22%
Payments systems	#3	• Increase offer range (product and services) • Strengthening of marketing and commercial initiatives • Valuation of agreements with other players to exploit economies of scale and specific competencies • Cost reduction	• Increase of market share in credit cards (from 12% to 15%) and in POS (from 28% to 30%) • Increase Bancomat penetration from around 50% to above 80%

(1) Includes Intesa Mediocredito and Banca CIS

As far as tax collection companies are concerned, they have been strongly penalised by recent changes in legislation, and an action plan is being prepared, in order to ensure economic efficiency.

The total targets of the Product Companies are summarised in the following table:

Table 35. Product Companies – Main Targets

(€m)	2001	1H2002	2005E
Total Income	1,039	518	1,230
Operating Profit	530	261	690
Cost / Income	49.0%	49.6%	43.6%
Allocated Capital	1,769	1,737	2,300
Pretax ROE(1)	19.5%	21.6% (2)	21.7%
EVA ®	65	11	70

(1) Ordinary Income / allocated capital

(2) Annualised

Value Creation: Central Functions

The reorganisation and relaunch of the IntesaBci Group gives to the Central Functions some key tasks for the success of the whole plan.

In this framework it has been decided to entrust the management of specific cost categories to single Head Office Departments, e.g. the Group's costs related to real estate to the Real Estate Department, the Group personnel expenses to the Human Resources and Organisation Department. The Head Office Departments, co-ordinating with the business units that will benefit from the service, will assume the main responsibilities of achieving the Plan targets.

Human Resources

Human Resources are the most important component of business management; the success of the Plan largely depends on professional skills, motivation and the degree to which people working in the Group feel to be part of the organisation. The enhancement of personnel abilities is going to be critical. Improvement of skills and competence, rationalisation and exploitation of the differences in background, experience and level of influence determined by economic results of the different working teams in the Group will help achieve the necessary acceleration of the planned growth in revenues. This progress will be made in an context of improved efficiency, productivity and profitability. Furthermore, co-ordination of individual goals and motivations with organisational objectives (and thus targets of the Plan) will be very important. Co-ordination will help drive individuals' efforts towards the Group's targets. The achievement of such targets will largely depend on everyone's commitment, at all levels of responsibility:

- Common involvement in the process of further changes which starts with the approval by the Board of the 2003-2005 Plan within the renewed Group's mission;
- Development and subsequent consolidation of an organisational culture more appropriate for the new competitive reality, based on values such as focus on results, client importance, operating excellence, management efficiency, responsibility, integration, teamwork, leadership, uprightness and integrity.
- Vertical and horizontal integration of the structure.
- Improved management of both human and technical resources.
- Growth of the resources for the Group's development.

Interventions, initiatives and actions will focus on the following key areas:

- **Quality of Human Resources (Large Training Plan)**

  Training will be crucial for the targets of the Plan, in particular, through professional learning courses and requalification of resources. Training will have to:

  - Promote cultural changes, necessary to achieve the Plan's targets (training strategic change and organisational development).
  - Ensure acquisition of technical skills, assisting the implementation of change in a perspective of technical and managerial improvement of personnel (operating and managerial training, organisational behaviour).
  - Support process of improvement of service quality ("role" training).
  - Promote an effective use of technological innovative solutions (specialised training).

- The main areas for training programmes have been identified as follows:
  - Corporate culture to consolidate new values.
  - Development of operating and managerial skills to promote involvement of resources with respect to the Group's targets.
  - Technological development to optimise contribution of technologies to business.
  - Development of products and services to create necessary conditions for revenues growth.

Due to the Group's organisational complexity and to human resources peculiarities, learning programmes will resort more and more to technology to convey learning at a distance. Therefore, all necessary steps will be taken to support the use of satellite TV, not just as an information channel but as an "information and training" tool to the advantage of all the Group's resources. Use of "Web IntesaBciTV" will be extended to every branch and office of the banks and the companies of the Group.

From a quantitative viewpoint, interventions in the next three years will amount to above 800,000 training working days and will involve all the professional "families" of the Group.

- **Development of Human Resources**

As far as identified targets are concerned, improvement of the quality of human resources of the Group will be a critical strategic asset. IntesaBci will have to ensure the coverage of key roles and guarantee the availability of professionally qualified resources for the continuous management of the activities. Development processes are going to be generally consistent with the Group’s organisational needs and be specific for a similar level of professional role/“family”.

Therefore, key actions will be:

- Identification, value enhancement and motivation of talents present in the Group.
- Development of evaluation systems of attitudes, potential, performance and use of these systems for management purposes.
- Identification and management of specific career paths, with particular focus on managers and senior roles.
- Valorisation of behaviours orientated to co-ordination, to entrepreneurial attitude and ability to adapt to change.

Particular emphasis will be given to the development and introduction of a new reward system which will represent the main starting point for professional and personal growth of resources responsible for the achievement of the ambitious goals included in the Plan. The system will be:

- Objective, thus keeping a strict correlation with achieved results, at individual, team and company level.
- Differentiated, recognising peculiarities of the different business units of the business.
- Challenging, providing high rewards for excellent results.

As far as remuneration policy is concerned, the systems to be adopted will:

- Be based on competence and meritocracy, both at individual and team level.
- Take into account individual behaviour: commitment to achieve results will be critical but co-operation, integration, entrepreneurial spirit and ability to meet challenges arising from change will also be important.
- Enhance the value of role diversity characterising certain professional families, specifically with respect to the achievement of economic and revenue objectives of the company.
- Co-ordinate business habits of local professional entities with the personnel policies of the Group.

