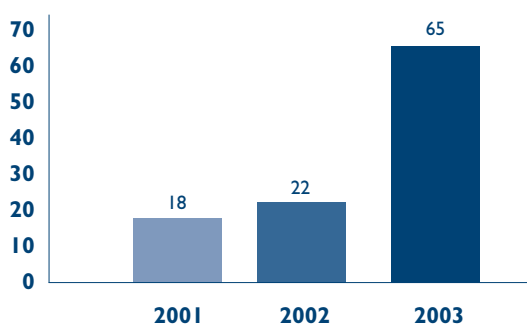


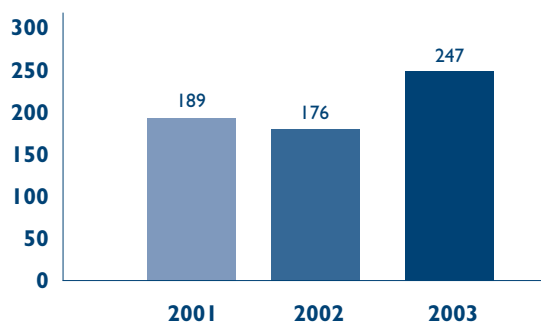
■ Highlights - Investment Banking Area

Net income
(€/m)



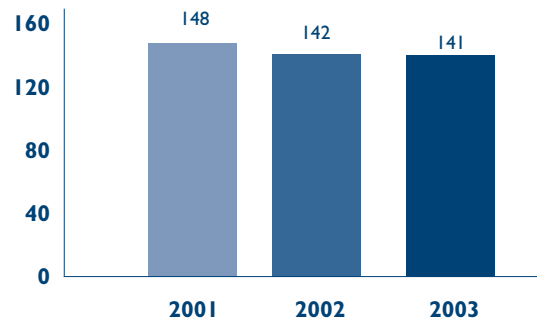
The 2003 Investment Banking result shows a strong growth (+37%) on the previous year as a result both of the upturn of the financial markets and the stabilisation of market shares.

Revenue
(€/m)

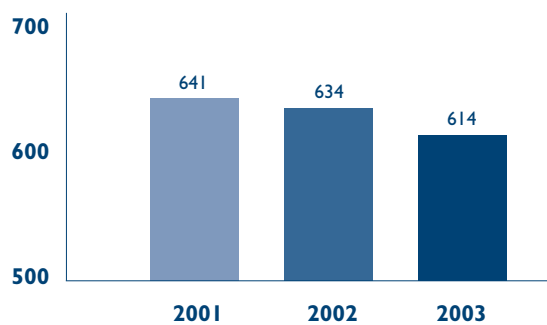


The drive towards increased efficiency, the revision of certain internal processes and the programme for rationalising our presence outside Italy, launched last year, has continued to achieve cost savings in the current year as well.

Costs
(€/m)



Personnel at year-end





■ **Mission**

An abstract graphic on the left side of the page, consisting of a dense, white wireframe mesh that curves and tapers towards the bottom left corner, set against a light blue background.

The bank acts as a link between companies, investors and the capital markets. We are dedicated to meeting the needs of companies requiring complex financial solutions to support their growth and institutional investors interested in the benefits of highly personalised investment opportunities. We focus on creating value for our customers and providing a complete, continual and efficient service, due to the professionalism and expertise of our human resources and their in-depth knowledge of the market and its operators.

■ Our business

Banca IMI is the investment bank of the Sanpaolo IMI Group and one of Italy's leading financial brokers, strongly positioned in the share and bond placement, extraordinary finance and securities trading sectors.

Banca IMI provides financial consultancy services to companies, arranges the raising of risk and debt capital, carrying out both agency and proprietary activity covering a wide range of financial products both listed and OTC. We likewise structure and develop investment products for retail customers as well as risk management products for companies and local entities. We also offer a wide range of ancillary services, including research, clearing, settlement and custody on the international markets.

Banca IMI is based in Italy, with headquarters in Milan and offices in Rome, London, Luxembourg (through IMI Bank Lux) and New York (through Banca IMI Securities Corp.).

Banca IMI's activities are organised into two business areas: Corporate Finance & Capital Markets, and Global Markets. An Operations area supporting the Bank's activities completes this structure.



Corporate Finance & Capital Markets Area

The Corporate Finance & Capital Markets Area covers the bank's services to companies regarding extraordinary finance transactions such as share issues and sales, the management of takeovers and consultancy on mergers and acquisitions.

The bank's customer portfolio comprises many of Italy's leading companies and banks, including Eni, ENEL, Fiat, TIM, Telecom Italia, Mediaset, Buzzi Unicem, ACEA, AEM Torino, FS, Edison, Prada, Autostrade, Aeroporti di Roma, Tiscali, Capitalia, Banca Popolare di Milano and Cassa di Risparmio di Firenze.

Moreover, the bank has substantially increased its mid-corporate business over the last three years, with customers ranging from Merloni, Reno De Medici, Gruppo Fontana, Utet and Juventus to Air Dolomiti, Viaggi del Ventaglio, Grandi Navi Veloci and Novuspharma, amongst others. The bank also provides support for cross-border transactions,

including privatisations for the Albanian government, Buzzi Unicem's acquisition of a major holding in Dyckerhoff and placements for ASF, Enagas, PPC, Telekom Austria, Orange, Deutsche Telekom and KPN.

During 2003, this area was reorganised to improve and extend the products and services we offer to companies, while simultaneously increasing our marketing and enabling it to be more effectively co-ordinated.

The former saw the bank create an organisational model, geared to the development and promotion of "customised and innovative" structured financial products and solutions, to the development of financial products, which support client companies' extraordinary financial transactions and to offer listed companies a global service in support of their investor relationship management structures and systems.

The Area's specialist fields are *mergers & acquisitions and equity capital markets*.

The *mergers & acquisitions* unit builds on the strengths of a team of sector-focused specialists dedicated to the design and structuring of M&A transactions, scouting, M&A valuation and feasibility studies, support of contracts and negotiations and the identification of potential industrial and/or financial partners.

The *equity capital markets* unit offers the benefits of a team with distinctive skills, able to provide a complete project management service and ensure their client companies are able to achieve and maintain high distribution capacities.

The bank's main *equity capital market* activities in 2003 saw it advising on the Hera and Isagro Initial Public Offerings, participating in Meta's Initial Public Offering, Placing capital shares in Edison and CDC with leading institutional investors, Co-ordinating Edison, AEM Torino, Reno de Medici and Mondo TV's capital increases, and acting as Co-ordinator and Lead Manager for Fiat and IFIL's capital increases. On the delistings front, the bank acted as Joint Advisor and Joint Global Co-ordinator for the Eni Public Offer for Subscription of Italgas shares, and the Wide Design Public Offer for Subscription regarding Italdesign Giugiaro. The bank also strengthened its position on the international market, acting as Underwriter for the capital increases of Banco Comercial Português and Allianz and Royal & Sun Alliance, and as Co-manager for Timken's institutional share offer.

Our major *corporate finance advisory* operations completed in 2003 included providing consultancy services to Edison regarding the sale of its Egyptian gas reserves, to ENEL regarding increasing the value of its chemical sector assets, to the Italian Ministry of the Economy and Finance regarding the valuation of ETI for privatisation, and to Buzzi Unicem with the Public Offer for Subscription for Dyckerhoff preference shareholders. During the year, the bank also provided support to Cassa di Risparmio di Firenze and Banca Carige in their acquisitions of Cassa di Risparmio di La Spezia and Cassa di Risparmio di Carrara respectively.



Global Markets Area

The Global Markets Area covers the bank's investment, brokerage, origination and debt securities trading services.

Within this area, the *global equity trading* unit is dedicated to managing all activities that generate a direct exposure to the “equity risk”, and is organised along two main lines: trading and funding.

Equity Trading covers management of the directional market, volatility and correlation risks arising from trading on the cash and derivatives markets.

Equity Funding also includes arbitrage and therefore index arbitrage, event-driven trading and statistical arbitrage.

The unit has in addition set up an initial core sales team dedicated specifically to the sale of sophisticated quantitative equity products and services.

Our *global credit trading* activities are divided into: market-making in non-government securities, and credit derivatives activities, with the former including a dedicated service that principally uses the IMIDirect platform. The bank's credit derivatives activities are on the other hand focused on the hedging or arbitrage of the bank's own credit positions (credit default swaps) and those of its institutional clients, as well as on the creation and/or management of derivative or structured instruments where

the user bears or hedges a predefined credit risk (Credit Linked Notes, First-to-Default Swaps etc.).

The *government bonds & interest rate trading* unit covers trading in interest-rate derivatives and government securities, together with foreign exchange and treasury trading. This trading in interest-rate derivatives manages the interest rate risks of the bank and its customers through market making and proprietary trading activities. The range of listed products offered has steadily increased in recent years thanks to the implementation of an advanced in-house modelling system.

The bank's membership to the SwapClear service is one of the distinctive characteristics that set us apart from our competitors, providing constant and extensive, high-calibre coverage of the international swap market and a guarantee of competitiveness for the future. The desk's quality standing enables Banca IMI to be internationally competitive for transactions of any size and complexity, from bullet issues to highly-complex securitisation transactions.

Our trading in government securities has benefited from a significant technological upgrade towards automatic trading, with important gains for distribution and our trading team itself. The unit has been recently strengthened with the addition of agencies & sovereign trading and repo corporate activities.

The Foreign Exchange and Treasury desks are also part of this unit, with the former distinguishing itself through the use and implementation of advanced modelling, while the latter acts as an efficient conduit between the bank's cash flows and our parent company's treasury cash flows.

The *fixed income & derivatives sales* unit benefits from a team of professionals dedicated to the distribution of Banca IMI's Global Markets products for institutional clients (banks, financial institutions, savings management companies and insurance companies) in Italy and worldwide. This team also includes specialists dedicated to operations with local bodies, who are particularly active in the provision of debt restructuring and advisory services to local bodies, as well as fixed income & credit strategists who, amongst other things, write the regular Sales Literature that Banca IMI publishes as a natural complement to its product sales activities.

During 2003, all the bank's brokerage activities were unified in our *global brokerage* unit, which provides investors with centralised solutions for the electronic execution of a wide range of financial instruments and an efficient brokerage service in all the main cash and derivatives products traded on the financial markets.

We also set up a Retail Desk during the year to coordinate the products and services offered to the Sanpaolo Group's retail customers.

The Area likewise covers the activities of our Corporate Derivatives Sales Desk, which places its specialist know-how at the service of corporate clients, providing asset and liability management advisory services, together with guidance on the use of derivatives to optimise a company's financial profile.

The bank's corporate services also include the risk immunisation of import and export positions, the structuring of tailored products, the development of risk management practices in line with the new IAS 39 standards and new auditing standards and the yield enhancement of investment transactions.

The Debt Capital Markets Department offers the services of a team of professionals who have acquired extensive expertise in the issue of debt securities by banks, companies, sovereign and supranational issuers, and local bodies in Italy and on the European market.

Alongside its traditional business in the placement of bonded loans, the bank has also built up a team of professionals exclusively dedicated to the structuring of securitisation transactions for all types of assets.

To complete the range of debt-related products and services offered, we also provide rating advisory and asset/liability management services, as well as structuring/advisory services to support the development of EMTN issue programmes.

Product & Business Development is divided into the following desks:

- Product Development, whose prime objective is to support the dealing room where pricing, trading and value problems and instruments are involved.

- Financial Models, which has more highly-specialised duties and focuses on research, theoretical analyses and modelling, as well as on the creation and maintenance of exceptionally sophisticated financial instruments, such as interest and exchange rate models.
- Credit Models, which engages in the development of proprietary credit models.

The Financial Model and Credit Model desks also create high visibility for the bank in the field of quantitative research through papers published in major international financial magazines and publications, as well as by maintaining contacts with leading authorities in financial quantitative research and the use of staff as speakers at conferences.



Research

Banca IMI carries out constant research on behalf of its institutional clients through a dedicated team of professionals.

During 2003 the bank decided to redesign its financial analysis production and distribution activities by making an internal distinction between sales literature - which aims to provide direct support for our own dealing activities - and what continues to be core *research*, conducted by financial analysts who are independent, as they are not attached to any operating department and report directly to the Managing Director through our Research Office.

The Research Office's team of analysts regularly brings out a significant number of publications, including global asset allocation analysis, macro-economic research and sector analyses in the equity sector.



Operations Area

This area is responsible for administration, management planning and control, financial, credit and operational risk control, post-trading, clearing and settlement activities for financial transactions, and organisational development, information technology, logistics and general services management.

■ Investment Banking

Corporate Finance Projects

Project	Scope of project
IT Holding	Valuation of assets
Sanpaolo IMI Wealth Management	Setting up JV between Sanpaolo IMI and SCH
Roland Europe	Advisor to Board of Directors' for offers to purchase
Sanpaolo IMI	Purchase of a stake in Banca Marche
First Design	Advisor and financiers for offer to purchase Italdesign Giugiaro
Italian Ministry of the Economy and Finance	Valuer for privatisation of ETI SpA
Buzzi Unicem	Advisor for Buzzi-Dyckerhoff POS
Edison	Sale of gas reserves in Egypt
Manuli	Advisor to Board of Directors' for offers to purchase
Merlo	Corporate reorganisation
Sanpaolo IMI Wealth Management	Increase in value of Epta Fund
IPSE	Fairness Opinion
ENI	Increase in value of chemical sector assets
Business Solutions (Fiat Group)	Sale of majority stake in IPI SpA
Sanpaolo IMI	Purchase of majority stake in Fidis (FIAT Group)
ENEL	Increase in value of power generation sector assets
Banca di Sassari	Advisor to Board of Directors' for offers to purchase
Sanpaolo IMI	Valuation of goodwill
Sanpaolo IMI	Management of equity investment performance

Main Bond Placements

(All figures in millions of euros)

Issue	Type	Role	Amount
Banca IMI	2003/2006 DFB III	Issuer	192
General Motors Acceptance Corp Caja de Ahorros y Monte	FRN due 2005	J. L. Manager	750
de Piedad de Madrid	FRN due 2013 (10NC5 LT2)	J. L. Manager	200
Hellenic Railways Org	4.495% Notes due 2013	J. L. Manager	430
Banca IMI	2003/2006 DFB IV	Issuer	220
CPG	Securitisation Cassa Depositi e Prestiti	J. L. Manager	3,026
Banca IMI	2003/2006 DFB V - Multicedola	Issuer	168
Daimler Chrysler UK Holding	FRN due 2006	J. L. Manager	175
Sanpaolo IMI	Fix/Flo Notes due 2015 (12NC7 LT2)	J. L. Manager	350
Banca delle Marche	FRN due 2006	J. L. Manager	300
Findomestic Banca	FRN due 2013 (10NC5 LT2)	Sole Manager	70
Sanpaolo IMI	Fixed Rate Notes due 2007 (T3)	Sole Manager	50
Landsbanki Islands HF	FRN due 2005	J. L. Manager	200
Deutsche Bahn Finance	4.25 Notes due 2015	J. L. Manager	500
SCCI	Securitisation INPS	J. L. Manager	3,000
Banco Itau Europa	FRN due 2006	J. L. Manager	150
Volkswagen International Finance	Zero Coupon Notes due 2009	Sole Manager	75
Caixa Economica Montepio Geral	Zero Coupon Notes due 2009	Sole Manager	100
Merrill Lynch	FRN Multi-Putable due 2010	J. L. Manager	210
SNS Bank	FRN Multi-Putable due 2010	Sole Manager	148
Sanpaolo IMI	Fix/Flo Callable Notes due 2013	J. L. Manager	300
Republic of Italy	2003/2008 BTP Inflation Linked	J. L. Manager	7,000
Banca IMI	2003/2008 Performance Cedolare MIB30	Issuer	137
Deutsche Bahn Finance	4.25 Notes due 2015	J. L. Manager	200
Banca delle Marche	FRN due 2013 (10NC5)	J. L. Manager	400
Banca IMI	2003/2008 DFB VIII Callable	Issuer	250
Credito Valtellinese	FRN due 2008	J. L. Manager	250
Landsbanki Islands HF	FRN due 2007	J. L. Manager	250
Republic of Italy	2003/2008 BTP Inflation Linked	J. L. Manager	3,150
Sanpaolo IMI	FRN due 2009	Sole Manager	275
Natexis Banque Populaire	FRN Multi-Putable due 2009	Sole Manager	137
Caixa Geral de Depositos, Paris	FRN Multi-Putable due 2009	Sole Manager	137
Comune di Pisa	2003/2023 Amortizing FRN	J. L. Manager	20
Kaupthing Bunadarbanki HF	FRN due 2006	J. L. Manager	250
Banca CR Firenze	FRN due 2013 (UT2)	J. L. Manager	200
Edison	5.125 Notes due 2010	J. L. Manager	600
Banca CR Firenze	Single Coupon due 2006 (T3)	Sole Manager	30
Master Dolphin	Securitisation Findomestic Banca	J. L. Manager	350
Sanpaolo IMI	FRN due 2009	Sole Manager	195
Sanpaolo IMI	FRN due 2006	J. L. Manager	500
Banca IMI	2003/2008 Locomotiva Americana	Issuer	170

