



compatibility with EU regulations on State subsidies to companies.

The Commission's letter is dated 23rd March 2000.

Banca Intesa is convinced that the Regulator acted in compliance with Community regulations and that, consequently, the banks' right to benefit by the incentives provided for by the aforementioned Law 461 of 1998 will be confirmed.

If, in spite of all of the Company's actions to safeguard the benefits provided for by the Ciampi Law, the law actually proves to be inapplicable, the tax burden relative to 1999 for Group banks involved would rise by 178 billion lire, but at the same time reserves amounting to 735 billion lire set up by these banks would return to being freely available. All Group banks adopted the same behaviour.

Comparison between the consolidated financial statements as at 31st December 1999 and as at 31st December 1998

1999 consolidated financial statements are compared with those as at 31st December 1998, recalculated to consider the following variations in the consolidation area:

- a) integration with the banking groups which refer to Banca Commerciale Italiana and to Cassa di Risparmio di Parma e Piacenza;
- b) change of the consolidation method applied to Cassa di Risparmio di Ascoli Piceno, Cassa di Risparmio di Foligno and Cassa di Risparmio di Spoleto which are no longer valued according to the equity method but are fully consolidated.

With regard to the consolidation of the BCI Group, since control of the Company was acquired on 10th December 1999, only the balance sheet was consolidated and not the statement of income since, as provided for by instructions issued by the Bank of Italy and National accounting principles, net income for the year contributed to the determination of shareholders' equity at year-end which must be eliminated on consolidating the book value of the equity investment.

For the recalculation of the 1998 financial statements the following actions were taken:

- the financial statements of Gruppo Intesa, the BCI and the Cassa di Risparmio di Parma e Piacenza Groups were summed up;
- it was then assumed that the acquisition of these Groups had occurred on 31st December 1998 and, therefore, the variations at that date between the simulated consolidation and the actual consolidation were accounted for in the balance sheet in the "Other assets" or "Other liabilities" captions.

The comparison of the 1999 and 1998 financial statements is in any case provided as one of the attachments.

Furthermore, a pro forma consolidated statement of income combining the consolidated statements of income of Banca Intesa and BCI for the whole 1999 was prepared for the sole purpose of providing further information to Shareholders and the market.

Explanation added for translation to English

The financial statements have been translated into English from the original version in Italian. They have been prepared in accordance with the Italian law related to financial statements, interpreted and integrated by the accounting principles established by the Italian Accounting Profession. Certain accounting practices applied by the Group that conform with generally accepted accounting principles in Italy may not conform with the generally accepted accounting principles in other Countries.



Consolidation criteria

The policies adopted for the preparation of the consolidated annual financial statements comply with Legislative Decree 87 of 27th January 1992 and the Bank of Italy regulations dated 16th January 1995, and subsequent amendments, the last of which was issued on 7th August 1998; these policies are consistent with those used for the preparation of the consolidated financial statements as at 31st December 1998.

Consolidation area

The area of consolidation includes the Parent Company, Banca Intesa, and the significant equity investments which have been listed in a specific table included in the Notes.

Consolidation method

1. Full consolidation

This method involves the total aggregation of the individual amounts reported in the balance sheets and statements of income of the subsidiary companies concerned. Following the allocation to minority shareholders of their interests in equity (excluding the allowance for possible loan losses and the revaluation reserves) and the results for the year, the residual value of such equity is eliminated against the book value of the subsidiaries concerned. Any differences arising on consolidation are allocated, where possible, to the assets and liabilities of the consolidated subsidiary; positive differences are also offset against the Group's interest in the allowance for possible loan losses and in the revaluation reserves up to the amounts pertaining to the Group. Residual differences are allocated to "Consolidation differences" and "Other reserves". The caption used is determined, respectively, with reference to the situation at the time the investment was first consolidated and to subsequent changes in equity value, normally reflecting the results of operations.

If positive consolidation differences arise on the assets side and are not deemed to be justified by the respective company's future profitability, these are fully expensed in the year.

In particular, with regard to the consolidation of Banca Commerciale Italiana and Cassa di Risparmio di Parma e Piacenza (Cariparma), of companies directly or indirectly controlled by these Banks, of those over which these Banks exercise significant influence, the same principle which had been used for Cariplo Group has been adopted: a single consolidation difference has been calculated, since it was deemed to be the solution which best represents the effects of the mergers on Banca Intesa's consolidated financial statements.

The consolidation difference was calculated using the Banca Commerciale Italiana Group's entire consolidated shareholders' equity as at 31st December 1999 and the Cariparma Group's entire consolidated shareholders' equity as at 31st December 1998 - values which are deemed fairly represented the situation at the date of Banca Intesa's acquisitions - with the following method:

- each Group's shareholders' equity has been calculated at the reference date including net income for the year and net of possible goodwill arising on consolidation or valuation according to the equity method;
- shareholders' equity belonging to the Cariparma Group, calculated using the equity method, has been compared with the respective purchase cost of the equity investment; the difference has been recorded in Cariparma's shareholders' equity; Cariparma's shareholders' equity (calculated as described above) was compared with Banca Intesa's cost of the equity investment; the difference obtained from this comparison (45 billion lire) has been registered in "Negative goodwill arising on



consolidation", in the consolidated balance sheet, whereas for Banca Commerciale Italiana it was positive for 336 billion lire, which have been accounted for by revaluating certain real estate properties belonging to BCI.

2. Proportional consolidation

This approach is applied to companies controlled together with other parties. The method is the same as that described in relation to full consolidation, except that the combination of the amounts reported in the balance sheet and statement of income is based on the percentage of control exercised by the Group.

