

The allowance for possible loan losses is meant to offset potential though unforeseen credit risks; those of a purely fiscal nature have been eliminated.

The increase in "Other changes" included provisions for 18,731 million lire carried out by the Banca Commerciale Italiana Group.

Allowances for risks and charges (caption 80)

Pensions and similar commitments (caption 80 a)

The allowance for pensions and similar commitments, established following intracompany agreements, is deemed to be sufficient to cover Group Companies' future pension expenses.

Balance as at 31st December 1999 amounted to 2,593,260 million lire and reflected the following changes:

A. Initial amount	2,512,399
B. Increases	267,567
b.1 provisions	200,803
b.2 other changes	66,764
C. Decreases	(186,706)
c.1 uses	(186,706)
c.2 other changes	-
D. End-of-year amount	2,593,260

"Other changes" included 30,536 million lire corresponding to provisions carried out by the Banca Commerciale Italiana Group and 30,000 million lire referring to the transfer of amounts set up by Cariplo in previous years for former tax collection personnel from the allowances for risks and charges.

Breakdown of "Taxation" (caption 80 b)

A. Assets connected to prepaid taxes	Amounts included in the statement of income	Amounts included in the balance sheet
1. Initial amount	195,229	-
2. Increases	2,246,596	-
2.1 prepaid taxes incurred in the year	600,214	-
2.2 other increases	1,646,382	-
3. Decreases	59,656	-
3.1 prepaid taxes eliminated in the year	11,775	-
3.2 other decreases	47,881	-
4. End-of-year amount	2,382,169	-
included tax losses brought forward	-	-

"Other increases" included 372,617 million lire corresponding to provisions carried out by the Banca Commerciale Italiana Group.

B. Liabilities for deferred taxes	Amounts included in the statement of income	Amounts included in the balance sheet
1. Initial amount	850,053	-
2. Increases	1,272,425	4,016
2.1 deferred taxes incurred in the year	1,137,709	-
2.2 other increases	134,716	4,016
3. Decreases	83,117	-
3.1 deferred taxes eliminated in the year	56,780	-
3.2 other decreases	26,337	-
4. End-of-year amount	2,039,361	4,016

Prepaid and deferred taxes were calculated by applying the "balance sheet method" separately for Irpeg, based on the tax rate in force in 1999 (37%), and for Irap, based on the tax rate presumably applicable in the year in which the credit or debit will be settled.

Prepaid taxes, determined with regard to all the deductible temporary differences, are included in the financial statements among "Other assets" when there is a reasonable certainty of their recovery, valued on the basis of each company's continuing capacity to generate taxable income in the future.

Deferred taxes incurred in the year mostly refer to accrued dividends.

Variation in "Taxation" (caption 80 b)

	Current taxes	Deferred taxes	Total
A. Initial amount	3,397,239	850,053	4,247,292
B. Increases	2,246,571	1,276,441	3,523,012
b.1 provisions	1,664,278	1,137,709	2,801,987
b.2 other increases	582,293	138,732	721,025
C. Decreases	2,972,415	83,117	3,055,532
c.1 uses	2,837,533	56,780	2,894,313
c.2 other decreases	134,882	26,337	161,219
D. End-of-year amount	2,671,395	2,043,377	4,714,772

"Other increases" included provisions carried out by the Banca Commerciale Italiana Group for current taxes (493,863 million lire) and deferred taxes (49,909 million lire). "Other decreases" included 23,967 million lire of eliminated deferred taxes pertaining to the BCI Group.

7.3 Breakdown of subcaption 80 d) "Allowances for risks and charges - other"

The breakdown of "Allowances for risks and charges - other" is the following:

	1999	1998	Changes	
			amount	%
Allowance for legal disputes and amounts reclaimed	613,216	337,156	276,060	81.88
Allowance for future integration expenses	568,698	130,000	438,698	337.46
Allowance for personnel charges	366,191	180,830	185,361	102.51
Allowance for guarantees given	237,740	219,216	18,524	8.45
Allowance for charitable, social and cultural contributions	22,996	19,039	3,957	20.78
Allowance pursuant to Art. 16 of CONSOB Regulation 5386	11,934	11,181	753	6.73
Allowance for agents' leaving indemnities	7,182	7,272	(90)	(1.24)
Allowance adjusting commissions and interest	6,228	3,971	2,257	56.84
Other	355,704	274,454	57,250	20.86
Total	2,165,889	1,183,119	982,770	83.07

The purpose of these allowances is discussed below.

- Allowance for legal disputes and amounts reclaimed

The allowance covers disputes with customers and former employees. Allowance is also made for expected losses arising on amounts reclaimed from Group companies by the liquidators of bankrupt companies.



- Allowance for future integration expenses
This allowance has been set up to cover expenses which have not yet been sustained in connection to the Group's integration plan.
- Allowance for personnel charges
This allowance covers known or likely charges in relation to employees, the timing or extent of which is uncertain. In particular, the allowance covers holiday entitlement not yet taken and other payments to employees.
- Allowance for guarantees given
This allowance covers firm commitments made.
The amount is determined following a detailed analysis of guarantees given on behalf of customers in difficulty, as well as a general assessment of accounts subject to Country risk and of other outstanding guarantees.
- Allowance for charitable, social and cultural contributions
The allowance was increased at the Shareholders' Meeting which approved the 1997 financial statements.
- Allowance pursuant to Art. 16 of CONSOB Regulation 5386
This allowance covers damages, not readily quantifiable at this time, that have been or could be claimed from Intesa Italia Sim in connection with allegations of questionable behaviour on the part of the Company's operators in their dealings with the Company's clients.
- Allowance for agents' leaving indemnities
The allowance covers leaving indemnities accrued to Intesa Italia Sim's agents in relation to commission payments.
- Allowance adjusting commissions and interest
This allowance covers out-of-period expenses to be incurred on the adjustment of interest and commission calculations.