J. L. Manager: Joint Lead Manager

Share Placements

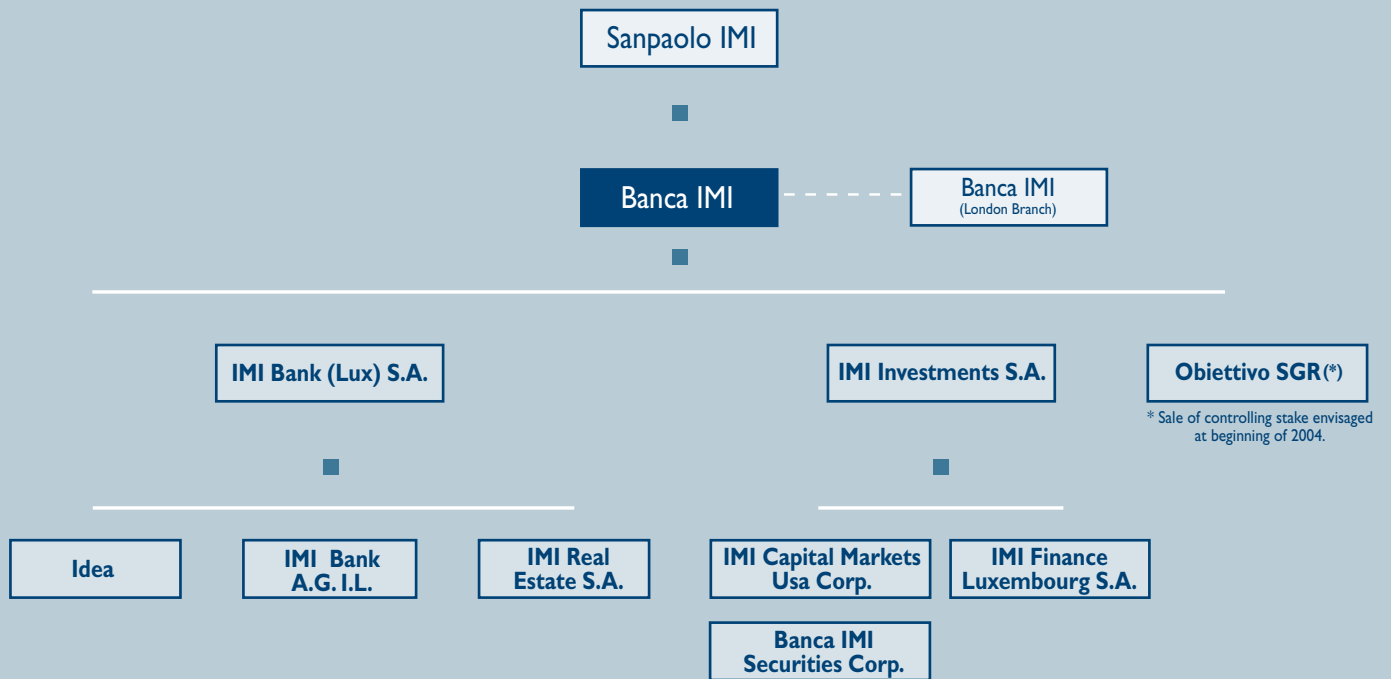
Transaction		
Name	Type	Role of Banca IMI
Meta (°)	Public Offer for Sale and Subscription	Co-Lead Manager in Public Offer for Sale
Hera	Public Offer for Sale	Co-Global Coordinator, Joint Institutional Bookrunner and Joint Lead Manager in Public Offer for Sale
Isagro	Public Offer for Sale and Subscription	Global Coordinator, Joint Institutional Bookrunner and Lead Manager in Public Offer for Sale and Subscription
Timken (USD)	Institutional Offering	Institutional Co-Manager
Banco Commercial Portugues	Capital Increase	Guarantor
Allianz	Capital Increase	Underwriter
Edison	Capital Increase	Joint Global Coordinator
AEM Torino	Capital Increase	Lead Manager and Underwriter
Reno de Medici	Capital Increase	Lead Manager and Underwriter
FIAT	Capital Increase	Lead Manager and Underwriter
IFIL	Capital Increase	Lead Manager and Underwriter
Banca Antoniana Popolare Veneta	Capital Increase	Underwriter
Mondo TV	Capital Increase	Sole Manager and Underwriter
Royal & Sun Alliance	Capital Increase	Underwriter
Banca Popolare Adriatico	Offer to Purchase *	Appointed Broker
Italdesign Giugiaro	Offer to Purchase *	Advisor and Appointed Broker
Italdesign Giugiaro - residuale	Offer to Purchase *	Advisor and Appointed Broker
Air Dolomiti	Offer to Purchase *	Appointed Broker
Locat	Offer to Purchase *	Appointed Broker

(°) The figures are for the public offering only

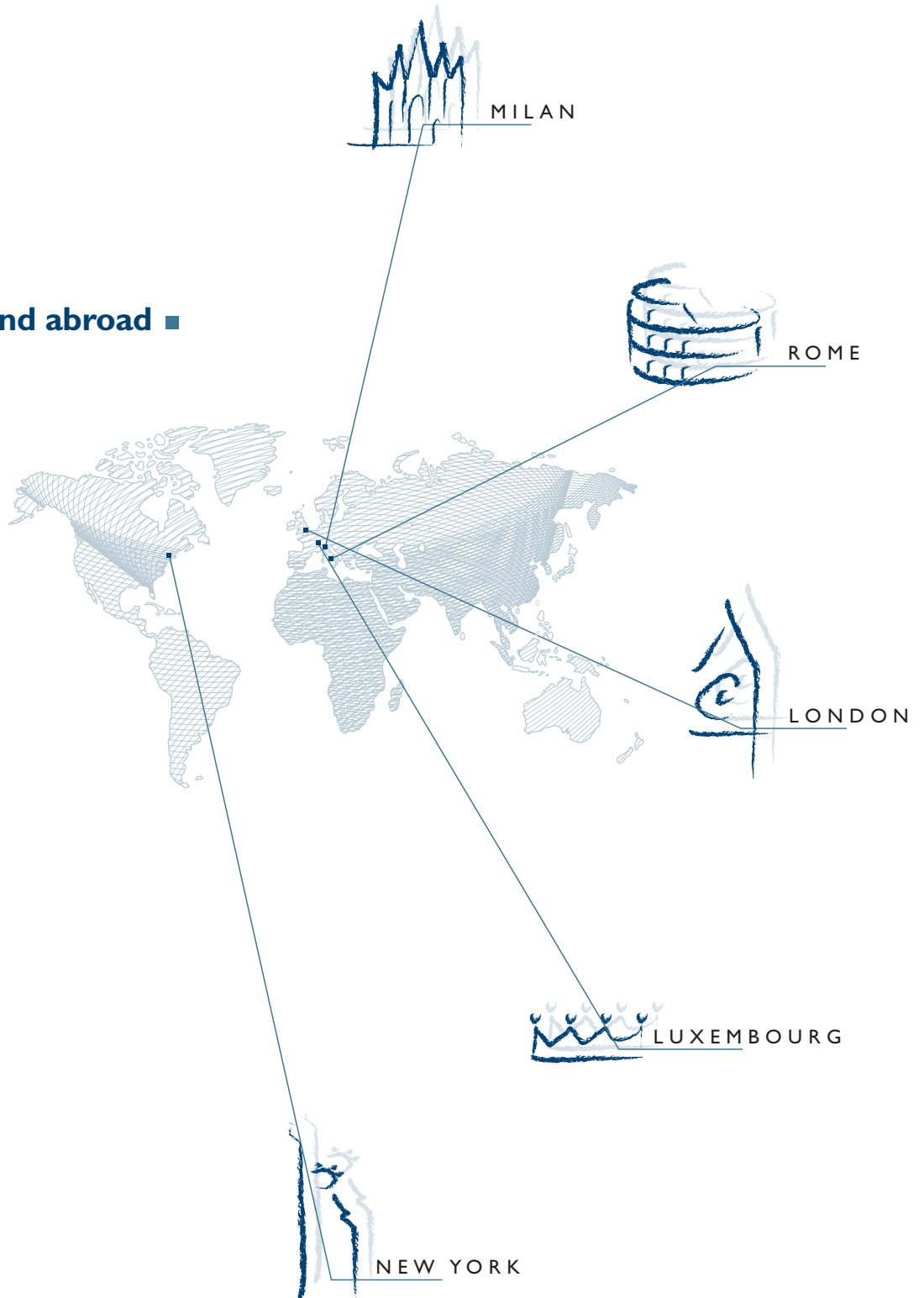
(*) The figures in the "Placed" columns are for the shares sold in each Offer.

By Banca IMI				Transaction total			
Underwritten (shares)	Underwritten (€m)	Placed (shares)	Placed (€m)	Underwritten (shares)	Underwritten (€m)	Placed (shares)	Placed (€m)
658,899	1.28	3,000	0.01	10,929,000	21.31	8,707,500	16.98
113,917,500	141.71	78,852,500	98.55	305,000,000	378.96	350,750,000	434.63
2,051,200	8.20	2,690,800	10.76	4,000,000	16.00	4,000,000	16.00
120,000	0.78	-	-	11,000,000	71.50	11,000,000	71.50
25,000,000	25.00			930,000,000	930.00		
800,000	24.00			117,187,500	4,453.13		
-	-			-	-		
13,824,897	13.82			34,574,897	34.57		
64,000,000	35.20			64,000,000	35.20		
30,000,000	150.00			368,457,108	1,842.29		
16,182,406	21.04			198,798,889	258.44		
2,765,000	29.03			33,410,419	350.81		
108,438	3.83			108,438	3.83		
10,000,000	10.15			1,440,000	1.46		
						10,210,944	74.13
						47,654,169	209.68
						3,609,274	15.88
						1,723,282	25.30
						42,747,072	38.47

■ Group structure



Banca IMI in Italy and abroad ■





■ Board of Directors

Appointed for 2003-2005

Chairman	Luigi Maranzana*
Managing Director	Carlo Corradini*
Directors	Italo Cacopardi Stefano Del Punta Roberto Firpo* Massimo Mattera* ⁽¹⁾ Marcello Mentini

* Members of the Executive Committee
(1) Co-opted on 23 July 2003, in place of Gian Franco MATTEI, who retired on 19 June 2003.

■ Board of Statutory Auditors

Appointed for 2003-2005

Chairman	Riccardo Perotta
Statutory Auditors	Aureliano Benedetti Mario Paolillo

■
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First Section
Annual Report 2003



Consolidated
Financial Statements

■ **Reclassified Balance Sheet and Statement of Income**

This is a translation of the Italian original "Bilancio consolidato al 31 dicembre 2003" and it has been prepared solely for the convenience of the reader.

In the event of ambiguity the Italian text will prevail.

The Italian original will be made available to interested readers upon written request to:

Banca d'Intermediazione Mobiliare IMI S.p.A.

6 Corso Matteotti

20121 Milano - Italy

Reclassified Balance Sheet

Assets (All figures in thousands of euros)	31/12/2002	31/12/2003
Cash and deposits with central banks	57	23
Loans	12,271,920	7,016,672
Including: - Due from banks	8,681,689	5,919,187
- Due from customers	3,590,231	1,097,485
Trading securities	9,097,970	11,548,355
Including: - Government securities and bonds	7,129,044	9,416,582
- Equities	1,968,926	2,131,773
Fixed assets	110,360	101,279
Including: - Equity investments	73,911	83,057
- Tangible and intangible fixed assets	36,449	18,222
Other assets	8,293,286	7,002,249
Total assets	29,773,593	25,668,578

Liabilities

Payables	20,554,210	17,688,970
Including: - Due to banks	7,419,838	8,303,377
- Due to customers	8,379,708	4,711,145
- Securities issued	4,754,664	4,674,448
Other liabilities	8,619,840	7,317,396
Provisions	36,154	35,976
Including: - Provision for employee severance indemnities	6,537	6,867
- Provision for taxation	10,629	20,706
- Consolidation reserve for future risks and charges	11,658	1,807
- Provisions for risks and charges	7,330	6,596
Allowance for possible loan losses	19,360	19,342
Subordinated liabilities	185,000	185,000
Reserve for general banking risks	-	2,000
Shareholder's equity	359,029	419,894
Including: - Share capital	180,000	180,000
- Reserves	177,541	175,088
- Net profit (loss) for the year	1,488	64,806
Total liabilities and shareholders' equity	29,773,593	25,668,578

Reclassified - Consolidated Statement of Income

(All figures in thousands of euros)	2002	2003
Net interest income	(32,495)	26,446
Net income from financial transactions and stock dividends	217,708	197,758
Net commission income	22,419	31,123
Other net operating income	2,846	2,090
Total net operating income	210,478	257,417
Administrative and operating expenses	(200,535)	(151,933)
Operating profit/(loss)	9,943	105,484
Adjustments and provisions	(15,666)	(6,487)
Profit/(loss) before extraordinary items	(5,723)	98,997
Extraordinary items, net	8,602	(440)
Income before taxes and minority interests	2,879	98,557
Income taxes for the year	(1,390)	(33,750)
Minority interests	(1)	(1)
Net profit/(loss)	1,488	64,806



■ **Report of the Directors**

The consolidated financial statements as at 31 December 2003 show that Banca IMI ended the financial year with net income of €64.8m compared to income of €22.3m for the investment banking area only in the previous year. The total consolidated result for 2002 was €1.5m as a result of losses of €20.8m from the web sector.

The gross operating margin was €105.7m compared to €37.5m in 2002 (investment banking area). Gross revenue increased 37.1%, rising from €179.9m as at 31 December 2002 to €246.6m as at 31 December 2003, benefiting from the recovery in the capital markets, the good performance of the risk management sector and an improved sales/distribution margin.

Thanks to rigorous cost containment policies, together with the rationalisation of our organisational structures and production processes, supported by the steady pursuit of increased efficiency, structural costs fell from €142.4m in 2002 to €140.8m as at 31 December 2003.

The sale of our controlling stakes in the web banking/trading sector during the financial year completed the process of refocusing on our traditional investment banking business. The results achieved during the financial year were also helped by the rationalisation and refocusing of the business of our operations outside Italy. This included rationalising the presence of consolidating bank Banca IMI abroad and transferring the business previously carried out by its Tokyo branch to its Milan headquarter.

The reclassified consolidated financial results are presented in the following table, showing the main aggregate results for investment banking and the web sector separately.

Consolidated operating results

(All figures in millions of euros)	31/12/02(*)	31/12/03
Investment Banking Area		
Risk Management	108.6	139.7
Sales	37.8	62.8
Corporate Finance	20.5	10.4
Capital Markets	13.0	33.7
Total revenue	179.9	246.6
Personnel expenses	(70.0)	(76.7)
Overhead costs	(51.6)	(49.5)
Depreciation and amortisation	(20.9)	(14.7)
Total costs	(142.4)	(140.8)
Gross operating margin	37.5	105.7
Provisions	(5.0)	(5.8)
Adjustments to equity investments	0.0	(0.4)
Extraordinary income (expenses)	1.8	(0.9)
Income before taxes	34.3	98.6
Taxes for the year	(12.0)	(33.7)
Net income	22.3	64.8
WEB area net loss	(20.8)	0.0
Consolidated net income	1.5	64.8

(*) The 2002 figures were reclassified to make them homogeneous with those for 2003.