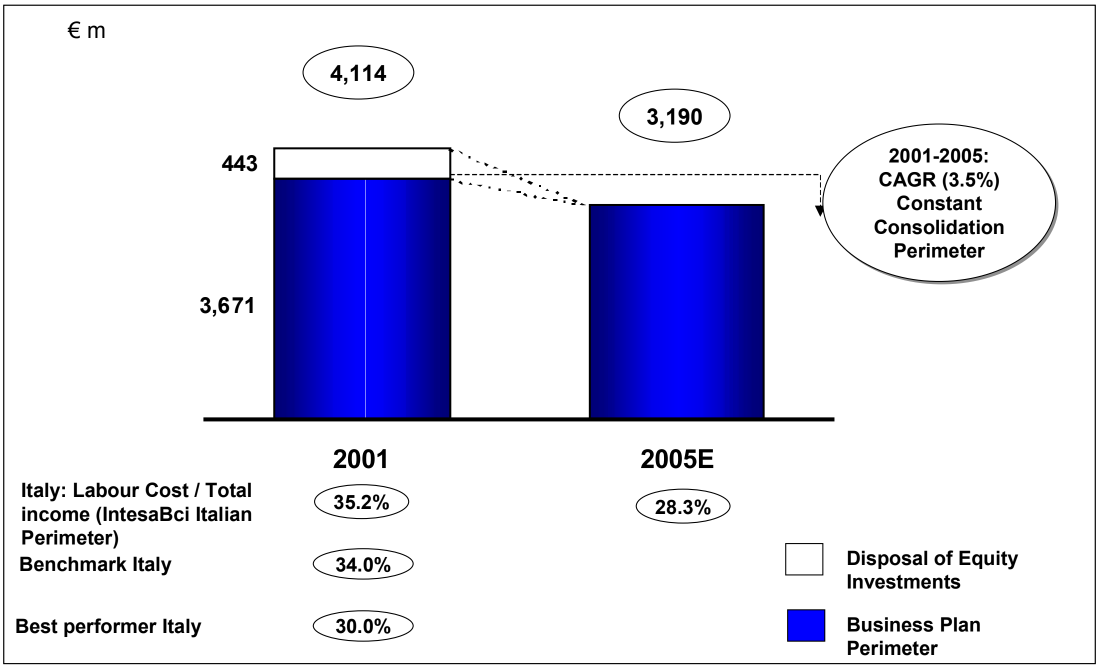
➢ **Quantity of Resources and Labour Cost**

Today labour costs are a more critical issue than with our main competitors and best benchmarks. In order to make labour cost structurally compatible with revenue trend, the following actions are planned:

- Turnover freeze, migration of redundancies (following the implementation of forthcoming several restructuring processes, taking place mainly in 2003), also by the use of contractual and legal solutions available.
- More intensive use of part-time job contracts and of flexible options (especially in working hours) and geographic mobility.
- Decrease in overtime and in temporary work contracts reduced to physiological levels.
- Verification of the feasibility of innovative solutions in terms of work flexibility.

To meet planned revenue growth, the Plan includes a 13% reduction in labour cost between 2001 and 2005 (within the Business Plan perimeter):

Table 36. Labour Cost Trend



➢ **Industrial Relations**

The bank will shortly implement extremely relevant organisational strategic changes. To that extent, it is very important to:

➢ Improve and support industrial relationships as a means to develop appropriate opportunities for discussion, participation, and sharing of the plans and corporate programmes in order to achieve higher competitiveness through better operating management.

- Define policies and develop trends to manage the relationship with trade unions so that all the efforts will converge towards the achievement of Plan's targets, trying to solve any conflict arising from old habits typical of different business cultures.

Relations with Labour Unions will be based on reciprocal respect and fairness, and on principles and directions such as indicated in the legal contracts and laws in force; the "Contratto Collettivo Nazionale di Lavoro" (National Collective Work Agreement) is still tremendously important for the management of industrial relations.

Repositioning, innovation, efficiency improvement and restructuring will strictly depend on negotiations with Labour Unions with respect to work flexibility and services and consequently working and service hours, externalisation, mobility, requalification and cost reduction.

In particular, industrial business relations will move towards:

- From the Company side, maximum visibility on strategic and management choices to create conditions for increasing awareness in order to determine the most appropriate comprehensive co-ordination to achieve the Group's targets.
- From the Labour Unions' side, maximum availability of Labour Unions for discussion, also solving conflicts generated by prejudicial attitudes, in order to help understand corporate dynamics and actions deriving from the Plan's programmes and projects, with advantages that may not necessarily be immediate but deferred when acceptable economic and performance conditions will take place.
- From both the Company and the Labour Unions together, each part with its specific function, agreements serving the Plan's targets in order to

prove the common intention to manage jointly the restructuring and development processes and achieve new and significant goals.

New agreements will reflect views on the issues of interest for each party in line with a specific income policy. The aim is to reconcile employment requirements with needs of business development and to have more flexibility in the use of personnel performance at every level of seniority.

- **Internal Communication**

Information, involvement/integration and professional development: these are the three areas of the Strategic Plan of internal communication to support the ongoing changes and the integration of the resources of the Group.

Specific instruments (both traditional and innovative) will be dedicated to each area. These instruments will be able to convey timely, clear and co-ordinated messages: business and non-business meetings, internal publishing and “house organ”, intranet portal, web TV.

In the next three years, important actions will be taken to the integration of communication devices and the contents of distance learning. The aim is to co-ordinate and enhance informative and training interventions focused on strategic change, organisational development and operating and managing competence in the new roles, in addition to professional updating programmes, and to the requalification and development of resources.

Organisation

The Plan is based on growth and development. Therefore, it is vital that profitability improves and that a strong gain in efficiency and effectiveness is realised through innovation, both in the range of products and service offered to clients, and in the production processes in which operating excellence will be a goal at all responsibility levels involved.

The improvement of processes and functioning mechanisms of the Group, the adoption of organisational rules of productive and commercial assets consistent with the targets and guidelines indicated in the Plan, the constant respect of these rules and the consolidation of the model and the subsequent adopted organisational structure, are key factors for the success of the Plan.

Therefore, particular attention will be paid to the following areas of action:

- Improvement of the organisational efficiency and effectiveness of the Group through:
  - Continuous adjustment of the structures, delegations and responsibilities, depending on corporate strategies and evolution of corresponding markets, in order to guarantee simple, results-oriented organisational structures.
  - Governance of the policies chosen for the corporate organisation: macro-structure, micro-structure, roles, levels of responsibility, organisational relations, regulation and naming of the structures.
  - Supervision of the change processes and organisational development, to ensure those main project interventions are consistent with corporate strategy.

- Improvement and/or reorganisation of the main business processes, including the definition of precise rules in terms of identification and management of the same processes, and the necessary maintenance of the whole structure.
- Definition, together with the pertinent corporate functions, of the methods and processes of quantitative dimensioning of the resources of the Group.
- Revision of the mechanisms of functioning and regulation of the infra-group organisational relations (service contracts, management mechanisms, etc.).
- Optimisation of the business areas dedicated to the production activities co-ordinating the organisational needs of the corresponding structures with the policies and economic targets of the Plan.

➢ Improvement of the operating mechanisms of **Corporate Governance** through:

- The revision of both IntesaBci and the Group rules, the implementation of the corresponding mechanisms of action and the completion of the general regulation structure.
- The involvement in the processes of identification of the trends of technological innovation and development of IT systems.