3. Valuation using the equity method

This approach is applied to subsidiaries which do not carry out banking, financial activities, or do not contribute to Group's operations and to companies not controlled by the Group, but over which the Group exercises significant influence (so-called associated companies according to Art. 36 of Legislative Decree 87/92).

This method values investments with reference to the Group's interest in their shareholders' equity, including reserves for possible loan losses, revaluation reserves and results for the year. Differences with respect to the individual company accounts are allocated to "Differences arising on application of the equity method" and to "Other reserves", on the basis described in relation to full consolidation.

4. Other consolidation techniques

- The positive and negative differences arising on consolidation and on application of the equity method are determined at the time the investment is acquired or consolidated for the first time; subsequent disposals and changes in the percentage ownership adjust the original differences.
- If shareholders' equity belonging to the Group resulted negative, the complete write-off of the equity investment has been carried out and any residual negative amount remaining after the write-off has been covered using the "Allowances for risks and charges". Based on the information available, it is not necessary to allocate negative differences arising on consolidation to a risk reserve.
- The equity of foreign subsidiaries is translated into lire using the official end-of-year exchange rates; the difference between this value and that recorded in the financial statements on formation, or at the time of purchase, is allocated with the appropriate sign to "Other reserves".
- The financial statements and related notes of consolidated companies prepared using policies which differ to those applying to banks are adjusted accordingly.
- Dividends, adjustments and write-backs are reversed if they relate to subsidiary and consolidated companies.
- Adjustments, write-backs and provisions recorded by consolidated companies solely for fiscal purposes are eliminated in order to more fairly reflect the financial and operating position of the Group; provision is made for the related deferred taxation. Accordingly, the consolidated financial statements do not include any entries recorded solely for fiscal purposes.
- Following matching balances, all inter-company assets, liabilities, income and expenses are eliminated. Residual amounts are allocated to the statement of income or the balance sheet, in accordance with the instructions issued by the Bank of Italy on 16th January 1995.
- Leases are stated using lease accounting methodology. This means, essentially, that the cost of the leased asset represents the value of the loan at the start of the leasing contract; subsequently, each instalment payment is treated as a loan repayment comprising both principal and interest, determined using the interest rate implicit in the contract. Leasing transactions between subsidiary companies are reversed by re-determining the historical cost and accumulated depreciation of the assets concerned at year-end. The financial statements therefore reflect the net book value of such assets, stated in accordance with the criteria set out below, after eliminating the effect of inter-company transactions.



5. Means of consolidation

Subsidiaries which carry out banking, financial activities, or contribute to Group's operations are fully consolidated with the exclusion of Banca Proxima which has not yet started operations and is therefore valued using the equity method.

Companies which are subject to joint control have been consolidated according to the proportional method.

Subsidiaries whose activities are dissimilar to the above (banking, financial and auxiliary) and associated companies in which the Group has a significant equity investment are stated with reference to the Group's interest in the shareholders' equity, including net income for the year.

Equity investments in Sicav and those related to merchant banking activities have been valued at purchase cost.

For the purpose of consolidation, or of valuation according to the equity method, the financial statements as at 31st December 1999 prepared by the Board of Directors of subsidiary companies have been used. For some companies which are not part of the Group, financial statements as at 31st December 1999 were not available and therefore such companies have been valued according to the equity method using information as at 31st December 1998.

For First Skelligs International Finance Company Ltd., which closes its accounts on 31st March, the Board of Directors has prepared a statement as at 31st December 1999 which has been used to calculate the Group's portion of income and equity.

For Banco de Investimento Imobiliario, Carinord Group and Agricola Investimenti Group, the respective consolidated financial statements have been used, again as at 31st December 1999.



Part A: Accounting policies adopted for Parent Company and Group companies accounts

Accounting policies adopted have been prepared in accordance with the Italian law related to the financial statements, interpreted and integrated by the accounting principles established by the Italian Accounting Profession.

Section 1 - Valuation criteria

1. Loans, guarantees and commitments

1.1 Due from banks

Amounts due from banks are generally stated at nominal value, including the interest accrued at the balance sheet date.

Amounts due from certain banks are written down with reference to their solvency conditions; other amounts due from non-resident banks are written down by general reserves that reflect the difficulties in servicing external debt faced by the Countries concerned.

The original value of amounts due from banks is reinstated in subsequent years, to the extent that the reason for any write-downs cease to apply.

1.2 Loans to customers

Loans are recorded among "Loans to customers" to the extent that they have been paid out under the terms of the related contracts.

Loans are stated at their estimated realisable value, which is determined by deducting expected losses at year-end from the principal outstanding.

Expected losses are determined as follows, considering the solvency of customers and any guarantees available:

- a detailed review is made of non-performing loans and other doubtful accounts; this may be integrated by lump-sum adjustments related to loan contract types;
- yields and the basis and timing of repayments are considered with regard to consolidated or restructured loans;
- an overall estimate is made in relation to performing loans to customers located in Countries at risk.

Other loans are written down using lump-sum adjustments to reflect intrinsic risks, applying a percentage that takes into account the problems faced by certain borrower categories, or by certain sectors according to past experience.

The original value of amounts due from customers is reinstated in subsequent years, to the extent that the reasons for any write-downs cease to apply.

1.3 Guarantees given and commitments

Guarantees are recorded at the total value of the commitment.

The credit risk associated with guarantees and commitments is covered by "Allowances for risks and charges - other allowances"; the allowance has been calculated using the criteria applied to loans to customers described above.

Commitments to place funds with banking counterparts and make loans to customers are stated at the value of the amounts still to be paid over.