In particular, €3.8m recorded under the item "Dividends on equity investments" in 2002 were reclassified under the item "Risk management".

The economy and market trends

A very positive year for both the stock and bond markets. The Euro Stoxx, Dow Jones and NASDAQ indices ended 2003 with a positive change for the first time since 1999. The yield curves steepened following new rate cuts in both the Euro area and United States and an increase in the medium-long term part of the curve, enabling significant gains in carry activities. The risk premium fell, as did the asset swap spread, giving a strong stimulus to the corporate bond market. Interest in M&A activity renewed after several slack years. Lastly, the increased volatility of the exchange rate market that accompanied the fall in the dollar brought new vigour to the market, which had gone through a long lull after the launch of the single currency in 1999.

These financial market trends reflected easing geopolitical tensions and a steadily improving economic scenario.

The year began amidst uncertainty arising from the Iraq crisis. The start of military operations in mid March was greeted with relief, putting an end to an important factor in this uncertainty, and released a wave of optimism among investors that continued throughout the rest of 2003.

The United States economy maintained steady growth, with GDP growth rising to 3% in 2003 compared to 2.4% in 2002, sustained both by consumption and investments, which in their turn benefited not only from a renewed confidence but also from low interest rates and tax cuts.

Conversely, the Euro area economy grew even weaker, with GDP growth falling from 0.8% in 2002 to 0.5% in 2003 as a result of falling investments and exports combined with rising consumption and public spending. Looking at the region's major economies, Germany's GDP remained unchanged in 2003, while those of France and Italy showed modest increases of 0.3% and 0.5% respectively. The Asian economies performed well, with Japan returning to significant growth

(+2%) and China confirming its position as one of the most dynamic countries in the region.

A further cut in the reference rates by the Federal Reserve and ECB.

Against a backdrop of uncertainty regarding signs of a recovery and persistent job losses (non-farm payrolls), the Fed cut the Fed funds target rate by 25 basis points in force to combat the potential risks of deflation, bringing it down to 1.0%, the lowest it had been for over thirty years.

On 6 March and 5 June 2003, the ECB cut its rates by 25b.p. and 50b.p. respectively, taking the repo rate to 2%, the lowest it had been since 1 January 1999, when it took responsibility for monetary policy in the Euro area. These cuts aimed to combat a situation of economic stagnation in the main EMU countries. The rising exchange rate, weak world demand and low confidence continued to depress the financial market.

The Euro Stoxx stock market index for the Euro area rose more than 18% in 2003, after having fallen by more than 34% in 2002. During the second quarter, the index recovered from the fall in the first quarter (-12.9%), rising over 18% in three months, and consolidated this rise in the subsequent quarters of the year. The main sectors - securities in the industrial, cyclical consumption, technology and telecommunications, building and automotive sectors - outperformed the main index, while defensive securities, and the food, non-cyclical consumption and pharmaceuticals sectors in particular, underperformed. The power sector made modest gains.

This performance of the Euro Stoxx compares with +50% for the NASDAQ, +25% for the Dow Jones and +24% for the Nikkei.

Interest rates on long-term securities fell significantly during the first part of the year, driven down in the Euro area by a weak economy and the strength of the currency,

and in the USA by the conviction that the Fed would try to prevent the loan renegotiation mechanism, one of the main engines of the economy in the previous year, from breaking down.

The Federal Open Market Committee's decision on 6 May to adopt an easing bias regarding deflationary risks, and the subsequent declarations of important representatives of the Central Bank, which did not exclude the use of extraordinary measures (such as the purchase of Treasury Notes and Bonds on the market) if the situation required, caused a sharp fall in bond yields, especially where long-term bonds were concerned. The yields of USA and EMU bonds reached historical lows in June 2003, with the market in a strong overbought situation.

The reversal of this trend was sudden and supported by an unexpected change in tone by the Fed that culminated in Greenspan's speech to Congress on 15 July, when the Governor of the Central Bank declared that the Fed's models were anticipating a sharp increase in growth in the second half of the year, following the approval of an aggressive fiscal policy. The unusual fluctuations in USA bond yields between May and August were, moreover, accentuated by the hedging activities of federal agencies specialising in the mortgage sector, which are often obliged to respond to violent shifts in the market. The sudden closing of carry trades (transactions that aim to exploit the higher yields of long-term bonds by investing short-term funds and bearing the risk) also contributed to exacerbate this reversal of the trend on the bond markets.

Bond yields subsequently stabilised to a degree following sharp falls between June and August 2003.

USA swap rates increased of 25-50b.p. in 2003, with medium maturities underperforming, while EMU swap rates remained substantially unchanged.

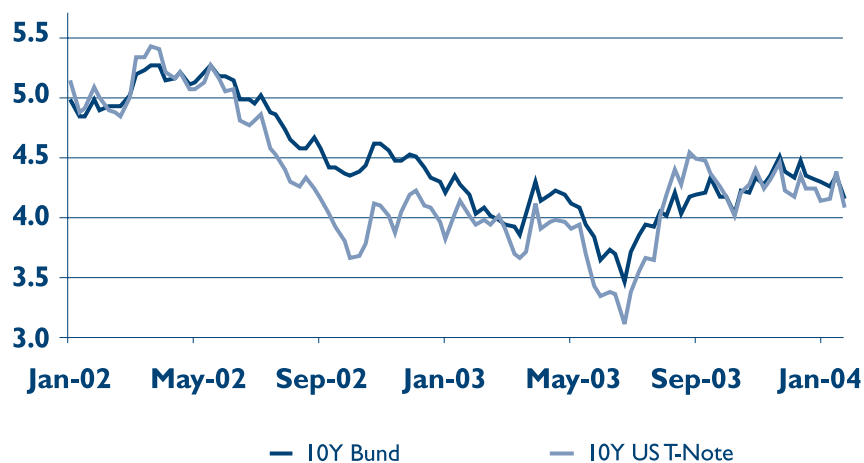
The euro continued to gain strength in 2003. The single currency gained almost 13% with respect to the basket that includes the main Euro area trade partners, on top of its 6.7% rise in 2002. Overall, the euro rose by almost 30% compared to its low in

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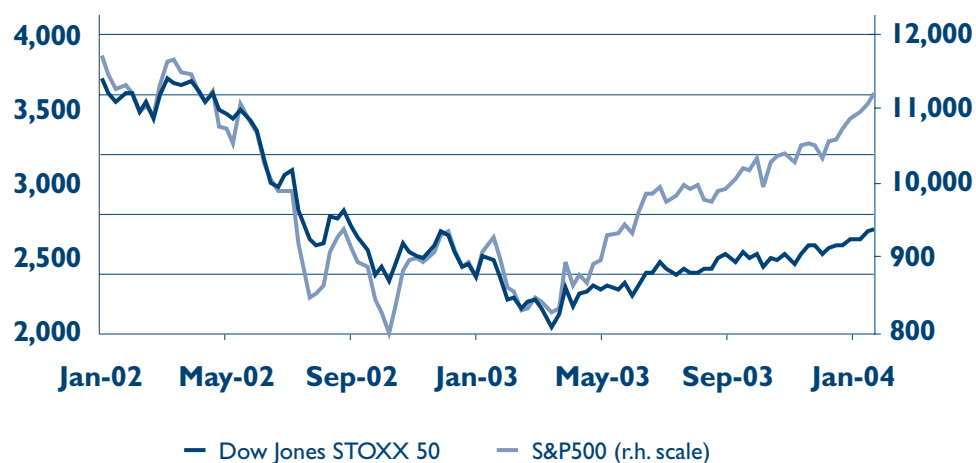
October 2000. The euro's rise in relation to the US dollar was even higher, amounting to more than 20% in 2003 and over 50% with regard to their respective lows.

IPO activity was very modest in Europe during 2003, totalling around €6bn, the lowest value since 1992. Hera, Yell and Bank of Austria were the main transactions. On the other hand, the improved macroeconomic climate and the passing of the confidence crisis, triggered by company scandals in recent years, promoted an encouraging upturn in transactions on the corporate bonds and convertible securities markets. In addition, the market responded magnificently to large capital transactions in 2003 concerning major European companies such as France Telecom, Allianz, Lafarge and Munich Re.

Interest rates



Stock market performance



Results

The consolidation included the following companies, which were consolidated line-by-line:

- IMI Bank (Lux) S.A. and its subsidiaries IDEA, IMI Real Estate S.A. and IMI Bank A.G.I.L.
- IMI Investments S.A. and its subsidiaries, IMI Finance S.A. IMI Capital Markets USA Corp. and Banca IMI Securities Corp.
- Obiettivo SGR.

The planned sale of 80% of the stake in IW Bank SpA (formerly IMIWEB Bank) was completed during the course of the year, with the consolidating bank continuing to hold the remaining 20%, as was the sale of the entire holding in English subsidiary IMIWEB UK Ltd. Further to such change in the shareholding structure, IMIWEB, formally consolidated line by line, has been excluded from the consolidation area and it is now carried at equity.

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With the bank's exit from the Web sector, its business is now concentrated in investment banking activities which, as previously stated, generated gross revenue, which was 37.1% up on the previous year.

The breakdown of revenue by business area was €139.7m from Risk Management (up 28.7% on the previous year), €62.8m from Sales activities (+66.0% on 2002), €10.4m from Corporate Finance activities (-49.2% compared to the previous financial year) and €33.7m from Capital Markets (up 159.2% on 2002).

Risk Management revenue was once again up on the previous financial year, despite a fall in revenue from the management of shareholders' equity, offset by a significant increase in fixed income revenue. Interest Rate Derivatives in particular benefited from the conditions of the interest rate markets to achieve increased operating volumes. Syndicate & Credit Trading results were strong, with stable volumes from institutional clients, while Equity Risk Management continued to perform well, helped by the buoyant contribution of its arbitrage component. The period likewise saw the bank consolidating its range of retail financial products and the sales volumes they achieved.

Revenue from the **Distribution/Sales** sector was up on 2002, as reported above, particularly revenue from Fixed Income Sales activities and the distribution of market risk derivatives for corporate customers by the Group's Networks, an area that is starting to generate significant margins. Trading on behalf of third parties in listed shares and derivatives saw the bank consolidate its market position.

Market conditions in the **Equity Capital Markets** sector led to a rise in delisting activities, which saw the bank involved in the main transactions carried out during the year (including the Eni takeover of Italgas). The bank also confirmed its market-leading position in the IPO sector, acting as coordinator for the main transactions in

Italy (including Hera) and being involved in many significant international transactions. Moreover, the bank was also directly involved in the financing of certain transactions and/or in underwriting full compliance with the transactional terms in others.

Although international **Corporate Finance Advisory** activities saw a contraction in the M&A market, this sector showed signs of recovery in Italy, enabling the bank to achieve strong results from its advisory services to the main industrial groups in the country.

Despite a narrow primary market, which amongst other things suffered from poor demand as a result of the widely-reported “affairs” that dented saver confidence, our **Debt Capital Market** activities improved on their 2002 performance thanks to the bank’s strong origination capacity.

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The results of the companies included in the consolidation, calculated in accordance with the Group's accounting policies and gross of consolidation adjustments, are summarised in the table below:

(All figures in thousands of euros at exchange rates as at 31/12/03)	Net income/(loss)
Banca IMI	58,826
IMI Bank (Lux)	1,484
IDEA	108
IMI Real Estate	223
IMI Investments	(4,235)
IMI Finance	9,485
IMI Capital Markets	43
Banca IMI Securities	2,645
Obiettivo SGR	(869)
Income from instruments carried at equity	67,711
IW Bank Spa	6
Income from investments carried at equity	6
Consolidation eliminations	(2,884)
Minority interest in net income	(1)
Consolidation adjustments	(26)
Consolidated net income	64,806

Information on the balance sheet

Analysis of the individual Balance Sheet items and detailed information on the accounting policies adopted can be found in the Notes to the Financial Statements. This section provides information on the most important assets and liabilities items.

The Group's securities portfolio totalled €11,548m as at 31 December 2003 compared to €9,098m as at 31 December 2002, including €9,417m bonds (including €6,900m government securities) and €2,132m shares and units in mutual funds, with technical short positions totalling €859m.

The most significant receivable items were repurchase agreements and stock lending transactions, which totalled €5,823m (€8,142m as at 31 December 2002), including €5,125m due from banks (€6,449m as at 31 December 2002). The largest item under "other assets" regarded the balancing entries for the revaluation of off-balance-sheet transactions, which totalled €5,184m (€6,550m as at 31 December 2002).

The largest liabilities items were repurchase agreements and securities loaned, amounting to €11,216m (€10,974m as at 31 December 2002), deposits from other banks totalling €1,295m (€2,761m as at 31 December 2002) and bonds issued with a total value of €4,674m (€2,531m as at 31 December 2002). Other liabilities included the balancing entries for the revaluation of off-balance-sheet transactions totalling €5,494m (€6,626m as at 31 December 2002).

The bank's trading in shares in parent company Sanpaolo IMI SpA, resulted in its liabilities as at 31 December 2003, including a "short position" regarding 395,575 shares in the parent company (par value €1.1m) related to normal trading activities that were financially offset by transactions in derivatives. During the year the bank completed purchase transactions for 8,542,252 shares (par value €23.9m) with a total value of €77.7m and sale transactions for 10,532,571 shares (par value €29.5m) with a total value of €95.0m. This compared with an opening position as at 31 December 2002 of 1,594,744 shares (par value €4.5m) with a market/book value of €9.9m. The companies included in the consolidation did not otherwise purchase or sell own shares during the year or hold any at the time of consolidation.

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The reconciliation of the consolidating company's shareholders' equity and net result with the corresponding consolidated amounts is set out below.

(All figures in thousands of euros)	Income	Capital and reserves	Shareholders' equity
Parent company financial statement balance	58,826	351,319	410,145
Effect of consolidation of subsidiaries on a line-by-line basis	8,884	606,002	614,886
Effect of consolidation of subsidiaries carried at equity	6	-	6
Minority interests	(1)	(2)	(3)
Consolidation adjustments:			
- Book value of equity investments		(606,116)	(606,116)
- Dividends	(2,837)	309	(2,528)
- Other	(72)	5,574	5,502
Consolidated financial statement balance	64,806	357,086	421,892

Consolidated companies

This section provides a series of brief reports on the companies included in the consolidation.

IMI Bank (Lux)

IMI Bank (Lux) and its subsidiaries ended the 2003 financial year with net income of €1.5m compared to a loss of €1.0m in 2002. The 2003 financial year saw a significant recovery compared to 2002 thanks to the completion of the bank's

programme for refocusing its business on certain strategic areas (principally the Custody, Asset Management and Eurobond trading services provided to its institutional clients). These activities made a significant contribution to income thanks both to inflows from non-captive business and as a result of the efforts made to maximise the opportunities offered by the bank's business relations with other production units in the Sanpaolo Group, foremost among them those of parent company Banca IMI.

Moving on to consider individual business areas, Treasury saw the EMTN issue programme continuing to play a central role in financing the securities portfolio, providing a stable contribution to the results for the period. Treasury also saw its role as the natural complement to the bank's custody and clearing activities strengthened, with gross revenue of €2.6m in 2003, in line with forecasts.

Eurobond activities also performed well, benefiting from the bank's ability to generate new business independently with non-captive clients, above all in the second half of the year, with a gross contribution in 2003 of €2.1m.

Global Custody & Clearing activities experienced significant growth in volumes and therefore revenue, above all towards the end of the year, generating a net contribution of €1.8m.

The bank's Asset Management activities include acting as promoter for four Organismes de Placement Collectif and providing advisory services for the management of other group companies' investment portfolios. Despite a fall in unit fees, revenue in 2003 was in line with the previous year (€3.2m) thanks to an increase in volumes.

The bank continued the rationalisation and efficiency drive launched in 2002, enabling it to further contain structural costs, bringing them down to €7.0m

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compared to €7.6m in 2002. The company's human resources numbered 46 at year end (54 as at 31 December 2002).

The Board of Directors of Sanpaolo IMI approved the merger of IMI Bank (Lux) with Sanpaolo Bank (Lux) on 16 December 2003.

The main reclassified aggregate results are shown below.