The possibility of keeping the current occupational levels, or limiting redundancies to socially acceptable levels, depends on the ability of the Group to achieve an acceptable efficiency level and, consequently, the profitability of the Group.

Today, and even more in the future, guarantees of employment depend on the capacity of the firm to compete in the free market and to produce good results and value for its shareholders. This can only be achieved by a common effort.

Information & Communication Technology (ICT)

Technological innovation (in every form) is one of the key elements on which the Group's Plan is based. This function relies currently on the competence and skills of IntesaBci Sistemi e Servizi (ISS).

Volume growth, recovery in efficiency, risk management, the development of human capital, will be achieved through several projects that have ICT as an essential component.

The Plan includes a series of interventions in the short or medium-term that can be summarised as follows:

- **Total migration to the "Target" system** within 2003 (the "Target" system is the current basic application platform which is used by Branches of former BAV and former Cariplo and constitutes the backbone of the whole system of IntesaBci). With the Branches of former Comit also migrating to the "Target" system, the "common IT language" will be created during 2003, through which innovation and service and cost efficiencies will be accelerated.

- Development of **new functionalities of the "Target" system**. Between 2003 and 2005 a series of actions will be put in place that will complete and enrich the "Target" system. In particular:

- Actions 2003
    1. Integration and development of systems for the management of credit processes (global risk positions, new unified procedure of loan granting, etc.).
    2. New procedure for foreign operations.
    3. New model of branch front office (by 30 September 2002 planning for the release of the roll-out of the new branch will be defined).
    4. Integrated multi-channel.

- Actions 2004-2005.
    1. Management of relationship with client and personalised marketing (CRM, starting with the experience of Banca Primavera).
    2. Adjustment of the Risk Management systems to Basel II requirements.
    3. Extension of systems for management of operating risks.

➢ Development and integration of **"specialised" systems**. Each Division, each Head Office Department and each Company of the Group has in place a specific plan of application development which will have to be integrated into the system of the Group. Some of main projects in place are as follows:

- System and instruments to support Private Banking.

- Rationalisation of the new Information System (I/S) for medium / long-term financing for IntesaBci Mediocredito and Banca CIS.
- Development of I/S IGC in line with the new industrial Plan.
- CRB (Corporate Remote Banking): new unified product (In-Biz) to guarantee a better comprehensive and direct relationship between corporate clients and the bank.
- Extension S/I to Banca Primavera.
- CLS (International Exchange Regulations).
- Bancassurance module (integration with I/S “Target”).
- Implementation of corresponding bank for Mutual Funds and ICVC.
- Development of the Cedacri platform with components of the I/S “Target” of IntesaBci (for the federal banks that use the CedacriNord platform, ISS wants to promote the integration of the components of the I/S “Target” in the area of multi-channels – e.g. IntesaTrade – to enable them to benefit from competitive advantages).
- Extension of IS / RE to the foreign subsidiaries of the Group.

➢ Rationalisation of the **technological infrastructures** of the Group.

- Centralisation on the “proprietary pole” and rationalisation of the IT “bridges”.
- Possible creation of geographic clones of the I/S “Target”.
- New Group broadband telecommunication network to improve fruition of the services in place and permit the introduction of innovative services.
- Rationalisation of the Internet applications (IntesaTrade, Fundsworld, etc.) and increase in their availabilities.

- Continuous availability, with methods of internal recovery and solutions of Disaster Recovery able to recover in a reasonable time the functionality of services after serious damages / catastrophes.
- Evolution of basic technological platforms to manage increases in volume.
- Unification of systems to support networks at the proprietary centre.
- Simplification and acceleration of the process of distribution of software to the branches through a process of “webisation” (java, websphere, linux, etc.) of the residential applications on the server/client of each branch.
- New integrated system of management of the levels of service (Service level management system).
- Continuous benchmarking to ensure a quality/cost ratio of the services in line with market standards.For some of these issues, outsourcing, insourcing, joint venture and opening to the market will be hypothetical solutions that are not yet included in the Plan.

The Plan includes the following investments in the ICT sector:

Table 37. ICT Sector- Investments

(€m)	2003-05E
Hardware	**150**
Software	**570**
- applications development	380
- maintenance	140
- security / help desk	50
- Other	0
Total	**720**

(1) Investments subject to revision in consideration of the plan of the new supporting service company (ISS)

Between 2003 and 2005, **costs** will decrease by 14% due to the following actions:

- Optimisation of outsourcing balancing.
- Contracts renegotiations.
- Revision of licences.
- Integration of the systems of the Group.
- Efficiency improvement of personnel in the Head Office Departments:
  - Revision of processes and elimination of activities with low added value.
  - Systems integration.
- Reduction of discretionary / administrative expenses:
  - Efficiency / rationalisation projects.
  - Resizing of the Group purchasing needs.

As far as organisation is concerned, the Plan intends to maintain the following responsibilities in ISS:

- ICT infrastructures.
- Architectures and IT standard of the Group to guarantee also consistency of the specialised systems.
- “Target” system of the Group.
- ICT purchasing centre.
- Information security.

In connection with the transfer to other Head Office Departments of the Bank of a series of skills and activities (real estate, purchases, back offices, general services, suppliers accounting), ISS will focus on the control of the ICT of the Group, revising the organisation in depth to ensure high levels of efficiency.

Treasury and Finance of the Group

The new organisational model includes the concentration in a single structure of all the treasury activities, proprietary trading and strategic finance. This will imply the transfer to the appropriate Head Offices of the overall supervision of these issues and the transfer to this centre of the activities and assets currently located in several structures in Italy and abroad, the presence of which will be significantly reduced.

The Income Statement of this function included in the Plan sees a revenue increase by 10% to €320m in 2005, with a reduction of operating costs by 40%.

The Treasury and Finance Central Function will have capital available not exceeding €550m.

Among the objectives, rebalancing mix of the liabilities of the Group is included, bringing debts due to banks from 25% in 2001 to 16% before 2005.

Real Estate

The Group currently has many real estate assets, more than 90% used for operating purposes.

Table 38. Real Estate Properties Portfolio

	No. of Properties	Net Book Value as of 31/12/2001 (1)
IntesaBci	1,026	2,148
Italian Banks + Product Companies	661	701
Foreign Banks	1,350	583
Total	**3,037**	**3,432**

(1) *Including properties in leasing*

The real estate properties derive – like all other assets – from the aggregation of the Group and from the merger of the three main Banks; Retail network accounts for more than 70% of their use.