Variation in subcaption 80 d) "Allowances for risks and charges - other"

A. Initial amount	1,183,119
B. Increases	1,368,506
b.1 provisions	1,182,036
b.2 other increases	186,470
C. Decreases	(385,736)
c.1 uses	(332,700)
c.2 other decreases	(53,036)
D. End-of-year amount	2,165,889

"Other increases" included 141,667 million lire of adjustments carried out by the Banca Commerciale Italiana Group.

Section 8 - Share capital, reserves, reserve for general banking risks, subordinated liabilities

Liabilities	1999	1998	Changes	
			amount	%
Share capital	5,405,739	5,120,065	285,674	5.58
Share premium reserve	10,215,789	8,783,613	1,432,176	16.31
Reserves				
a) legal reserve	493,649	479,394	14,255	2.97
b) reserve for own shares	—	—		
c) statutory reserves	152,650	151,715	935	0.62
d) other reserves	1,081,165	299,190	781,975	261.36
Revaluation reserves	489,563	449,445	40,118	8.93
Reserve for general banking risks	292,374	71,124	221,250	311.08
Negative goodwill arising on consolidation	51,197	48,275	2,922	6.05
Negative goodwill arising on application of the equity method	6,498	153	6,345	—
Net income for the year	1,647,745	1,204,576	443,169	36.79
Total shareholders' equity	19,836,369	16,607,550	3,228,819	19.44
Subordinated liabilities	16,602,911	12,479,255	4,123,656	33.04
Allowance for possible loan losses	690,519	885,842	(195,323)	(22.05)

The most important variations in Shareholders' equity are set out below.

Breakdown of share capital

Shares (number)	1999	1998	Changes	
			amount	%
Ordinary	4,641,059,700	4,378,641,931	262,417,769	5.99
Savings	764,678,910	741,423,727	23,255,183	3.14
Share capital	5,405,738,610	5,120,065,658	285,672,952	5.58

Shares have face value 1,000 lire each.

Variations in Shareholders' equity and Share premium reserve are described in one of the Attachments to the Report on operations.

Legal reserve

Legal reserve increased by 14 billion lire following the allocation of 1998 net income for the year.

Statutory reserves

The item comprises the extraordinary reserve, which registered a 934 million lire rise following: the increase stemming from the allocation of net income for the year 1998 (10,724 million lire), the allocation, according to the Articles of Association, of unclaimed dividends to the statutory reserve (210 million lire) and lastly 10,000 million lire drop following the transfer to the special reserve set up for the issue of shares to be assigned for free to the top executives of Banca Intesa and/or Group companies as provided for by the resolution approved in the General Shareholders' Meeting held on 16th March 1999.



Other reserves

Reserves	1999	1998	Change
Ex Law 218 30th July 1990	201,583	167,601	33,982
Ex Art. 55 of D.P.R. 597 of 29th September 1973	212	212	-
Special reserve	10,000	-	10,000
Other consolidation reserves	869,370	131,377	737,993
Total	1,081,165	299,190	781,975

The increase in the reserve ex Law 218 of 30th July 1990 reflects the partial attribution of the surpluses which emerged from Cariplo's spin off in favour of Banca Intesa. This change did not lead to any changes in consolidated shareholders' equity but solely led to a reclassification between the different items which comprise it since it involved the "Other consolidation reserves" caption. The latter records the changes, pertaining to the Group based on the equity ratio of the shareholders' equity of the consolidated companies, after the year in which consolidation differences are calculated. Variations are normally attributable to net income. In 1999 this reserve registered a 6,724 million lire reduction following the creation of the allowance for deferred taxes due. This use was only accounted for by certain savings banks and occurred following the higher value accounted for in the assets in previous years and which did not affect the statement of income.

The special reserve, as already described above, is destined for the issue of Parent Company shares which will be freely assigned to top executives of the Parent Company and other Group companies.

Revaluation reserves

	1999	1998	Change
Revaluation reserves	489,563	449,445	40,118

Net change compared to the previous year is attributable for 45,187 million lire to the aforesaid de-merger of Cariplo in favour of Banca Intesa, with the simultaneous increase in the reserves of the beneficiary (this operation did not affect the Group's shareholders' equity but solely resulted in changes in the captions which compose it). A 5,068 million lire decrease referred to changes in the consolidation area.

Revaluation reserves and Allowance for possible loan losses

	Total amount	Including pertaining to third parties
Revaluation reserves	489,563	37,548
Allowance for possible loan losses	685,719	26,719
Total	1,175,282	64,267

Reserve for general banking risks

A. Initial amount	71,124
B. Increases	221,250
b.1 provisions	221,250
b.2 other changes	-
C. Decreases	-
c.1 uses	-
c.2 other changes	-
D. End-of-year amount	292,374