IMI Bank (Lux) operating results

(All figures in millions of euros)	31/12/02	31/12/03
Investment Banking Area		
Risk Management & Sales	6.8	9.3
Corporate Finance & Capital Markets	0.0	0.0
Total revenue	6.8	9.3
Personnel expenses	(4.1)	(3.9)
Overhead costs	(2.7)	(2.3)
Depreciation and amortisation	(0.8)	(0.8)
Total costs	(7.6)	(7.0)
Gross operating margin	(0.8)	2.3
Provisions	0.0	0.0
Extraordinary income (expenses)	0.3	(0.0)
Income (loss) before taxes	(0.5)	2.3
Taxes for the year	(0.5)	(0.8)
Net profit/(loss) for the year	(1.0)	1.5

IMI Investments

IMI Investments S.A. and its subsidiaries ended the financial year with consolidated net income of €7.9m compared to €0.5m as at 31 December 2002.

IMI Investments is a Luxembourg société de participation financière providing asset management in Luxembourg mutual funds and the parent company of IMI Capital Markets USA Corp., which is in its turn the parent company of Banca IMI Securities Corp., a full-service broker dealer registered with the Securities and Exchange Commission and member of the New York Stock Exchange and NASDAQ.

IMI Investments and its subsidiary **IMI Finance** generated €5.3m net income for the year, €2.5m of which was paid to parent company Banca IMI as dividends. This result was principally due to its equity investment in the German company Dyckerhoff A.G., listed on the German Xetra market.

The American companies saw **Banca IMI Securities Corp.** end the 2003 financial year with net income of €2.6m, a significant increase on 2002 (+77% at historical exchange rates).

The company's brokerage activities on American and European stock markets achieved particularly strong results. 2003 trading volumes totalled approximately \$2.9bn on US markets and €42.2bn on European markets, generating total commission income of €6.8m compared to €7.1m in the previous year.

During 2003, the company continued developing the securities lending activities launched the previous year, generating revenue of €1.6m, a significant increase on 2002 (+130% at historical exchange rates).

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The fixed income sector's sales force was reorganised during the year to focus its services, provided for American institutional clients, on Euro area corporate bonds. Trading volumes were €2.7bn, 32% down on 2002 at historical exchange rates.

Banca IMI Securities Corp. continued to work with parent company Banca IMI, participating jointly in underwriting syndicates for securities issued by American companies, including in particular the Timken share offering and bond issue, and - as in previous years - the Euro Medium Term Note issue programme of the federal agency Freddie Mac.

On the structural costs front, Banca IMI Securities continued its policy of containing administrative and operating expenses, which totalled €8.0m compared to €10.7m in the 2002 financial year (-8.7% at historical exchange rates). Personnel Expenses in particular were brought down to €5.1m compared to €6.4m the previous financial year. The average staff of Banca IMI Securities Corp. numbered 42 in 2003 compared to 47 in 2002.

Banca IMI Securities Corp.'s main reclassified aggregate results are shown below.

IMI Investments operating results

(All figures in millions of euros)	31/12/02	31/12/03
Investment Banking Area		
Risk Management & Sales	11.3	16.8
Corporate Finance & Capital Markets	0.0	0.2
Total revenue	11.3	17.0
Personnel expenses	(6.4)	(5.1)
Overhead costs	(3.6)	(2.8)
Depreciation and amortisation	(0.4)	(0.3)
Total costs	(10.4)	(8.2)
Gross operating margin	0.9	8.8
Provisions	0.0	0.0
Extraordinary income/(expenses)	0.0	(0.2)
Income before taxes	0.9	8.6
Taxes for the year	(0.4)	(0.7)
Net income	0.5	7.9

Obiettivo SGR

Obiettivo SGR is a single manager “pure” speculative fund management company which managed 3 mutual funds (Obiettivo Global Equity, Obiettivo Global Fixed Income and Obiettivo Multistrategy Low Risk) at year-end.

Within this sector, where the company accounts for a quarter of gross group inflows, its share fund ended the year with the second best performance (+4.7%), while its

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other funds performed less well (Global Fixed Income -0.48% and Multistrategy Low Risk fund, launched in February 2003, +0.46%).

The company was able to make significant headway in containing administrative and operating expenses during 2003 thanks to careful control of its running expenses. Conversely, the contribution of performance fees was not as high as anticipated, especially in the second half of the year. The period ended with a negative result of €0.9m.

Relationships with group companies

The bank's relationships with the companies in the Sanpaolo IMI Group are set out in Part B, section 3, and Part C, section 7, of the Notes to the Financial Statements. Section 3 of "Information on the balance sheet" also details the volume of transactions in the parent company's shares.

Subsequent events and outlook

During March 2004 the bank proceeded with the sale of its entire stake in Obiettivo SGR to Sanpaolo WM S.p.A. for an amount that was, moreover, higher than the related book value. At the same time, the 15% holding in Sanpaolo Institutional Asset Management SGR was also sold to Sanpaolo WM S.p.A. as part of the same project for rationalising the Sanpaolo Group's presence in the speculative funds sector.

■

The outlook for 2004 is in line with the performance achieved in 2003.

■

Milan, 8 April 2004

■



- **Balance Sheet and Income Statement**

Consolidated Balance Sheet*

Assets (all figures in thousands of euros)		31/12/2003	31/12/2002
10	Cash and deposits with central banks and post offices	23	57
20	Government bonds and similar instruments eligible for refinancing with central banks	909,910	912,868
30	Due from banks	5,919,187	8,681,689
	(a) On demand	1,569,583	618,128
	(b) Other	4,349,604	8,063,561
40	Loans to customers	1,097,485	3,590,231
50	Bonds and other debt securities	8,506,672	6,216,176
	(a) Public issuers	7,106,399	3,088,948
	(b) Banks	851,316	2,507,167
	(c) Financial institutions	417,516	525,916
	(d) Other issuers	131,441	94,145
60	Shares, quotas and other equity interest	2,131,773	1,968,926
70	Equity investments	78,821	69,760
	(a) Carried at equity	3,034	
	(b) Other	75,787	69,760
80	Investments in Group companies	4,236	4,151
	(a) Carried at equity	1,177	1,186
	(b) Other	3,059	2,965
110	Intangible fixed assets	12,973	21,084
	<i>Including: - Start-up costs</i>	<i>97</i>	<i>146</i>
	<i>- Goodwill</i>	<i>1,807</i>	<i>-</i>
120	Tangible fixed assets	5,249	15,365
150	Other assets	6,673,500	7,980,494
160	Accrued income and prepaid expenses:	328,749	312,792
	(a) Accrued income	294,893	229,074
	(b) Prepaid expenses	33,856	83,718
Total assets		25,668,578	29,773,593

(*) The financial statements have been prepared in accordance with the accounting principles established by the Italian law related to financial statements, which may not conform with generally accepted accounting principles in other countries.

Liabilities (all figures in thousands of euros)		31/12/2003	31/12/2002
10	Due to banks	8,303,377	7,419,838
	(a) On demand	1,514,026	736,747
	(b) Time or notice	6,789,351	6,683,091
20	Due to customers	4,711,145	8,379,708
	(a) On demand	1,334,362	935,316
	(b) Time or notice	3,376,783	7,444,392
30	Securities issued	4,674,448	4,754,664
	(a) Bonds	4,674,448	4,754,664
	(b) Certificates of deposit (*)	-	-
50	Other liabilities	7,099,589	8,475,597
60	Accrued expenses and deferred income	217,807	144,243
	(a) Accrued expenses	217,260	142,793
	(b) Deferred income	547	1,450
70	Provision for employee severance indemnities.	6,867	6,537
80	Provisions for risks and charges	29,109	29,617
	(a) Pensions and similar obligations	-	-
	(b) Taxation	20,706	10,629
	(c) Consolidation reserve for future risks and charges	1,807	11,658
	(d) Other provisions (*)	6,596	7,330
90	Allowance for possible loan losses	19,342	19,360
100	Reserve for general banking risks	2,000	-
110	Subordinated liabilities	185,000	185,000
120	Negative reserve consolidation	206	2,744
140	Minority interests (+/-)	2	2
150	Share capital	180,000	180,000
160	Additional paid-in capital	131,260	131,260
170	Reserves	43,620	43,535
	(a) Legal reserve	36,000	36,000
	(c) Statutory reserves	-	-
	(d) Other reserves	7,620	7,535
190	Profits carried forward	-	-
200	Net profit (loss) for the year	64,806	1,488
Total liabilities		25,668,578	29,773,593

Guarantees and commitments

10	Guarantees	43,370	2,549,531
20	Commitments (*)	5,374,605	6,288,575
30	Credit derivatives	318,161	146,273

(*) The 2002 figures were reclassified as required to enable comparison with the 2003 financial year. In particular, provisions totalling €11,658,000 under item (d) "other provisions" regarding the 2002 write-downs to the equity investments in IMIWeb and IMIWeb UK to bring their book values into line with their sales prices were reclassified under the item "consolidation reserve for future risks and charges". Likewise, "commitments" totalling €146,273,000 were reclassified under the item "credit derivatives", and "certificates of deposit" totalling €2,223,497,000 were reclassified under the item "bonds".

Consolidated Statement of Income

(All figures in thousands of euros)		2003	2002
10	Interest income and similar revenue	498,085	562,675
	<i>Including: - Loans to customers</i>	50,233	41,519
	<i>- Debt securities</i>	275,504	326,855
20	Interest expense and similar charges	(471,639)	(595,170)
	<i>Including: - Deposits from customers</i>	(158,418)	(161,162)
	<i>- Securities issued</i>	(91,421)	(100,362)
30	Dividends and other revenue	225,410	400,101
	a) Shares, quotas and other equities	222,518	396,159
	b) Equity investments	2,892	3,942
40	Commission income	103,460	104,473
50	Commission expense	(72,337)	(82,054)
60	Profits (losses) on financial transactions	(27,652)	(182,393)
70	Other operating income	2,624	4,195
80	Administrative costs		
	a) Payroll costs	(74,464)	(77,164)
	<i>Including: - Wages and salaries</i>	(57,257)	(59,529)
	<i>- Social security contributions</i>	(14,233)	(14,196)
	<i>- Provision for employee severance indemnities</i>	(2,224)	(2,416)
	<i>- Pensions and similar obligations</i>	(750)	(1,023)
	b) Other administrative expenses	(62,799)	(82,938)
90	Adjustments to intangible and tangible fixed assets	(14,670)	(40,433)
100	Provisions for risks and charges	(1,271)	(15,558)
110	Other operating expenses	(534)	(1,349)
120	Adjustments to loans and provisions for guarantees and commitments	(2,582)	(90)
140	Provisions for possible loan losses	-	(18)
150	Adjustments to financial fixed assets	(640)	-
170	Income (loss) from investments carried at equity	6	-
180	Profit (loss) from ordinary activities	100,997	(5,723)
190	Extraordinary income	5,275	18,131
200	Extraordinary expenses	(5,715)	(9,529)
210	Net extraordinary income (loss)	(440)	8,602
230	Change in reserve for general banking risks	(2,000)	-
240	Income taxes	(33,750)	(1,390)
250	Minority interests in net income (loss)	(1)	(1)
260	Net profit (loss) for the year	64,806	1,488



- **Notes to the Consolidated Financial Statements**

Notes to the Consolidated Financial Statements

The financial statements of the company and its subsidiaries are consolidated line by line in the consolidated financial statements of the parent company Sanpaolo IMI S.p.A. (referred to as the Parent Company hereinafter). The company is not therefore required to prepare consolidated financial statements of its own.

Banca IMI S.p.A. (referred to as the Consolidating Bank hereinafter) has nevertheless prepared consolidated financial statements as at 31 December 2003 in the interests of full and transparent disclosure of its activities. These financial statements were prepared in accordance with the provisions of Italian Legislative Decree No. 87 of 27 January 1992, implementing EC Directive 86/635, and the Bank of Italy Regulations of 16 January 1995 as most recently amended by the Regulations of 30 July 2002, supplemented where necessary by the general provisions of the Italian Civil Code and other relevant laws and regulations.

These notes to the consolidated financial statements are divided into the following parts:

Part A - Accounting policies

Part B - Notes to the Balance Sheet

Part C - Notes to the Statement of Income

Part D - Other information

Schedule - Reconciliation of the bank's financial statements and the consolidated financial statements.

The companies consolidated line by line and investments carried at equity are detailed in part B, section 3, of these Notes.

The financial statements used for consolidation purposes were those as at 31 December 2003 approved by the related shareholders' meetings. These financial statements were reclassified as required to bring them into line with the same accounting policies.

Goodwill on consolidation was calculated in relation to the balance sheets as at the date closest to the acquisition or transfer concerned.

The book values of investments in the companies included in consolidation were offset by the corresponding portion of the related companies' shareholders' equity. Any differences between these amounts were, whenever possible, recorded in the assets or liabilities of the consolidated companies.

Negative differences were recorded in consolidated balance sheet item "Negative goodwill arising upon consolidation" for companies consolidated line by line, and under "Negative goodwill arising upon application of the equity method" for investments carried at equity. Any positive goodwill was offset against negative goodwill as permitted by the relevant legislation.

Section 8 of Part B of the Notes to the consolidated financial statements details the positive and negative goodwill arising upon consolidation and upon application of the equity method. All transactions between consolidated companies and all income and losses resulting from intra-group transactions were eliminated. The financial statements of consolidated companies that are stated in currencies other than the euro were converted applying the year-end exchange rates to each individual balance sheet and statement of income item.

The items in the financial statements for the previous financial were reclassified, where necessary, to enable homogenous comparison with the same financial statement items as at the end of the financial year in question.

The consolidated financial statements are stated in thousands of euros unless specified otherwise. Tables without figures have been omitted.

The accounting policies adopted were agreed with the Board of Statutory Auditors where required by law and notified to the Independent Auditors Deloitte & Touche SpA.

Part A - Accounting Policies

Changes to the accounting policies

The balance sheet and statement of income as at 31 December 2003 were prepared adopting the same accounting policies as the financial statements as at 31 December 2002 and as Parent Company Sanpaolo IMI S.p.A.



Section I - Statement of accounting policies

I. Loans, guarantees and commitments

I.1 Loans

Loans are recorded at their estimated realisable value. Adjustments of loans on the basis of debtor solvency are recorded by deducting the value directly from the asset item concerned, with a balancing entry in the statement of income.

I.2 Guarantees and commitments

Guarantees issued are recorded at the total value of the exposure and valued adopting the same criteria as for loans.

Commitments regarding securities purchases or sales not yet settled, and foreign exchange transactions at the close of the year are recorded at their trading price. Commitments regarding derivatives are recorded at the notional value. Exposures regarding underlying borrowers for credit derivative for which the Bank has assumed the credit risk, as protection seller, are recorded as commitments.

Credit derivatives, which are included in the trading book, are valued individually to take the associated credit risk and market risk into account in accordance with the criteria explained in section 7.1 below.



2. Securities and off-balance-sheet transactions (other than foreign currency transactions)

2.1 Investment securities

The Group does not hold any investment securities.

2.2 Trading securities

The cost of securities holdings is calculated using the moving weighted average cost method on a daily basis.

Securities held are valued as follows:

- a) if listed on Italian or foreign regulated markets, at their market value at the year-end reference price (or official price or last price);
- b) if not listed on regulated markets, they are valued at whichever is the lowest of cost or estimated realisable value, determined in relation to the market value of listed securities with similar financial characteristics, discounting future flows on the basis of current market yields and other elements that can be determined objectively. The original values of securities written down in accordance with the said valuation criterion are reinstated if the reasons for said write-downs cease to apply.

Unlisted securities and other financial instruments linked to derivative contracts are recorded at their market value, in line with the valuation of these contracts. Trading transactions are recorded in relation to the settlement dates of the related sale and purchase contracts.

Sale and purchase transactions with settlement dates subsequent to the year end are valued in the same way as securities holdings.

The accrual for the year is calculated on the issue premium or discount for bonds held by the Group and included in net interest income in accordance with current regulations.

2.3 Repurchase agreements and securities lending transactions

Repurchase agreements are recorded as financial transactions in accordance with current regulations, with the difference between the spot and forward prices being spread over the duration of the contracts and accrued on a time basis.