In addition to the real estate properties, the Group uses several other premises on renting contracts; IntesaBci alone occupies approx. 1,400 premises of more than 800,000 sqm.

In addition, in the real estate area of the Group, there are other very significant assets for which management can be optimised; e.g., the portfolio of real estate loans of Intesa Leasing and the real estate linked to NPLs.

The management of the real estate occupied by the structures of the Group currently generates very high costs and the Plan includes significant cost recoveries, notwithstanding the innovation projects that will be launched. Depreciation will certainly increase, because of branch restructuring and introduction of the new layout.

The main operating projects to optimise real estate management are the following:

- Rationalisation of the rented properties releasing certain real estate for managerial use and improvement of the occupation in the Retail network.
- Revision of the allocation and size of the structures of the Head Offices to release rented estates and dispose of those in excess.

- Optimisation of maintenance services to improve quality and timeliness of interventions and decrease costs of both internal personnel and supply contracts.
- Reduction of energy costs through the optimisation of the functioning of the plants and more opportunities offered by the market.
- Revision of the internal services model in order to significantly reduce the personnel involved.
- Integration and improvement of passive security solutions, resulting in a decrease in security costs.
- Rationalisation of the Real Estate Companies of the Group.

The Real Estate Head Office will also manage the implementation of the Plan for Branches ("Piano Sportelli") in excess, opening of new branches and roll-out of the new branch layout.

Current real estate properties have an important role in the Plan, also from a financial perspective.

The Plan includes the disposal of a first tranche of real estate (up to €500m of RWA) by December 31 2002. In the future it will be possible to further recover capital (for up to a maximum of €3bn of RWA) through one or more actions described below:

- Real Estate sales.
- Incorporation of real estate properties into a company to sell or to maintains a stake in under 50%.
- Creation of a fund by transfer
- Securitisations.

Bad Bank

The Group currently has a structure dedicated to the management of NPL, "IntesaBci Gestione Crediti (IGC)". It is a bad bank to which most of the NPLs of the banks of the Group has been attributed (and, in certain cases – like Carime – the bank is no longer part of the Group) and other NPLs have been or are currently being managed to carry out recovery procedures.

The total NPLs of the Group as of 30 June 2002 can be summarised as follows:

Table 39. NPL as of June 2002 (IntesaBci Group)

(€m)	1H2002 (1)
Gross NPLs	13,963
Provisions	8,501
Net NPLs	5,462
Coverage Ratio	60.9%

(1) 1H results

The total amount of the NPLs of the Group corresponds to €5.5bn of RWA.

For this area, the Plan has the following key action guidelines:

- Maintenance of the bad bank to which the management of the NPLs can be given (refining, if necessary, management rules and contracts).
- Efficiency enhancement of IGC obtained by strengthening internal organisation and IT systems, systematic sale of small size positions and refinement of the skills needed to manage medium / large size positions.

Allocated capital for the management of the current portfolio is approx. €160m. In the future, IGC will have to generate positive EVA®.

A possible evolution, not already included in the Plan's forecasts, includes the development of the activities, even acquiring NPLs by third parties with potential subdivision of the capital of IGC so as to drop below the consolidation threshold.

Image and Communication

The urgency to create and maintain externally and internally the new identity of the Group, the need to communicate better with stakeholders and the importance of supporting the plan of commercial development with appropriate levels of advertisement and promotion has led to the necessity of unifying the co-ordination and, to a large extent, the management of these issues in a strengthened Head Office Department.

The mission of the structure will be to project, plan and manage the policies and instruments of external communication of IntesaBci towards the clients, the financial community and the Italian and foreign opinion makers, especially with respect to the ability to create value. Furthermore, it should ensure an efficient management of the overall spending level of the Group and economic management of the central activities.

As far as the main projects are concerned, particular effort will be dedicated to the presentation of the **new identity**, revising the Group's logo and all logos and brands in use, also in view of a revaluation of the Comit brand. To that extent, the IntesaBci Group is a banking group and there is value in the fact that this mission is captured in the logo. The addition of "Bci" in the logo has been challenging because of both pronunciation difficulties and for the inability of the logo to evoke the Banca Commerciale Italiana, well known under the name Comit. Therefore, the proposal is to redefine the “Identity” and **substitute the world “IntesaBci” with “Banca Intesa”**. On the other hand, as Banca Commerciale Italiana is an essential component of the formation and life of the IntesaBci Group, it seems necessary to find the most appropriate ways to enhance that component also as a brand.

The other main projects of the Head Office are to:

- Build a **transparent relationship with the market, the financial community and public opinion** (especially through information on plans and results of every structure of the Group, through periodic information released by top management of the Group and through an even more constant presence of the Investor Relations function).
- Create closer long-term relationships with **consumers’ associations** (with a perspective of permanent monitoring of the quality of learning and education – also internal – to “consumerism”, to identify, develop and launch products and services even more adherent to clients’ needs).
- Increasingly use **advertising** to support the launch and the increase of the activities of the Group, especially in the retail sector.
- Use in a co-ordinated manner **surveys and other instruments of measuring the level of customer satisfaction** to give continuous monitoring of quality results to every structure of the Group.
-
-

Other Management Systems

All Central Functions have started important projects to refine their own systems to contribute to better corporate functioning.

Also in this case several projects are involved, some of which are mentioned below.

- Risk management. Complete coverage and alignment among different realities of the Group of the risk monitoring issue:
    - Market risks.
    - Operating risks.
    - Liquidity and interest rate risks.
- Auditing
    - Improvement of risk coverage through the revision of the procedures of identification and valuation of risk factors.
    - Preventive information for the top management on risks in place.
    - Strengthening of compliance systems for businesses with higher risk.
- Planning and control
    - CRM.
    - Accounting client / product.
    - Finalise the implementation of EVA® for the whole Group.
    - Planning of capital allocation per business unit to maximise value (EVA®).
- Administration
    - Rationalisation and integration of the accounting systems of the companies of the Group, adopting a new “Accounting Plan”.
    - Implementation of the accounting and IT systems to adopt the international principles (IAS) starting in 2005.

- Management of the tax planning of the Group in an integrated manner (booking units used by the Divisions, products of Finance Engineering to support the Group).

➢ Legal Affairs

- Rationalisation of the actual internal structures.
- Rationalisation in the use of external advisors.

➢ Equity Investments

- Rationalisation and simplification of the shareholdings of the Group.
- Corporate Development for all the new corporate initiatives.

YEAR 2002

Before summarising the Plan it is necessary to analyse the half-yearly 2002 results and the budget policies that the banks intends to pursue for the second half of the year.