Securities lending transactions which are guaranteed by sums of money that revert in full to the lender are treated in the same way as repurchase agreements. Securities lending transactions that are not guaranteed by sums of money are recorded in the financial statements as a combination of two related transactions, involving a loan receivable and a loan payable, offset by funding or investment transactions. These funding or investment transactions are treated in the same way as repurchase agreements, so that the securities being lent continue to be shown in the lender's portfolio.

3. Equity investments

Equity investments are, as a rule, stated at cost, adjusted for any impairment in value. The original value is reinstated if the reasons for any write-downs cease to apply and the reinstated cost is recorded in the statement of income under item 160, "Write-backs of financial fixed assets".

Following the introduction of accounting for internal hedging deals, the accounting principles for which are set out in the section on "Derivatives transactions", variations in exchange rates are taken to account for equity investments denominated in foreign currencies in accordance with the hedging valuation principle.

4. Assets and liabilities denominated in foreign currencies (including "off-balance-sheet transactions")

Assets and liabilities denominated in or linked to foreign currencies are translated using the year-end exchange rates.

The effects of contractual obligations regarding transactions in foreign currencies

(including options) are reported in the statement of income at the agreed maturity dates, taking amounts accrued but not yet settled on the accounting reference date into account as described below.

All off-balance-sheet transactions denominated in foreign currencies and not entered into for hedging purposes are valued in accordance with the provisions of article 21 of Italian Legislative Decree No. 87/92, using the year-end spot exchange rate for transactions that have not yet been settled, or the year-end forward exchange rate for the maturity dates of the transactions being valued for forward transactions. The balancing entries for these revaluations are recorded under other assets and other liabilities.

5. Tangible fixed assets

Tangible fixed assets are recorded at cost net of depreciation, which is calculated on a straight-line basis using the ordinary and accelerated depreciation rates permitted by Italian tax legislation, which are considered representative of the estimated useful life of the assets concerned.

Depreciation commences in the year that the asset enters service. The depreciation rates are halved in the year of purchase.

6. Intangible fixed assets

Intangible fixed assets are, with the agreement of the Board of Statutory Auditors, recorded at cost net of amortisation, calculated on a straight-line basis over a period of between three and five years, depending on their expected useful life.

7. Other aspects

7.1 Derivatives transactions

Differentials on derivatives transactions are recorded in the statement of income on their settlement date, taking into due account any amounts accrued but not yet settled on the accounting reference date.

The market value of derivatives transactions with underlying securities or linked to interest rates, indexes or other assets is calculated using mathematical models that are widely accepted in accounting practice, based on parameters that are listed on the reference markets or implicitly derived from listed values.

The balancing entries of these valuations, which essentially represent the counterparty risk of the transactions themselves, are included without being offset by other assets or other liabilities, as appropriate.

Over-the-counter derivatives margined through clearing organisations (e.g. SwapClear) are recorded in accordance with the principles set out in section 7.3 below.

7.2 Internal Deals

The bank's organisational structure and system of internal delegation provides for the specialisation of different operating units (desks) that are authorised to operate on the market where certain derivatives are concerned. Each desk manages different types of risks and operates within its given net risk operating limits. In consideration of the Consolidating Bank's operating structure and the specialisation of its different organisational units, while at the same time acting to optimise risk management efficiency and the identification of cost and revenue sources, the Consolidating Bank introduced accounting for internal deals from 1999 with the aim of protecting the bonds it issues from the risk of adverse changes in market parameters.

A transaction is considered a hedging transaction when the following conditions are both satisfied and documented:

- a) Intention to use for hedging purposes;
- b) High correlation between the technical and financial characteristics of the assets or liabilities being hedged and those of the hedging contract.

Where the accounting of internal deals and their impact on income are concerned, the trading desks' internal contracts are recorded at their market value. The hedging contracts of the internal units' receiving the protection are valued in the same way as the assets or liabilities being hedged.

7.3 Listed futures and options

The initial margins of futures, options and over-the-counter derivatives margined through clearing systems are recorded as assets. Variation margins that reflect gains or losses with respect to the year-end market values of open contracts are recorded in the statement of income. The results of the valuation of stock-style options in relation to their official prices are recorded in the statement of income.

7.4 Payables

Amounts due to banks and due to customers are recorded at their nominal value.

7.5 Provision for employee severance indemnities

The provision is calculated in accordance with current legislation and employment agreements.

7.6 Income taxes

The total payable for income tax is calculated on the basis of a cautious estimate. Timing differences regarding which there is a reasonable certainty of tax recovery are recorded.

7.7 Allowance for possible loan losses

This reserve comprises amounts set aside in previous financial years to cover risks, including those related to derivative contracts. Since these risks are only potential, this provision is not deducted from assets.

7.8 Other provisions

The provisions for risks and charges solely cover known or likely losses, charges or liabilities, the timing and amount of which cannot be determined with certainty at year-end.

7.9 Reserve for general banking risks

This reserve, which covers general business risks, constitutes part of the shareholders' equity in accordance with the accounting principles laid down by the Supervisory Authorities and the Bank of Italy's regulations.

7.10 Securities issued and subordinated liabilities

These are recorded at their par value, which is their maturity value. The book values of liabilities denominated in foreign currencies are adjusted to the year-end exchange rates.

7.11 Interest and other revenue and expenses

Interest income and expenses, commission and other revenue and expenses are recorded on an accruals basis.

7.12 Dividends

Dividends are recorded at the time of the resolution to distribute them with the exception of the dividends of subsidiaries (both direct and indirect) that are not consolidated line by line, which are recorded in the statement of income for the financial year in which they accrue.



Section 2 - Adjustments and provisions for tax purposes

2.1 Adjustments made solely for tax purposes

None.

2.2 Provisions made solely for tax purposes

None.



Part B - Notes to the Consolidated Balance Sheet

Section I - Loans

Consolidated loans, which are the sum of Balance Sheet assets items 10, 30 and 40, totalled €7,016,695,000 net of adjustments as follows:

	31/12/02	31/12/03
Cash and deposits with central banks and post offices (item 10)	57	23
Due from banks (item 30)	8,681,689	5,919,187
Loans to customers (item 40)	3,590,231	1,097,485



I.1 Analysis of item 30 “due from banks”

	31/12/02	31/12/03
a) Due from Central Banks	27,132	31,216
b) Bills eligible for refinancing with central banks	-	-
c) Finance leases	-	-
d) Repurchase agreements	6,215,816	4,933,749
e) Securities lending	233,379	190,694



Breakdown of item 30 “due from banks”

Amounts due from banks totalled €5,919,187,000 as follows:

	31/12/02	31/12/03
Due from Central Banks:		
- Compulsory reserve	27,132	30,354
- Repurchase transactions and other transactions	-	862
Due from other banks:		
- Repurchase agreements	6,215,816	4,933,749
- Current accounts	112,865	169,371
- Securities lending	233,379	190,694
- Deposits and loans	2,092,241	594,157
- Subordinated loans	256	-
Total	8,681,689	5,919,187

■

The breakdown of the item “securities lending” was as follows:

	31/12/02	31/12/03
Loans for securities lending transactions	110,144	119,716
Repurchase agreements for securities lending transactions	123,235	70,978

■

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I.2 Analysis of due from banks

	Gross value	Total adjustments	Net book value
A. Doubtful loans	-	-	-
A.1 Non-performing loans	-	-	-
A.2 Problem loans	-	-	-
A.3 Loans currently being restructured	-	-	-
A.4 Restructured loans	-	-	-
A.5 Unsecured loans exposed to country risk	-	-	-
B. Performing loans	5,919,187	-	5,919,187

■

I.5 Analysis of item 40 “loans to customers”

	31/12/02	31/12/03
a) Bills eligible for refinancing with central banks	-	-
b) Finance leases	-	-
c) Repurchase agreements	1,542,975	533,447
d) Securities lending	179,636	164,285

■

Analysis of item 40 “loans to customers”

Loans to customers totalled €1,097,485,000 as follows:

	31/12/02	31/12/03
Current accounts	46,074	20,873
Interest-bearing cash deposits with clearing organisations	54,144	104,162
Repurchase agreements	1,542,975	533,447
Securities lending	179,636	164,285
Deposits	1,767,134	273,905
Subordinated loans	-	256
Other	268	557
Total	3,590,231	1,097,485

■

The breakdown of the item “securities lending” was as follows:

	31/12/02	31/12/03
Loans for securities lending transactions	137,686	126,765
Repurchase agreements for securities lending transactions	41,950	37,520

■

1.6 Secured loans to customers

	31/12/02	31/12/03
a) Mortgages	-	-
b) Pledged assets:		
1. Cash deposits	-	-
2. Securities	36	42,000
3. Other instruments	-	-
c) Guarantees issued by:		
1. Governments	-	-
2. Other public entities	-	-
3. Banks	-	14,945
4. Other operators	8	8

■

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Non-performing loans

Non-performing loans are included in the item “loans to customers – other” net of default interest as follows:

	31/12/02	31/12/03
Total non-performing loans	1,573	1,573
Use of provisions for loan losses	(1,305)	(1,305)
Total	268	268

■

I.7 Analysis of “loans to customers”

	Gross value	Total adjustments	Net book value
A. Doubtful loans	1,858	(1,590)	268
A.1 Non-performing loans	1,573	(1,305)	268
A.2 Problem loans	285	(285)	-
A.3 Loans currently being restructured	-	-	-
A.4 Restructured loans	-	-	-
A.5 Unsecured loans exposed to country risk	-	-	-
B. Performing loans	1,097,217	-	1,097,217

■

I.8 Changes in doubtful loans to customers during the year

Categories/values	Non-performing loans	Problem loans	Loans currently being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Gross value					
as at 31/12/2002	1,573	285	-	-	-
A.1. Including: Default interest	-	-	-	-	-
B. Increases					
B.1. Transfers from performing loans	-	625	-	-	-
B.2. Default interest	-	6	-	-	-
B.3. Transfers from other categories of doubtful loans	-	-	-	-	-
B.4. Other increases	-	-	-	-	-
C. Decreases					
C.1. Transfers to performing loans	-	-	-	-	-
C.2. Write-offs	-	-	-	-	-
C.3. Collections	-	(631)	-	-	-
C.4. Disposals	-	-	-	-	-
C.5. Transfers to other categories of doubtful loans	-	-	-	-	-
C.6. Other decreases	-	-	-	-	-
D. Gross value					
as at 31/12/2003	1,573	285	-	-	-
D.1. Including: Default interest					

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I.9 Adjustments to loans to customers during the year

Categories/values	Non-performing loans	Problem loans	Loans currently being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Total adjustments					
as at 31/12/2002	1,305	285	-	-	-
A.1. including: default interest	-	-	-	-	-
B. Increases					
B.1. adjustments	-	-	-	-	-
B.1.1 including: default interest	-	-	-	-	-
B.2. Use provisions for loan losses	-	-	-	-	-
B.3. Transfers from other categories of loans	-	-	-	-	-
B.4. Other increases	-	-	-	-	-
C. Decreases					
C.1. Write-backs from year-end valuations	-	-	-	-	-
C.1.1. including: default interest	-	-	-	-	-
C.2. Write-backs following collections	-	-	-	-	-
C.2.1. including: default interest	-	-	-	-	-
C.3. write-offs	-	-	-	-	-
C.4. transfers from other categories of doubtful loans	-	-	-	-	-
C.5. other decreases	-	-	-	-	-
D. Total adjustments					
as at 31/12/2003	1,305	285	-	-	-
D.1. including: default interest	-	-	-	-	-

Section 2 - Securities

2.1 Investment securities

The Group does not hold any investment securities.

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2.3 Trading securities

The analyses of trading securities below show the book values and corresponding market values as at the last full trading day in the year of the different listed and unlisted securities by type of security, and the changes in trading securities during the year.

	31/12/02		31/12/03	
	Book value	Market value	Book value	Market value
1. Debt securities				
1.1 Government securities				
- Listed	1,992,736	1,992,736	6,916,318	6,916,318
- Unlisted	3,425	3,425	-	-
1.2 Other securities				
- Listed	2,866,483	2,866,483	2,066,960	2,066,960
- Unlisted	2,266,400	2,267,650	433,304	438,500
2. Equities				
- Listed	1,840,666	1,840,666	1,918,395	1,918,395
- Unlisted	128,260	128,260	213,378	213,378
Total	9,097,970	9,099,220	11,548,355	11,553,549

■

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2.4 Changes in trading securities during the year

A. Opening balance	9,097,970
B. Increases	
B.1 Purchases	
Debt securities	
- Government securities	239,949,776
- other securities	104,022,619
Equities	11,834,118
B.2 Write-backs and revaluations	66,563
B.3 Transfers from investment portfolio	
B.4 Other increases	1,473,319
C. Decreases	
C.1 Sales and redemptions	
Debt securities	
- Government securities	(234,482,971)
- Other securities	(103,942,252)
Equities	(11,942,942)
C.2 Adjustments	(48,154)
C.3 Transfers to investment portfolio	
C.5 Other decreases	(4,479,691)
D. Closing balance	11,548,355

The items “other increases” and “other decreases” included €859,182,000 year-end technical short positions in securities and €1,349,180,000 beginning-of-year technical short positions in securities respectively. Short positions in securities are recorded under “other liabilities” as appropriate.

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Opening balance	
- Long positions	9,097,970
- Short positions	(1,349,180)
Closing balance	
- Long positions	11,548,355
- Short positions	(859,182)

■

Section 3 - Equity investments

Equity investments in companies that are not consolidated line by line, recorded in consolidated balance sheet assets items 70 and 80, totalled €83,057,000 and did not include any significant investments as per articles 4 and 19 of Italian Legislative Decree 87/92.

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3.1 Significant investments

	Registered office	Rel.	Shareholders' equity	Profit/ (Loss) 2003	Held by	% owned	Consolidated book value
A. Companies included in the consolidation							
A.1 Companies consolidated line by line							
Obiettivo SGR	Milan	1	1,631	(869)	Banca IMI IMI Bank Lux	99.99 0.01	- -
IMI Bank (Lux) S.A.	Luxembourg	1	76,640	1,258	Banca IMI IMI Investments	99.99 0,01	- -
IMI Real Estate S.A.	Luxembourg	1	3,321	224	IMI Bank Lux	99.99	-
IDEA	Luxembourg	1	143	128	IMI Bank Lux	99.17	-
IMI Investments S.A.	Luxembourg	1	270,284	2,661	Banca IMI Banca IMI Sec.	99.99 0.01	- -
IMI Capital Markets USA Corp.	United States	1	149,955	(801)	IMI Investments	100.00	-
Banca IMI Securities	United States	1	148,879	1,799	IMI Capital Markets	100.00	-
IMI Finance Luxembourg S.A.	Luxembourg	1	6,517	135	IMI Investments	100.00	-
B. Investments carried at equity (*)							
IW Bank SpA (**)	Milan	8	15,141	30	Banca IMI	20.00	3,034
IMI Bank AG (in liquidation) (*)	Germany	1	1,459	-	IMI Bank Lux	95.24	1,146
Cedar Street Securities Corp.(*)	United States	1	38	-	Banca IMI Sec.	100.00	31
C. Other investments							
AF Merlo SpA	Turin	8	15,060	102	Banca IMI	33.42	5,000
IMI Solutions SpA	Italy	1	94	(499)	Banca IMI	100.00	94

(*) These companies were not consolidated line by line because they were either in liquidation or not considered significant for the purposes of the consolidated financial statements.

(**) This company was not included in the consolidation since it is not a controlled entity.

A "1" in the column "Relationship" indicates a controlling interest (as per art. 2359, sub-paragraph 1, No. 1, of the Italian Civil Code). An "8" indicates other associated companies.

3.2 Amounts due to and from Group companies (*)

	31/12/02	31/12/03
ASSETS		
1. Due from banks	1,536,875	678,835
<i>Including: subordinated</i>	-	-
2. Due from financial institutions	28,965	12,690
<i>Including: subordinated</i>	-	-
3. Due from other customers	-	-
<i>Including: subordinated</i>	-	-
4. Bonds and other debt securities	269,277	434,019
<i>Including: subordinated</i>	15,516	24,828
LIABILITIES		
1. Due to banks	2,841,352	1,146,706
2. Due to financial institutions	30,704	12,932
3. Due to other customers	-	-
4. Securities issued	-	-
5. Subordinated liabilities	35,000	35,000
GUARANTEES AND COMMITMENTS		
1. Guarantees issued	-	-
2. Commitments	928,922	673,237

(*) Not consolidated line by line in the financial statements of Banca IMI. Form part of the scope of consolidation of the Sanpaolo IMI Group.