1^ST HALF 2002

Table 40. First Half 2002 Results (€m)

(€m)	1H2002	1H2001	% Change
Interest Margin	3,109	3,367	(8%)
- Commissions and Other Income	1,935	2,174	(11%)
- Trading	151	170	(11%)
Non-Interest Income	2,086	2,344	(11%)
Total Income	**5,195**	**5,711**	**(9%)**
Operating Costs	**(3,459)**	**(3,635)**	**(5%)**
Operating Profit	**1,736**	**2,076**	**(16%)**
Consolidation Adjustments	(48)	(45)	6%
Net Provisions for Loan Losses	(1,409)	(965)	46%
Ordinary Income	**279**	**1,066**	**(74%)**
Extraordinary Income (Loss)	62	776	(92%)
Income before Taxes	**341**	**1,842**	**(81%)**
Taxes	(165)	(439)	(62%)
Provisions to Other Funds/Minorities	(62)	(17)	265%
Net Income	**114**	**1,386**	**(92%)**

The first half of 2002 shows unsatisfactory results that do not correctly reflect the potential of the Group.

These results were affected by extraordinary items and by the negative economic scenario that:

- Caused a slowdown in corporate investments and lending demand.
- Brought a decrease in spreads.
- Increased non-performing loans at a system level, particularly for Italian and foreign large corporates.
- Led to a more cautious approach of investors to financial markets with a consequent reduction in trading and management commissions.

In particular:

- The **Operating Profit** decreased, if compared to the first half of 2001, from €2,076m to €1,736m (-16.4%, compared to a 19.6% decrease between 1Q 2002 and 1Q 2001). Interest margin decreased by 7.7%, revenues by 9%, while operating costs decreased by 4.8%.

  These trends are strongly influenced by two non-recurring factors: the decrease in the value of South American activities and the one-off €92m "extraordinary" dividends generated from the Seat transaction, that positively affected the first half 2001 results. Excluding these two factors, interest margin would have decreased by 1.3%, revenues by 3.9% and gross operating income by 10.4%.

  On the other hand, the gross operating income has increased in absolute terms from 1Q to 2Q of 2002, increasing from €846m to €890m (+5%).

- **Ordinary Income** decreased, when compared to the first half of 2001, from €1,066m to €279m (-74%, compared to a 27% decrease between 1Q 2002 and 1Q 2001). In addition to the negative operating income trend, a further negative contribution was brought about by:

  - Worsening of asset quality with consequent higher provisions for loan losses of almost €270m (+34%), due to the sudden deterioration of the economic situation of some large multinationals, also caused by the discovery of accounting irregularities in some of them, worsened by the effects of the persisting crisis that is affecting some industries, particularly telecommunications and media. Marconi and Worldcom Groups exposures almost fully absorb additional net provisions. Smaller provisions relate to further coverage of positions already written down and constantly and carefully monitored.

- Additional provisions for risks and charges (€284m compared to €170m) which refer not only to passive suits but also to various charges from equity investments and to counterpart risk on derivatives. Furthermore, for consolidation purposes, we added €100m at consolidated level to €70m provisions booked in the financial statements of IntesaBci, in order to fully write-off the value of the Peruvian equity investments.

- **Net Income** decreased, if compared to the first half 2001, from €1,386m to €114m (-92%, compared to a 23% decrease between 1Q 2002 and 1Q 2001). In addition to the events described above, there is €710m of lower net extraordinary income (€776m in the first half 2001, thanks to disposals of equity investments and branches, partially offset by the mark to market of the warrant put, compared to only €62m in first half 2002 generated by the mark to market – positive in this case – of the value of the warrant as of 30 June 2002).

➢ When comparing the 1Q and the 2Q of 2002 the **growth of Operating Profit** assumes particular relevance.

Table 41. Comparison between 2Q 2002 and 1Q 2002

(€m)	2Q 2002	1Q 2002	Change €m	Change %
Interest Margin	1,550	1,559	(9)	-1%
- Commissions and Other	947	988	(41)	-4%
- Trading	61	90	(29)	-32%
Non-Interest Income	1,008	1,078	(70)	-6%
Total Income	**2,558**	**2,637**	**(79)**	**-3%**
Operating Costs	**(1,668)**	**(1,791)**	**123**	**-7%**
Operating Profit	**890**	**846**	**44**	**5%**
Consolidation Adjustments	(25)	(23)	(2)	9%
Net Provisions for Loan Losses	(1,125)	(284)	(841)	296%
Ordinary Income	**(260)**	**539**	**(799)**	**-148%**
Extraordinary Income (Loss)	(169)	231	(400)	-173%
Income before Taxes	**(429)**	**770**	**(1,199)**	**-156%**
Taxes	158	(323)	481	-149%
Provisions to Other Funds/Minorities	(40)	(22)	(18)	82%
Net Income	**(311)**	**425**	**(736)**	**-173%**

The different areas contributed - to very different degrees – to the overall results as follows:

Table 42. Pro-forma results per Business Area as of 30/06/2002 (€m)

(€m)	1 **Retail Division** (Italian Network, Private and Corporate, Internet)	2 **Italian Banks Division**	3 **Corporate Division**	4 **Foreign Banks Division**	5 **Product Companies**	6 **Central Functions** (including Igc, Treasury, Proprietary Trading and Consolidation Adj.)	**Total**
Total Income	2,175	750	701	940	518	157	**5,241**
Operating Profit	433	283	429	350	261	(24)	**1,732**
Cost / Income	80.1%	62.3%	38.8%	62.8%	49.6%	115.3%	**67.0%**
Allocated Capital	3,454	1,263	4,472	1,740	1,737	1,417	**14,083**
Pretax ROE (1)	9.4%	39.4%	(4.5%)	20.4%	21.6%	(53.1%)	**4.3%**
EVA ®	(49)	56	(280)	(171)	11	(284)	**(717)**

(1) Ordinary Income / Allocated Capital , annualised

When considering the contribution of the different business areas to the overall result it must be remarked that:

➢ The **Retail Division** had revenues down 6% if compared to the first half of 2001. In particular: at the net interest income level, the positive effect deriving from growth in volumes of direct funding and of medium/long-term loans has been offset by the decrease of the spread on funding; the negative trend of markets penalised volumes from indirect funding and consequently non-interest income; on the costs side, decrease in personnel number kept personnel expenses stable.