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3.3 Amounts due to and from equity investments (non-group companies)

There were no amounts due to and from equity investments (non-group companies).

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3.4 Breakdown of item 70 “equity investments”

	31/12/02	31/12/03
(a) Investments in banks		
1. Listed	-	-
2. Unlisted	-	3,034
(b) Investments in financial institutions		
1. Listed	-	-
2. Unlisted	699	699
(c) Other investments		
1. Listed	45,000	45,000
2. Unlisted	24,061	30,088



3.5 Breakdown of item 80 “investments in group companies”

	31/12/02	31/12/03
(a) Investments in banks		
1. Listed	-	-
2. Unlisted	1,146	-
(b) Investments in financial institutions		
1. Listed	-	-
2. Unlisted	2,992	4,223
(c) Other investments		
1. Listed	-	-
2. Unlisted	13	13

Investments in other Sanpaolo IMI Group companies totalled €4,236,000 and comprised €1,177,000 of significant investments consolidated using the equity method – detailed in table 3.1 – and €3,059,000 of other investments in Sanpaolo IMI Group companies.

The latter are detailed below.



Other investments	Registered office	Held by	% owned	Book value
IMI Solutions Spa	Milan	Banca IMI	100	94
Studi Ricerche Fiscali Consorzio	Rome	Banca IMI	5	13
Sanpaolo IMI Inst. Asset Man. SGR	Monza	Banca IMI	11.72	2,307
Sanpaolo IMI Inst. Asset Man. SGR	Monza	IMI Bank Lux	3.28	645

■

3.6 Changes in equity investments during the year

3.6.1 Investments in group companies

	31/12/02	31/12/03
A. Opening balance	6,671	4,151
B. Increases		
B1. Purchases	-	526
B2. Write-backs	-	
B3. Revaluations	-	
B4. Other increases	-	
C. Decreases		
C1. Sales	(13)	(2)
C2. Adjustments	-	(432)
C3. Other decreases	(2,507)	(7)
D. Closing balance	4,151	4,236

The item “purchases” refers to the acquisition of a 100% stake in Cardine Financial Innovations SpA (now IMI Solutions SpA) previously held by Cardine Finanziaria SpA. This acquisition formed part of the integration of the former Cardine Group in the Sanpaolo Group. The adjustments solely regarded this holding.

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3.6.2 Other equity investments

	31/12/02	31/12/03
A. Opening balance	24,848	69,760
B. Increases		
B1. Purchases	63,130	6,487
B4. Other increases	4,147	3,086
C. Decreases		
C1. Sales	(18,242)	(340)
C3. Other decreases	(4,123)	(172)
D. Closing balance	69,760	78,821

The item “purchases” comprised the purchase of a 33% holding in AF Merlo SpA for €5,000,000 and the purchase of LCH Clearnet shares to the value of €1,487,000 at the same time as the merger of the London Clearing House, in which the bank held shares, and Clearnet SA.

The item “other increases” included €3,034,000 regarding the remaining 20% stake in the share capital of IWBank SpA carried at equity, as well as gains of €20,000 and €32,000 from the sale of equity investments in Il Sole 24 Ore Television and the Euroclear Clearance System respectively.

The breakdown of “other equity investments” was as follows:

	Book value
Dyckerhoff AG	45,000
Borsa Italiana Spa	21,702
AF Merlo Spa	5,000
LCH Clearnet SA	1,940
IW Bank Spa	3,034
S.I.A. SpA	887
MTS SpA	699
Nasdaq	555
Kiwi I Ventura Serv.	4
Cosete Srl in liquidazione	-
Total	78,821

Cosete Srl in liquidation was carried at €0.01.

■

Section 4 - Tangible and intangible fixed assets

The tangible and intangible fixed assets recorded in items 120 and 110 of the consolidated balance sheet assets amounted to €18,222,000.

	31/12/02	31/12/03
Tangible fixed assets (item 120)	15,365	5,249
Intangible fixed assets (item 110)	21,084	12,973

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Breakdown of item 120 “tangible fixed assets”

	31/12/02	31/12/03
Property		
- Used for operating purposes	3,660	3,480
Furniture and equipment		
- Motor vehicles	-	-
- Office furniture and equipment	2,573	261
- Electronic equipment	8,386	1,213
- General and specific equipment	746	295
Total	15,365	5,249



Breakdown of item 110 “intangible fixed assets”

	31/12/02	31/12/03
Software	18,215	9,206
Start-up and expansion costs	146	97
Goodwill	-	1,807
Other deferred costs	2,723	1,863
Total	21,084	12,973

The item “goodwill” relates to the goodwill recorded in the financial statements of Banca IMI SpA regarding the transfer of business areas with Intersim SpA (subsequently IMIWEB Bank and now IW Bank). Following the exclusion of IW Bank from the consolidation, the value recorded refers to the residual value to be amortised.

The item “other deferred costs” included €827,000 expenses for leasehold improvements.



4.1 Changes in tangible fixed assets during the financial year

A. Opening balance	15,365
B. Increases	
B1. Purchases	818
B3. Revaluations	
B4. other increases	39
C. Decreases	
C1. Sales	(27)
C2. Adjustments:	
(a) Amortisation	(2,810)
(b) Permanent write-downs	
C3. Other decreases	(8,136)
D. Closing balance	5,249
E. Total revaluations	
F. Total adjustments	
(a) Depreciation	53,790
(b) Permanent Adjustments	1

The item “other decreases” included €8,041,000 resulting from the exclusion of IMIWeb Bank SpA and its subsidiary IMIWeb UK from the consolidation.

The main investments in 2003 were related to the turnover of individual productivity tools.

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4.2 Changes in intangible fixed assets during the year

A. Opening balance	21,084
B. Increases	
B1. Purchases	4,988
B4. Other increases	2,216
C. Decreases	
C1. Sales	(12)
C2. Adjustments:	
(a) Amortisation	(11,724)
(b) Permanent Adjustments	(136)
C3. Other decreases	(3,443)
D. Closing balance	12,973
E. Total revaluations	
F. Total adjustments	
(a) Amortisation	37,897
(b) Permanent Adjustments	5,668

The item “other decreases” included €3,137,000 resulting from the exit of IMIWeb Bank SpA and its subsidiary IMIWeb UK from the consolidation.

Changes in individual items during the year were as follows:

	Start-up and expansion costs	Goodwil	Software	Other deferred costs
A. Opening balance	146	-	18,215	2,723
B. Increases				
B1. Purchases		4,872	116	
B4. Other increases		2,169	38	9
C. Decreases				
C1. Sales			(12)	
C2. Adjustments:				
(a) Amortisation	(49)	(362)	(10,626)	(687)
(b) Permanent write-downs			(136)	
C3. Other decreases			(3,137)	(306)
D. Closing balance	97	1,807	9,226	1,843
E. Total revaluations				
F. Total adjustments				
(a) Amortisation	146	1,808	31,685	4,258
(b) Permanent write-downs			5,668	

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The main investments in 2003 regarded projects completed by the Consolidating Bank which included the following:

- Membership of new markets and development of products and services including direct membership of Euronext and expanding our operations in credit derivatives.
- Developing our trading, pricing and clearing systems, including developing IMIDirect and expanding the SwapClear procedures.
- Developing internal systems and procedures connected with the development of market models (e.g. Express II).
- Upgrading our back office and administrative systems and developing our data warehouse.

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- Developing our middleware system.
- Organisational developments including rationalising our operating processes and procedures and completing our website.
- Upgrading our logical security measures including developing a software life cycle methodology.



Section 5 - Other assets

5.1 Breakdown of item 130 “other assets”

The item “other assets” totalled €6,673,500,000 as follows:

	31/12/02	31/12/03
Due from tax authorities:		
- Tax credits from prior years	92,635	93,052
- Tax credits on dividends	142,802	78,672
- Withholding taxes incurred.	2,454	1,434
- Deferred tax assets	31,107	9,802
- Advance tax on severance indemnities (as per Italian law 662/96)	155	60
- Prepayments	1,335	166
- Other receivables	2,712	3,059
Off-balance-sheet transactions:		
- Interest rate contracts	5,426,944	4,479,776
- Foreign exchange contracts	798,127	414,462
- Option and index contracts	315,661	267,340
- Credit derivatives (*)	7,167	20,948
- Securities commitments	2,377	1,563
Options and similar instruments	1,025,024	1,221,680
Transit items	26,603	49,056
Other receivables	105,393	32,430
Total	7,980,494	6,673,500

(*) The 2002 figure was taken from the items “Option and index contracts” and “Credit derivatives” to make it comparable with the figure for 2003.



The breakdown of the item “deferred tax assets”, which has a balancing entry in the statement of income, was as follows:

Adjustments to loans	301
Adjustments to equity investments	1,649
Adjustments to securities	4,989
Provisions for contingencies	2,185
Personnel expenses	-
Other costs temporarily not tax deductible	678
Tax losses carried forward	-
Total	9,802

The deferred tax assets mainly regarded the Consolidating Bank, Banca IMI.

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5.2 Breakdown of item 140 “accrued income and prepaid expenses”

Accrued income and prepaid expenses amounted to €294,893,000 and €33,856,000 respectively, totalling €328,749,000.

The breakdown of accrued income was as follows:

	31/12/02	31/12/03
Accrued income on:		
- Derivative contracts	47,885	145,377
- Interest on loans to customers	11	1,989
- Interest on securities	139,763	111,522
- Interest on amounts due from banks	38,369	31,092
- Other revenue	3,046	4,913
Total	229,074	294,893

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Prepaid expenses were €33,856,000 (€83,718,000 in 2002) and comprised issue discounts totalling €31,801,000, prepaid expenses (stamp duty, telephone charges etc.) pertaining to subsequent years totalling €1,459,000 and charges on derivative contracts totalling €596,000.



5.3 Adjustments to accrued income and prepaid expenses

No adjustments were made.



5.4 Subordinated assets

	31/12/02	31/12/03
a) Due from banks	-	
b) Loans to customers	-	256
c) Bonds and other debt securities	59,181	112,877



Section 6 - Payables

Total consolidated inflows, the sum of Balance Sheet liabilities items 10, 20 and 30, amounted to €17,688,970,000 as follows:

	31/12/02	31/12/03
Due to banks (item 10)	7,419,838	8,303,377
Due to customers (item 20)	8,379,708	4,711,145
Securities issued (item 30)	4,754,664	4,674,448



I.1 Analysis of item 10 “due to banks”

	31/12/02	31/12/03
a) Repurchase agreements	4,372,041	6,748,389
b) Securities lending	233,379	190,694

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Breakdown of item 10 “due to banks”

Amounts due to banks totalled €8,303,377,000 as follows:

	31/12/02	31/12/03
Due to central banks:		
- Advances	7,327	-
- Repurchase agreements	369,628	801,122
Due to other banks:		
- Deposits	2,761,314	1,295,414
- Repurchase agreements	4,002,413	5,947,267
- Securities lending	233,379	190,694
- Current accounts	44,350	68,871
- Other	1,427	9
Total	7,419,838	8,303,377

■

The breakdown of the item “securities lending” was as follows:

	31/12/02	31/12/03
Loans for securities lending transactions	123,235	70,978
Repurchase agreements for securities lending transactions	110,144	119,716

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I.2 Breakdown of item 20 “due to customers”

	31/12/02	31/12/03
a) Repurchase agreements	6,079,050	4,112,688
b) Securities lending	179,636	164,285



Analysis of item 20 “due to customers”

Direct customer deposits, including amounts due to customers and securities lending, totalled €4,711,145,000 as follows:

	31/12/02	31/12/03
Current accounts	251,067	209,437
Repurchase agreements	6,079,050	4,112,688
Securities lending	179,636	164,285
Other	1,869,955	224,735
Total	8,379,708	4,711,145

The item “other” consisted entirely of deposits due to customers.



The breakdown of the item “securities lending” was as follows:

	31/12/02	31/12/03
Loans for securities lending transactions	41,950	37,520
Repurchase agreements for securities lending transactions	137,686	126,765



6.3 Breakdown of item 30 “securities issued”

	31/12/02	31/12/03
Securities with maturities of three months or less	-	85,000
Securities with maturities of between three months and one year	5,000	905,512
Securities with maturities of between one and five years	4,139,007	3,389,817
Securities with maturities of more than five years	610,657	294,119
Total	4,754,664	4,674,448



Section 7 - Provisions

The provisions that do not serve to adjust asset values are recorded in balance sheet liability items 70, 80 and 90, and totalled €55,318,000 as follows:

	31/12/02	31/12/03
Provision for employee severance indemnities	6,537	6,867
Provisions for risks and charges:		
- Pensions and similar obligations	-	-
- Taxation	10,629	20,706
- Consolidation reserve for future risks and charges	11,658	1,807
- Other provisions	7,330	6,596
Reserve for possible loan losses	19,360	19,342



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Changes in item 70 “provision for employee severance indemnities”

Opening balance	6,537
Minus:	
- Severance indemnities paid	(316)
- Authorised advances	(147)
- Amounts transferred to the Pension Fund	(1,036)
- Other decreases	(395)
Plus:	
- Provision for the year	2,224
- Other increases	
Closing balance	6,867

The item “other decreases” comprised €372,000 regarding the deconsolidation of IW Bank.



7.1 Breakdown of item 90 “allowance for possible loan losses”

The “allowance for possible loan losses”, which is used exclusively to cover potential risks, totalled €19,342,000.



7.2 Changes in item 90 “allowance for possible loan losses”

A. Opening balance	19,360
B. Increases	
B 1. Allocations	
B 2. Other increases	
C. Decreases	
C 1. Utilisation	
C 2. Other decreases	(18)
D. Closing balance	19,342



7.3 Changes in item 80 d) “provisions for risks and charges - other provisions”

Opening balance	7,330
Minus:	
- Utilisation	(1,750)
- Other decreases	(255)
Plus:	
- Provisions for the year	1,271
- Other increases	
Balance as at 31 December 2003	6,596

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Changes in item 80 c) “provisions for risks and charges - consolidation reserve for future risks and charges”

Opening balance	11,658
Minus:	
- Utilisation	(9,851)
- Other decreases	
Plus:	
- Provision for the year	
- Other increases	
Balance as at 31 December 2003	1,807

The utilisation concerned allocations made in 2002 to cover the anticipated losses on the sale of 80% of the equity investment in IMIWeb Bank (now IWBANK SpA) for €7,204,000 and the sale of the 100% stake in IMIWeb UK for €2,647,000.

The balance as at 31 December 2003 is based on an unfavourable forecast regarding the future financial performance of the equity investment in IWBANK SpA.

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Changes in item 80 b) “provisions for risks and charges - taxation”

Opening balance	10,629
Minus:	
- Utilisation for tax payments	(2,965)
- Utilisation of deferred tax assets	(11)
- Other decreases	(153)
plus:	
- Provision for current taxes for the year	12,312
- Provision for deferred tax liabilities	144
- Other increases	750
Balance as at 31 December 2003	20,706



7.4 Changes in “deferred tax assets”

1. Opening balance	31,107
2. Increases	
2.1 Deferred tax assets arising in the year	6,451
2.2 Other increases	329
3. Decreases	
3.1 Deferred tax assets reversed in the year	(28,085)
3.2 Other decreases	
4. Closing balance	9,802

The breakdown of “deferred tax assets arising in the year” is provided in item 5.1 of this section.

The item “deferred tax assets arising in the year” refers to non-deductible write-downs of securities holdings in 2003 totalling €4,989,000, write-downs of equity investments totalling €142,000, write-downs of receivables totalling €301,000 and to temporarily non-deductible costs and provisions totalling €1,019,000.



The item “deferred tax assets reversed in the year” refers to non-deductible losses on investment securities recorded in the prior year financial statements totalling €14,850,000, to losses on the sale of 80% of the equity investment in IW Bank SpA, which was written down in the previous year to bring it into line with the sale price, totalling €7,530,000, to the utilisation of allocations to the provisions for risks and charges totalling €595,000, to the utilisation for prior year tax losses totalling €4,934,000 and to costs that became tax deductible during the year totalling €176,000.