- The **Corporate Division**, taking into account the new perimeter, shows a 4.7% decrease in revenues if compared to the same period of 2001. A positive contribution to the division result has come from the performance of Capital Markets Area, in particular from trading on the secondary bond market and from the sale of interest rate on derivatives. On the other hand, a contraction of margins was registered in Structured Finance, in particular in Credit Derivatives, which suffered from the downgrade of the Corporate business, Equity Origination and M&A activities. There was a slight reduction in the operating costs when compared to the first half of 2001. The overall results for the period were negatively affected by the tough loan loss provisions.
- The **Italian Banks Division** shows, when compared with the previous period, a slight growth of Gross Operating Income (+2%). In particular, a decrease in operating costs of around 3% is registered and only in part re-absorbed by a decrease in revenues, affected by a sharp reduction of the customer spread (-35 b.p.) and by a lower flow of commissions on trading and asset management.
- The **Foreign Banks Division** shows a 4.6% growth in Gross Operating Income generated by a reduction of operating costs – mainly related to Sudameris Group – in part offset by a decrease in revenues (-12%) mainly due to

commissions change. Excluding the currency exchange ratio effect, the increase in Gross Operating Income is higher than 15.6%.

- **Product Companies** show a 5.6% decrease in Operating Profit with substantially stable costs. In particular, the revenues decrease is related to Asset Management companies with lower commissions flow caused by the negative scenario in financial markets.

2ND HALF 2002

The outlook for 2nd half 2002 can be summarised as follows:

- Slight decrease expected in the **Operating Profit** when compared to the 1st half considering the continued weakness of the economy and financial markets.
- **Ordinary Income** will be affected on the one hand by the decision to allocate to the 2002 eventual residual provisions/costs still to be borne to exit from Latin America (which will be quantified only in the next months). On the other hand, the amount of loan loss provisions should decrease, with a return to physiological levels.
- Finally, **Net Income** will be influenced by many extraordinary items. On the charges side, further adjustment may be required considering the mark to market of the Put Warrant (corresponding to a share price of IntesaBci as of 30 June 2002 of €3.07) and restructuring costs (the amount will be determined in the next months). On the income side, 2002 accounts could be positively affected by capital gains from the disposal of the Brazilian bank, of other non-core minority equity investments and of a first stake of real estate portfolio.

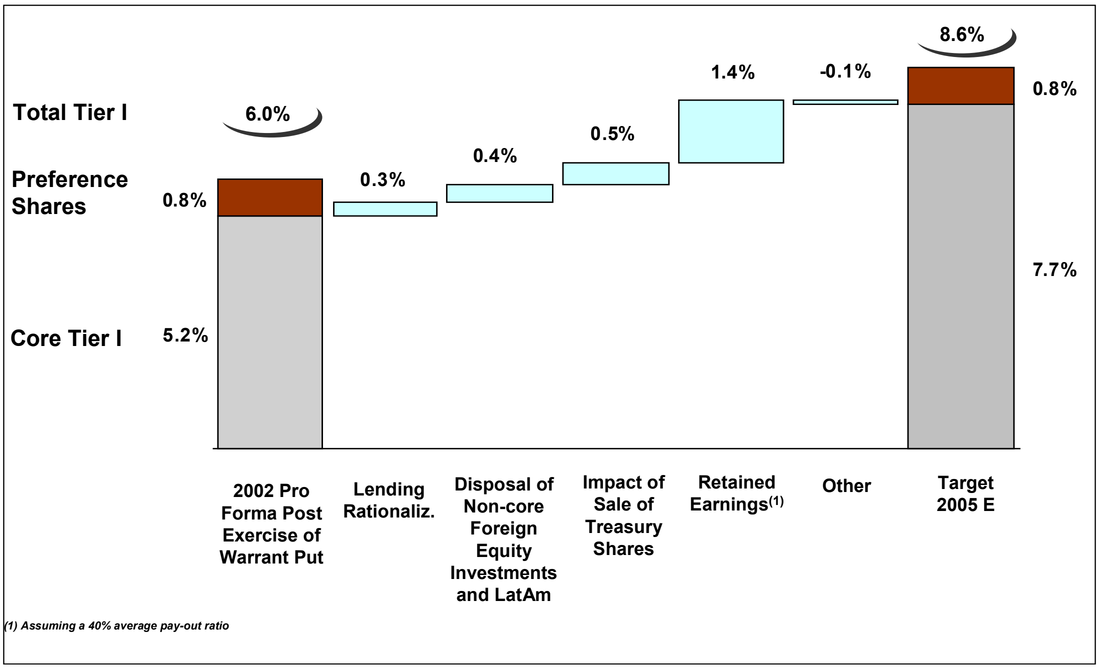
SUMMARY OF THE THREE YEAR PLAN

The 2003-2005 Plan is based on more than 100 projects. The main ones have been described in the previous pages.

In order to summarise the main expected results we can state that:

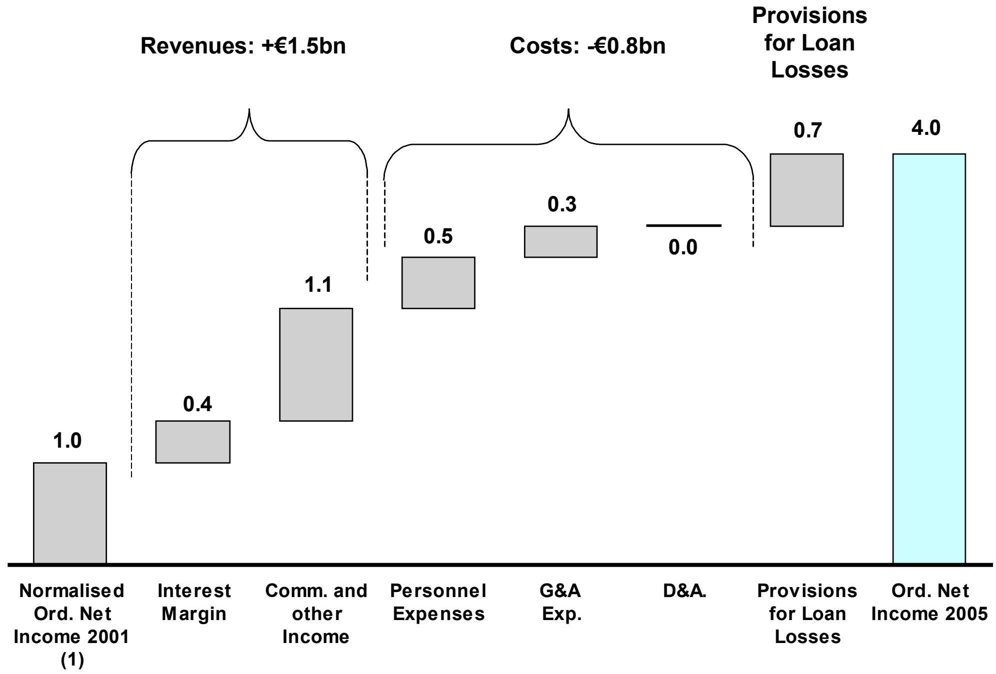
- The **risk profile will be substantially reduced**, when compared to the current one, due to: increase in the weight of retail and domestic components, valorisation of the most attractive part of corporate activities, exit from non-core geographic areas and non-strategic activities. Asset quality increases substantially, due to the combined effect of: strategic choices, new internal policies, strengthening of functions and instruments both of Credit Department and Risk Management.
- The capital base of the Group will be strengthened to return to healthy levels, due to many actions and attitudes:
  - Reduction of non-core or non-profitable assets, with the exit from certain geographic areas and activities.
  - Increase in profits of the Group and therefore of the amount of retained income.
  - Introduction in the company of the concept of capital optimisation through clear and transparent allocation, made possible thanks to monitoring per Division and per Business Unit, with performance valuation systems based on the EVA® method.