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7.5 Changes in deferred tax liabilities

1. Opening balance	429
2. Increases	
2.1 Deferred tax liabilities arising in the year	144
2.2 Other increases	-
3. Decreases	
3.1 Deferred tax liabilities reversed in the year	(11)
3.2 Other decreases	
4. Closing balance	562

The opening balance of deferred tax liabilities includes €238,000 which had been reclassified from the provision for taxation.

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Section 8 - Capital, reserves, reserve for general banking risks and subordinated liabilities

Consolidated shareholders' equity at year-end, including the reserve for general banking risks, was €421,892,000, while subordinated liabilities totalled €185,000 as follows:

	31/12/02	31/12/03
Shareholders' equity:		
- Share capital (item 150)	180,000	180,000
- Additional paid-in capital (item160)	131,260	131,260
- Reserves (item 170)		
a) Legal reserve	36,000	36,000
c) Other reserves	7,535	7,620
- Negative goodwill arising upon consolidation	2,744	206
- Reserve for general banking risks (item 100)	-	2,000
- Net income	1,488	64,806
Total Shareholders' Equity	359,027	421,892
Minority interests (item 140)	2	2
Subordinated liabilities	185,000	185,000

The “reserve for general banking risks”, set up by the Parent Company in the 2003 financial year to cover general business risks, totalled €2,000,000. As a capital reserve, it is recorded amongst the positive components of the regulatory capital.

The changes in negative goodwill arising from consolidation were as follows:

IMI Bank Lux	(13,829)
IMI Investments	14,035

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The €2,538,000 change in goodwill arising from consolidation compared to the previous financial year was due to IMIWeb Bank S.p.A. and IMI Web (UK), which were sold during the year, no longer being included in the consolidation.

Shareholders' equity attributable to minority interests totalled €2,000 and comprised a 0.01% holding of IMI Real Estate S.A. and a 0.83% holding of IDEA.

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Breakdown of item 110 "subordinated liabilities"

Subordinated liability	Currency	Amount (€)	Interest rate	Maturity	Advance repayment
Subordinated bond loan ⁽¹⁾					
1999-2009	EUR	150,000,000	Variable	10.12.09	From 10.12.04 ⁽²⁾
Subordinated loan ⁽¹⁾					
1999-08	EUR	35,000,000	Variable	30.06.08	Si ⁽²⁾

⁽¹⁾ Should the issuing bank go into liquidation, the bond holders will only be repaid after all other creditors not similarly subordinated have been paid.

⁽²⁾ Subject to authorisation by the Bank of Italy.

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Section 9 - Other liabilities

9.1 Breakdown of item 50 "other liabilities"

The item "other liabilities" totalled €7,099,589,000 as follows:

Technical short positions are recorded at their market value, as is the bank's portfolio.

	31/12/02	31/12/03
Technical short positions in securities	1,349,180	859,182
Due to tax authorities:		
withholding taxes	2,118	1,651
Other	1,386	1,042
Off-balance-sheet transactions:		
Interest rate contracts	5,198,354	4,304,672
Foreign exchange contracts	741,918	421,148
Other option contracts	678,529	745,132
Credit derivatives	6,994	21,658
Securities commitments	439	1,009
Options and similar instruments	342,956	596,991
Transit items	79,847	94,137
Personnel expenses due	14,901	25,952
Other payables	58,975	27,015
Total	8,475,597	7,099,589

(*) The 2002 figure was taken from the items "Option and index contracts" and "Credit derivatives" to make it comparable with the figure for 2003.

9.2 Breakdown of item 60 “accrued expenses and deferred income”

Accrued expenses and deferred income amounted to €217,260,000 and €547,000 respectively, totalling €217,807,000.

The breakdown of accrued expenses was as follows:

	31/12/02	31/12/03
Accrued expenses for:		
- Technical short positions in securities	17,200	9,542
- Derivative contracts	14,666	129,628
- Interest on securities issued	65,207	29,608
- Interest on amounts due to banks	42,392	40,467
- Interest on amounts due to customers	616	3,711
- Personnel expenses and miscellaneous operating costs	417	283
- Other accrued expenses	2,295	4,021
Total	142,793	217,260

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The breakdown of deferred income was as follows:

	31/12/02	31/12/03
Deferred income from:		
- Derivative contracts	691	410
- Other revenue	759	137
Total	1,450	547

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9.3 Adjustments to reflect accrued expenses and deferred income

No adjustments were made.

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Section 10 - Guarantees and commitments

10.1 Breakdown of item 10 “guarantees issued”

	31/12/02	31/12/03
(a) Commercial guarantees	2,544,126	369
(b) Financial guarantees	-	-
(c) Assets lodged in guarantee	5,405	43,001



10.2 Breakdown of item 20 “commitments”

	31/12/02	31/12/03
a) Commitments to grant finance (certain to be called on)	5,332,521	4,659,864
<i>Including: - Securities receivable for transactions to be settled</i>	4,585,101	3,062,041
- Deposits and loans to be made	747,420	1,587,823
- Margins on irrevocable lines of credit	-	10,000
b) Commitments to grant finance (not certain to be called on)	956,054	714,741
<i>including: - Put options on securities</i>	955,632	714,729
- Margins on revocable lines of credit	-	-
- Commitments regarding membership of F.I.T.D. <i>(Italian Interbank Deposit Protection Fund).</i>	422	12



Breakdown of item 30 “credit derivatives”

This item comprised protection sold totalling €318,161,000 as at 31 December 2003. Protection sold as at 31 December 2002 totalled €146,273,000. All the positions for the current year and prior year are included in the trading book. See Table 10.6 for further information.



10.3 Assets lodged to guarantee the bank's liabilities

	31/12/02	31/12/03
a) Derivatives transactions	218,983	31,407
b) Securities lending transactions	10,313	18,188
c) Repurchase agreements	10,451,091	7,011,734
d) Clearing transactions	-	-
e) BI-REL (Bank of Italy real-time gross settlement system) transactions	112,733	582,388
Total	10,793,120	7,643,717

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10.4 Unused lines of credit available

The unused lines of credit available regarded credit ceilings agreed by counterparties. These credit ceilings included the limits assigned to the bank as part of the group's centralised liquidity management (unused lines of credit as at 31 December 2003: approximately €3bn).

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10.5 Forward transactions

	2002			2003		
	Hedging	Dealing	Other transaction	Hedging	Dealing	Other transactions
1. Purchase/sale of						
1.1 Securities						
- Purchases	-	4,585,113	-	468,967	2,593,075	
- Sales	-	2,601,709	-	15,240	2,032,174	
1.2 Currency						
- Cross-currency	4,291	8,422	-	328	183,738	
- Purchases against Euro		2,050,841	-	19,858	2,256,135	
- Sales against Euro	2,861	2,790,833	-	16,346	2,839,348	
2. Deposits and loans						
- To be disbursed	-	-	747,420			1,587,823
- To be received	-	-	2,135,986			2,641,659
3. Derivative contracts						
3.1 With exchange of capital						
a) Securities						
- Purchases	-	3,611,099	-		1,962,978	
- Sales	-	6,865,464	-		2,002,936	
b) Currency						
- Cross-currency	-	144,615	-		1,366,169	
- Purchases against Euro	-	1,716,857	-		9,428,450	
- Sales against euro	-	1,648,294	-		7,179,224	
c) Other instruments						
- Purchases	-		-			
- Sales	-		-			
3.2 Without exchange of capital						
a) Currency						
- Cross-currency	-		-			
- Purchases against euro	-	2,636	-		7,406	
- Sales against euro	-	210	-		17,895	
b) Other instruments						
- Purchases	8,780	120,929,410	-	8,780	204,819,110	326,937
- Sales	415,147	125,600,465	2,187,768	418,500	244,358,158	3,889,769

The Consolidating Bank entered into internal deals between trading units and hedging units in order to improve its operating efficiency and market risk management. The total par value of these deals was €3,103,984,000 and they hedged risks regarding issues and subordinated loans received, as well as hedging the exchange rate risk attached to the Bank's equity investment denominated in foreign currency.

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10.6 Credit derivatives

	31/12/02	31/12/02	31/12/03	31/12/03
	Trading	Other	Trading	Other
	transactions	transactions	transactions	transactions
1. Protection Purchases				
1.1 With exchange of capital				
Type of contract:				
Credit default swap	90,150	-	321,000	-
1.2 Without exchange of capital	-	-	-	-
2. Protection Sales				
2.1 With exchange of capital				
Type of contract:				
Credit default swap	146,273	-	318,161	-
2.2 Without exchange of capital	-	-	-	-

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Breakdown of “credit derivatives – protection bought and sold”

	31/12/02	31/12/02	31/12/03	31/12/03
	Trading	Other transaction	Trading	Other transaction
Protection Purchases				
- Banks	80,150	-	242,000	-
- Financial institutions	10,000	-	79,000	-
Total	90,150	-	321,000	-
Protection Sales				
- Banks	57,100	-	152,000	-
- Financial institutions	20,000	-	52,000	-
- Insurance Companies	69,173	-	114,161	-
Total	146,273	-	318,161	-



Section II - Distribution of assets and liabilities

II.1 Significant exposures

The Consolidating Bank had 5 positions that exceeded 10% of the regulatory capital with a risk-weighted total of €549,599,000. One of these positions exceeded 40% of the regulatory capital, leading to a further capital requirement for concentration risk of €1,426,000.



11.2 Distribution of loans to customers by category of borrower

	31/12/02	31/12/03
a) Governments	-	-
b) Other public entities	-	-
c) Non-financial companies	119	118
d) Financial institutions	3,589,609	1,097,132
e) Family businesses	-	-
f) Other operators	503	235
Total	3,590,231	1,097,485

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11.3 Distribution of loans to Italian-resident non-financial and family businesses

	31/12/02	31/12/03
f) Other services	230	118

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11.4 Distribution of guarantees issued by main counterparty categories

	31/12/02	31/12/03
a) Governments	-	-
b) Other public entities	-	-
c) Banks	-	369
d) Non-financial companies	2,544,127	-
e) Financial institutions	5,405	43,001
f) Family businesses	-	-
g) Other operators	-	-
Total	2,549,532	43,370

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11.5 Geographical distribution of assets and liabilities

Item/Country	Italy	Other EU countries	Other countries
1. Assets			
1.1 Due from banks	1,884,626	3,230,632	803,929
1.2 Loans to customers	487,119	450,891	159,475
1.3 Securities	8,761,760	2,536,682	249,913
2. Liabilities			
2.1 Due to banks	5,278,362	2,954,158	70,857
2.2 Due to customers	3,181,746	712,555	816,844
2.3 Securities issued	3,653,055	1,021,393	-
2.4 Other accounts	185,000	-	-
3. Guarantees and commitments	3,675,085	2,023,955	37,096

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11.6 Maturities of assets and liabilities

SPECIFIED MATURITY

Item / residual duration	On demand	Up to 3 months	Between 3 and 12 months
ASSETS			
Treasury Securities eligible for refinancing	30,986	21,951	152,804
Due from banks	1,566,260	3,846,506	429,067
Loans to customers	647,124	449,837	-
Bonds and other debt securities	19,473	231,282	2,515,824
“Off-balance-sheet” transactions	10,455,087	149,339,164	120,912,743
Total assets	12,718,930	153,888,740	124,010,438
LIABILITIES			
Due to banks	1,501,157	4,811,609	1,990,611
Due to customers	1,312,847	3,202,038	196,260
Securities issued			
Bonds	-	85,000	905,512
Subordinated liabilities	-	-	-
“Off-balance-sheet” transactions	10,329,706	146,543,199	123,239,954
Total liabilities	13,143,710	154,747,011	126,498,172

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**UNSPECIFIED
MATURITY**

Between 1 and and 5 years		Over 5 years		
Fixed rate	Floating rate	Fixed rate	Floating rate	
239,459	182,889	261,444	20,377	
32,500	14,500	-	-	30,354
-	256	-	-	268
4,602,949	404,342	583,952	148,850	-
78,052,558	23,221,214	48,356,641	1,525,589	-
82,927,466	23,823,201	49,202,037	1,694,816	30,622
-	-	-	-	-
-	-	-	-	-
3,389,817	-	294,119	-	-
-	35,000	-	150,000	-
72,039,225	30,278,767	47,799,222	1,632,922	-
75,122,289	30,313,767	48,121,344	1,790,672	-

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11.7 Assets and liabilities denominated in foreign currencies

	31/12/02	31/12/03		31/12/02	31/12/03
ASSETS			LIABILITIES		
1. Due from banks	715,992	874,988	1. Due to banks	218,431	65,076
2. Loans to customers	247,630	84,401	2. Due to customers	358,648	810,935
3. Securities	98,922	125,276	3. Securities issued	49,204	27,663
4. Equity investments	1,435	1,039	4. Other accounts	-	-
5. Other accounts	25	14			

The liquidity, interest rate and exchange rate risks of the bank's assets and liabilities, including those involved in off-balance-sheet transactions, are briefly summarised in tables 11.6 and 11.7. These types of risks are, however, naturally monitored on a daily basis as part of a wider system for managing and controlling corporate risks, as explained in greater detail in the Report of the Directors.

The spot exchange rates as at 31 December 2003 of the main currencies used to calculate the counter values of the assets and liabilities as recorded in the financial statements are shown below.

Currency	Spot 31.12.02	Spot 31.12.03	% change
US dollar	1.0487	1.2630	-20.43%
Pound sterling	0.6505	0.7048	-8.35%
Swiss franc	1.4524	1.5579	-7.26%
Japanese yen	124.3900	135.0500	-8.57%
Canadian dollar	1.6550	1.6234	1.91%

11.8 Securitization transactions. Securities held following securitization of third parties.

The Consolidating Bank operates in the securitization sector as an arranger and holds securities in its trading portfolio that result from securitization transactions for third parties.

The following table shows the types of securities concerned, the assets securitized and whether they were performing or non-performing.

	Performing/ Non-performing	Senior Notes	Mezzanine Notes	Junior Notes	Total
Mortgages	Performing	154			154
	Non-performing				
Commercial/industrial/ agricultural mortgages	Performing	20			20
	Non-performing				
Leasing	Performing	1,232			1,232
	Non-performing				
Public real estate	Performing	5,393			5,393
	Non-performing				
National insurance contributions	Performing	6,310			6,310
	Problem loans	5,124			5,124
Other loans	Performing	1,029	11,349		12,378
	Non-performing				
Total		19,262	11,349		30,611

The risks and financial results connected with the positions concerned are monitored in relation to, amongst other things, investor reports and available information on the issuers and underlying assets, the valuation of the credit spreads implicit in the securities' quotations, information on the reference markets of the underlying credits and comparison with similar transactions.

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Section 12 - Asset management and brokerage on behalf of third parties

12.1 Securities brokerage

The volume of securities traded on behalf of third parties was as follows:

	31/12/02	31/12/03
a) Purchases		
1) Settled	80,091,457	112,299,069
2) Not settled	115,711	4,725
b) Sales		
1) Settled	80,094,200	123,834,037
2) Not settled	116,771	2,093



12.2 Asset management

As at 31.12.2003, asset management services were provided exclusively to Group companies included in the scope of consolidation.



12.3 Custody and administration of securities

	31/12/02	31/12/03
(a) Third-party securities held on deposit	6,633,392	14,803,699
(b) Third-party securities deposited with third parties	6,633,392	14,803,699
(c) Securities deposited with third parties	5,852,607	9,046,352



Part C - Notes to the Consolidated Statement of Income

Section I - Interest

I.1 Breakdown of item 10 "interest income and similar revenue"

	2002	2003
(a) On amounts due from banks	193,664	171,898
<i>Including: Deposits with central banks</i>	<i>1,967</i>	<i>1,020</i>
(b) On loans to customers	41,519	50,233
<i>Including: Loans using third-party funds under administration</i>		
(c) On debt securities	326,855	275,504
(d) Other interest income	637	450
(e) Net differential on hedging transactions	-	-
Total	562,675	498,085

Interest income on amounts due from banks included interest on repurchase agreements totalling €69,552,000. Interest income on loans to customers included interest on repurchase agreements totalling €19,057,000.