Table 43. Tier I Evolution



➢ **Significant increase in value creation** driven by the combined effect of revenues increase and decrease in operating costs and in provisions for loan losses. **The algorithm "1.5 – 1.5 = 3"** is our word, meaning a €3bn increase in operating results, at constant consolidation area and excluding 2001 Huit dividends, through revenues increase (€1.5bn) and costs reduction (€0.8bn) and lower net provisions for loan loss (€0.7bn).

Table 44. Ordinary Income Evolution 2001 – 2005 (€bn)



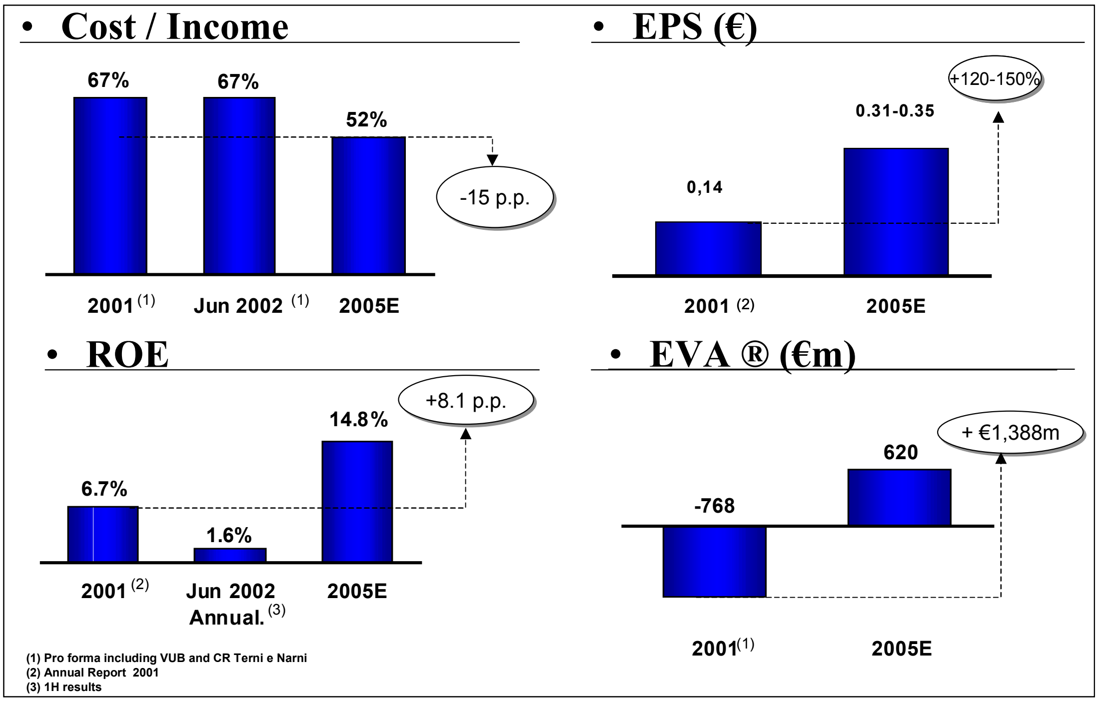
(1) Net of disposals, dividends from Huit and including normalisation of loan loss provisions

Table 45. IntesaBci Group – Main Targets

(€m)	2001 (1)	1H2002 (1)	2005E	CAGR 2001 - 05
Total income				
- Total	11,328	5,241	11,110	0%
- Excluding disposals and dividends from Huit	*9,508*	*4,681*	*11,110*	*4%*
Operating Costs				
- Total	7,539	1,732	5,750	(7%)
- Excluding disposals	*6,523*	*1,351*	*5,750*	*(3%)*
Operating Profit				
- Total	3,789	3,509	5,360	9%
- Excluding disposals and dividends from Huit	*2,985*	*3,330*	*5,360*	*16%*
Cost / Income				
- Total	66.5%	33.0%	51.8%	
- Excluding disposals and dividends from Huit	*68.6%*	*28.9%*	*51.8%*	

(1) Pro forma including VUB and CR Terni and Narni

Table 46. Trends of Main Ratios



- Total Income will not only increase (considering constant consolidation area), but will also improve in terms of their mix: increase in the weight of non-interest income on Revenues (from 39% in 2001 to 46% in 2005).

- Costs will not only decrease (with constant consolidation area), but also change in their composition:
  - Lower personnel expenses (€3.2bn corresponding to 56% of total costs), notwithstanding the increase of costs for training (+100%).
  - Lower general and administrative expenses (€1.9bn corresponding to 33% of the total costs), despite an increase in advertising (+25% compared to 2001, +60% compared to the 2002 Forecast).

➢ **All the Components of the Group contribute to the increase of overall Group results**

Table 47. Operating Profit Evolution 2001-2005 by Business Unit (€m)

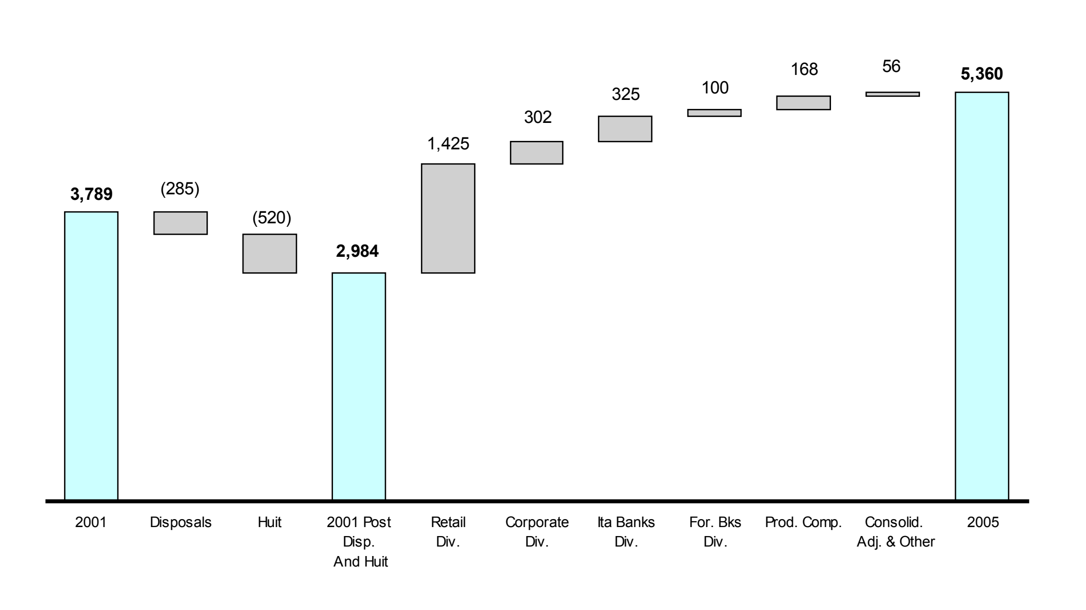


Table 48. 2005 Results by Divisions (€m)

(€m)	1 Retail Division (Italian Network, Private and Corporate, Internet)	2 Italian Banks Division	3 Corporate Division	4 Foreign Banks Division	5 Product Companies	6 Central Functions (including Igc, Treasury, Proprietary Trading and Consolidation Adj.)	Total
Total Income	5,260	1,730	1,740	830	1,230	320	**11,110**
Operating Profit	2,200	850	1,240	400	690	(20)	**5,360**
Cost / Income	58.1%	50.8%	28.8%	52.5%	43.6%	106.3%	**51.8%**
Allocated Capital	4,200	1,500	3,610	770	2,300	870	**13,250**
Pretax ROE (1)	39%	46%	30%	45%	22%	(28%)	**30%**
EVA ®	690	195	330	160	70	(825) (2)	**620**

(1) Ordinary Income / Capital Allocated, annualised
(2) Including excess capital cost at the Group level (€395m), unallocated provisions and extraordinaries (€394m) and Central Functions Costs (€200m)

The tools of the **algorithm "1.5 – 1.5 = 3"** are many, but five are considered as crucial:

- **Improvement Customer Service**, characterised by quality and transparency of products and services, quality and efficiency of the channels, professional approach and focus on client in all Group structures.
- **Valorisation of Human Capital** of the Group at all levels, which is clearly reflected in the overall training program included in the Plan.
- **Technological, commercial and organisational innovation** coming from – apart from valorisation of human capital – an important plan of investments.

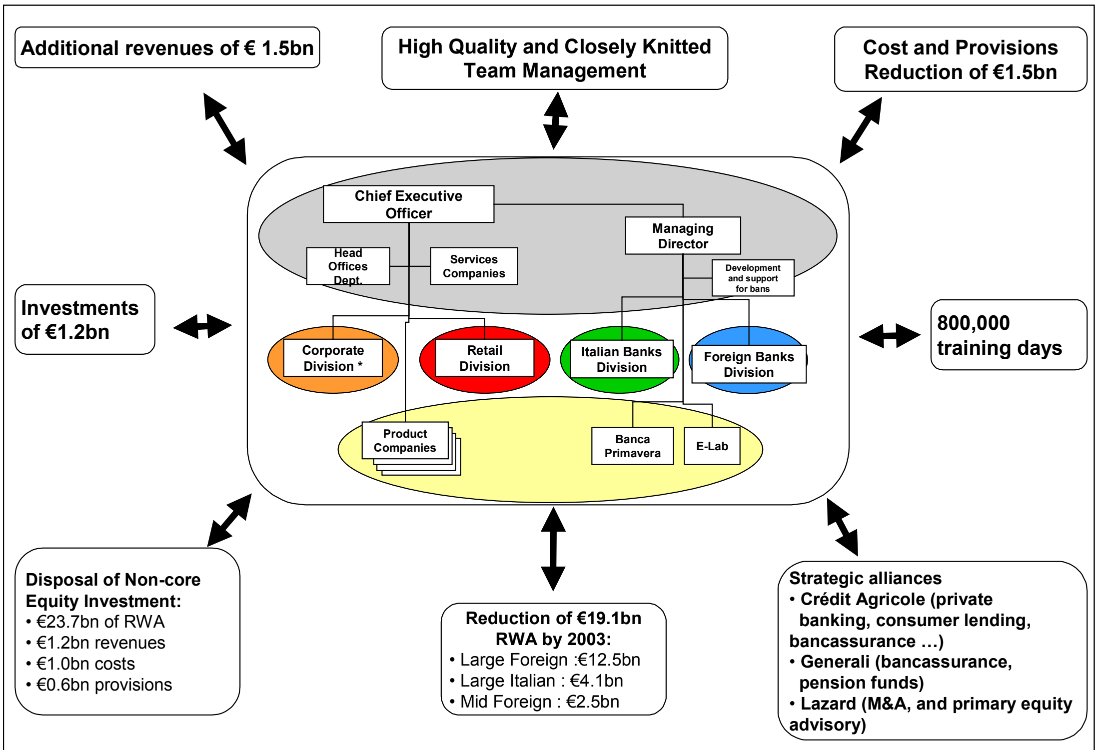
Table 49. Plan's total investments

(€m)	**2003-05E**
ICT	720
Real Estate Maintenance and New Lay-out	370
Others	70
Total	**1,160**

- **Alliances and partnerships** in all sectors and activities in which the Group alone cannot reach maximum competitiveness and customer services. The two most relevant alliances considered in the Plan are the ones with Crédit Agricole (private banking, consumer credit, bancassurance) and with Assicurazioni Generali (bancassurance, pension products).

- Continuous and transparent **communication** with the market, financial analysts, mass-media and consumers' associations.

Table 50. Summary



* Under way, currently still Wholesale Banking