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I.2 Breakdown of item 20 “interest expense and similar charges”

	2002	2003
(a) On amounts due to banks	301,119	200,978
(b) On amounts due to customers	161,162	158,418
(c) On securities issued	100,362	91,421
<i>Including: Certificates of deposit</i>	67,624	22,892
(d) On third-party funds under administration	2,650	-
(e) On subordinated liabilities	7,236	6,624
(f) Net differential on hedging transactions	22,641	14,198
Total	595,170	471,639

Interest expense on amounts due to banks included interest on repurchase agreements totalling €59,339,000.

Interest expense on amounts due to customers included interest on repurchase agreements totalling €67,835,000.



I.3 Breakdown of item 10 “interest income and similar revenue”

a) On assets denominated in foreign currencies	12,550
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I.4 Breakdown of item 20 “interest expenses and similar charges”

b) On liabilities denominated in foreign currencies	11,029
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Section 2 - Commissions

2.2 Breakdown of item 40 “commission income”

	2002	2003
a) Guarantees issued	8,909	-
b) Credit derivatives		
c) Asset management, brokerage and advisory services:		
1. Securities brokerage	54,166	40,955
2. Currency brokerage	287	-
3. Asset management		
3.1 Individual	-	-
3.2 Collective	592	1,559
4. Custody and administration of securities	2,217	3,540
5. Depository bank	449	351
6. Placement of securities	11,763	25,844
7. Acceptance of instructions	7,630	5,749
8. Advisory services	15,758	24,513
9. Provision of third-party services		
9.1 Asset management		
a) Individual	-	-
b) Collective	366	-
9.2 Insurance products	-	-
9.3 Other products	-	-
d) Collection and payment services	6	-
e) Securitization servicing	-	-
f) Tax collection services	-	-
g) Other services	2,330	949
Total	104,473	103,460

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2.3 Breakdown of item 40 “commission income”: distribution channels for products and services

	2002	2003
a) Own branches:		
1. Asset management	592	1,559
2. Placement of securities	11,464	25,844
3. Third-party products and services	-	-
b) Other channels		
1. Asset management	-	-
2. Placement of securities	299	-
3. Third-party products and services	366	--



2.4 Breakdown of item 50 “commission expenses”

	2002	2003
a) Guarantees received		-
b) Credit derivatives	-	
c) Asset management, brokerage and advisory services		
1. Securities brokerage	21,884	20,112
2. Currency brokerage	203	149
3. Asset management		
3.1 Proprietary portfolio	-	-
3.2 Third-party portfolio	48	8
4. Custody and administration of securities	2,800	4,039
5. Placement of securities	48,171	39,108
6. Sales of securities, financial products and services	11	-
d) Collection and payment services	3,160	1,253
e) Other services	5,777	7,668
Total	82,054	72,337



Section 3 - Profits and losses on financial transactions

3.1 Breakdown of item 60 “profits and losses on financial transactions”

Item / transactions	Securities transactions 2003	Securities transactions 2003	Other transactions 2003
A.1 Revaluations	130,085	X	1,748,579
A.2 Write-downs	(144,787)	X	(1,889,408)
B Other profits/losses	(107,960)	5,707	230,132
Total	(122,662)	5,707	89,303
1. Italian government bonds	(54,347)		
2. Other debt securities	(4,495)		
3. Equities	100,721		
4. Securities derivatives	(164,541)		

■

Item / transactions	Securities transactions 2002	Securities transactions 2002	Other transactions 2002
A.1 Revaluations	375,861	X	1,677,901
A.2 Write-downs	(157,134)	X	(2,593,260)
B Other profits/losses	(408,043)	(9,070)	931,352
Total	(189,316)	(9,070)	15,993
1. Italian government bonds	42,786		
2. Other debt securities	62,347		
3. Equities	(528,691)		
4. Securities derivatives	234,242		

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Section 4 - Administrative and operating expenses

Administrative and operating expenses totalled €137,263,000 as follows.

	2002	2003
Payroll costs	77,164	74,464
<i>Including: Wages and salaries</i>	<i>59,529</i>	<i>57,257</i>
<i>Social security contributions</i>	<i>14,196</i>	<i>14,233</i>
<i>Provision for employee severance indemnities</i>	<i>2,416</i>	<i>2,224</i>
<i>Supplementary pension fund</i>	<i>1,023</i>	<i>750</i>
Other administrative expenses	82,938	62,799
<i>Including: Building rent and maintenance</i>	<i>5,607</i>	<i>4,476</i>
<i>Equipment and hardware maintenance</i>	<i>3,395</i>	<i>3,023</i>
<i>Software maintenance and upgrades</i>	<i>9,854</i>	<i>8,721</i>
<i>Postage and telegraphic expenses</i>	<i>1,071</i>	<i>1,042</i>
<i>Consultancy</i>	<i>6,397</i>	<i>4,275</i>
<i>Processing by third parties and market access</i>	<i>9,138</i>	<i>9,348</i>
<i>Security</i>	<i>25</i>	<i>33</i>
<i>Power</i>	<i>479</i>	<i>345</i>
<i>Advertising and entertainment</i>	<i>5,576</i>	<i>2,999</i>
<i>Telephone</i>	<i>3,601</i>	<i>2,213</i>
<i>Equipment rental</i>	<i>746</i>	<i>485</i>
<i>Insurance premiums</i>	<i>384</i>	<i>453</i>
<i>Legal advice and court fees</i>	<i>1,837</i>	<i>1,772</i>
<i>Cleaning</i>	<i>678</i>	<i>430</i>
<i>Office supplies</i>	<i>698</i>	<i>336</i>
<i>Data bank access fees</i>	<i>15,808</i>	<i>10,350</i>
<i>Couriers and transport</i>	<i>214</i>	<i>157</i>
<i>Maintenance of own property</i>	<i>1</i>	<i>1</i>
<i>Maintenance of rented property</i>	<i>2,075</i>	<i>266</i>
<i>Trade union dues and trade/professional association membership fees</i>	<i>1,130</i>	<i>873</i>
<i>Secondment</i>	<i>344</i>	<i>344</i>
<i>Personnel training, travel, board and lodging expenses</i>	<i>663</i>	<i>516</i>
<i>Italian Interbank Deposit Protection Fund (I.I.T.D.) actions</i>	<i>-</i>	<i>-</i>
<i>Other expenses</i>	<i>10,958</i>	<i>9,577</i>
<i>Tax on stock market contracts</i>	<i>191</i>	<i>189</i>
<i>Stamp duty</i>	<i>642</i>	<i>-</i>
<i>Indirect taxes and levies</i>	<i>1,428</i>	<i>575</i>
Total administrative expenses	160,102	137,263

4.1 Average number of employees

Average number of employees:	2002	2003
a) Directors	51	51
b) Senior Managers	351	214
c) Other employees	352	382
Total	754	647

The fall in the average number of employees was due to the deconsolidation of IWBank SpA.

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Section 5 - Adjustments, write-backs and provisions

Item 90 “adjustments to intangible and tangible fixed assets” totalled €14,670,000 as follows:

	2002	2003
Intangible fixed assets:	29,101	11,860
- Amortisation of start-up and expansion costs	261	49
- Amortisation of goodwill	1	362
- Amortisation of software	14,076	10,626
- Amortisation of other deferred costs	3,319	687
- Permanent write-downs of other deferred costs	11,444	136
Tangible fixed assets:	11,332	2,810
- Depreciation of property	181	180
- Depreciation of furniture and equipment	11,151	2,630
Total	40,433	14,670

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The depreciation and amortisation rates applied were as follows:

Office furniture and equipment	12%
Motor vehicles	25%
Electronic office equipment	20%
Telephone and other installations	20%
Deferred costs	20%
Software	20% & 33%

Assets entering service during the financial year were calculated at half the standard rate.



Breakdown of item 100 “provisions for risks and charges”

The allocation of €1,213,000 to the provisions for risks and charges by the parent company included €600,000 for potential losses regarding securities transactions in prior years (coupon claims) and €300,000 for potential disbursements regarding guarantees issued as part of the sale of the equity investment in IMIWeb UK, with the remainder being for the risks of potential financial sacrifices connected with litigation regarding a number of receivables for services rendered.

The remainder of the allocation, totalling €58,000, was made by Obiettivo SGR to cover a customer complaint.



Breakdown of item 120 “adjustments to loans and provisions for guarantees and commitments”

	2002	2003
Analytical adjustments to receivables for financial services rendered	-	1,589
Presumptive adjustments to receivables for financial services rendered	-	911
Presumptive adjustments for country risk	-	82
Total	-	2,582

The adjustments, all made by the parent company, regarded receivables for financial services rendered and other receivables included in item 130 “other assets” which were therefore recorded net of said adjustments. The adjustments were calculated in relation to the probability of collection assessed on the basis of debtor solvency and the information available when the financial statements were prepared.

The presumptive adjustments for country risk regarded interest coupons due on securities issued by the Argentine government and written down by 60%.

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Breakdown of item 130 “write-backs of loans”

None.

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Breakdown of item 140 “provisions to the allowance for possible loan losses”

None.

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Breakdown of item 150 “adjustments to financial fixed assets”

The adjustments to financial fixed assets amounted to €640,000 and comprised a write-down of the holding in IMI Solutions SpA totalling €432,000 to align the book value with the shareholders’ equity as at 31 December 2003, and a write-down of the holding in the NASDAQ held by subsidiary Banca IMI Securities totalling €208,000.



Section 6 - Other Statement of Income items

Items 30, 70, 110, 150, 190, 200 and 240 were as follows:

	2002	2003
Dividends and other revenues (item 30)	400,101	225,410
Other operating income (item 70)	4,195	2,624
Other operating expenses (item 110)	(1,349)	(534)
Extraordinary income (item 190)	18,131	5,275
Extraordinary expenses (item 200)	(9,529)	(5,715)
Income taxes for the year (item 240)	(1,390)	(33,750)



The breakdown of item 30 “dividends and other revenue” was as follows:

	2002	2003
Shares, quotas and other equities:		
Dividends	254,628	144,788
Tax credit	141,531	77,730
Equity investments:		
Dividends		
Borsa Italiana	1,890	1,630
Monte Titoli	392	-
SIA	104	104
Cedel International	266	-
SanPaolo Imi Institutional Asset Management	19	216
Tax credit	1,271	942
Total	400,101	225,410

■

6.1 Breakdown of item 70 “other operating income”

	2002	2003
Recovery of expenses	283	813
Sums reimbursed for services to third parties	146	-
Rental income	119	-
Miscellaneous income and revenue	3,647	1,811
Total	4,195	2,624

The total shown for recovery of expenses comprised €472,000 recovery of expenses that were mainly incurred in the provision of advisory services, and €341,000 secondment expenses recovered.

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6.2 Breakdown of item 110 “other operating expenses”

	2002	2003
Miscellaneous other expenses	1,349	534
Total	1,349	534



6.3 Breakdown of item 190 “extraordinary income”

	2002	2003
Out-of-period income	9,612	3,256
Utilisation of provisions	5,079	-
Gains on disposal of furniture and equipment	15	39
Gains on equity investments	3,425	52
Other extraordinary income	-	1,928
Total	18,131	5,275

Out-of-period income included €917,000 lower expenses settled or lower costs than previously recorded in the statement of income, €584,000 commission income regarding the previous year and €1,157,000 positive components relating to the settlement of items pertaining to prior years.

Other extraordinary income included a €1,689,000 contribution received from IW Bank SpA regarding the purchase of the equity investment in subsidiary IMIWeb UK from said IW Bank.



6.4 Breakdown of item 200 “extraordinary expenses”

	2002	2003
Extraordinary expenses for restructuring	1,143	508
Out-of-period expenses	8,386	4,465
Losses on sale of equity investments	-	570
Losses on sale of furniture and equipment	-	43
Losses on sale of intangible fixed assets	-	129
Total	9,529	5,715

Extraordinary expenses for restructuring mainly regarded the closure of the Tokyo branch.

The item out-of-period expenses included €574,000 commission expenses regarding the previous year, €1,504,000 relating to the settlement of items pertaining to prior years, €539,000 relating to compromise agreements and €1,267,000 connected with opting for the benefits provided for by Italian law 282/2002.

The item “losses on sale of equity investments” comprised €564,000 relating to the sale of the equity investment in IMIWeb (UK) and €6,000 relating to the sale of part of the equity investment in the NASDAQ.

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6.5 Breakdown of item 220 “income taxes for the year”

	2002	2003
1. Current taxes	2,801	12,312
2. Change in deferred tax assets	(1,602)	21,305
3. Change in deferred tax liabilities	191	133
4. Income taxes for the year	1,390	33,750

■

Section 7 - Other information on the Consolidated Statement of Income

7.1 Geographical distribution of revenue

	Italy	Other E.U. countries	Other countries
Interest income and similar revenue	452,948	35,987	9,150
Dividends on shares and equity investments	225,300	110	-
Commission income	92,391	3,155	7,914
Profits and losses on financial transactions	(41,288)	13,654	(18)
Other operating income	1,616	608	400
Total	730,967	53,514	17,446

Part D - Other information

Section I - Directors and Statutory Auditors

I.1 Emoluments

	2002	2003
(a) Directors	1,853	2,663
(b) Statutory auditors	196	188

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I.1 Loans and guarantees issued

No loans or guarantees were issued for members of the Board of Directors or Statutory Auditors.

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Section 2 - Parent company

The Consolidating Bank, Banca IMI S.p.A., is under the management and coordination of sole shareholder Sanpaolo IMI S.p.A. and is a member of the Sanpaolo IMI Banking Group.

- 2.1 Name: "Sanpaolo IMI S.p.A."
- 2.2 Registered office: Piazza San Carlo, 156 - Turin, Italy

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Schedule I

Reconciliation of the Bank's financial statements and the consolidated financial statements.

	Net profit/ (Loss)	Capital and reserves	Shareholders' equity
Bank's financial statement balance as at 31.12.2003	58,826	351,319	410,145
Effect of consolidation of subsidiaries:			
- On a line-by-line basis	8,884	606,002	614,886
- Using the equity method	6	-	6
Consolidation adjustments			
- Book value of equity investments	-	(606,116)	(606,116)
- Dividends	(2,837)	309	(2,528)
- Other	(72)	5,574	5,502
Minority interests	(1)	(2)	(3)
Consolidated financial statement balance as at 31.12.2003	64,806	357,086	421,892

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Schedule 2

Statement of changes in consolidated shareholders' equity in 2003.

	Share Capital	Legal reserve	Additional paid-in in capital
Balance as at 31.12.2002	180,000	36,000	131,260
Allocation of profits for the year:			
Reserves			
Sale of equity investments			
Change in reserve for general banking risks			
Other increases/ (decreases)			
Exchange rate differences			
Net income/ (loss) 2003			
Balance as at 31.12.2003	180,000	36,000	131,260

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Other reserves	Reserve for general banking risks	Goodwill on consolidation	Net income/ (loss)	Shareholders' equity
7,535	-	2,744	1,488	359,027
1,488			(1,488)	-
2,692		(2,538)		154
	2,000			2,000
(375)				(375)
(3,720)				(3,720)
			64,806	64,806
7,620	2,000	206	64,806	421,892

REPORT OF THE INDEPENDENT AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS

**To the Shareholder of
Banca d'Intermediazione Mobiliare IMI S.p.A.**

We have audited the consolidated financial statements of Banca d'Intermediazione Mobiliare IMI S.p.A. and its subsidiaries as of and for the year ended December 31, 2003. These consolidated financial statements are the responsibility of the Bank's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob"). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the prior year's consolidated financial statements, which are presented for comparative purposes as required by law, reference should be made to the auditors' report dated April 15, 2003, issued by Deloitte & Touche Italia S.p.A.


In our opinion, the consolidated financial statements of Banca d'Intermediazione Mobiliare IMI S.p.A. and its subsidiaries as of and for the year ended December 31, 2003, comply with the Italian statutory provisions related to consolidated financial statements; therefore they give a true and fair view of the financial position and results of operations of the Bank and its subsidiaries.

DELOITTE & TOUCHE S.p.A.

Signed by
Ezio Bonatto
Partner

Milan, Italy,
April 9, 2004

This report has been translated into the English language solely for the convenience of international readers.



Second section
Annual Report 2003



Financial Statements

Notice of Ordinary General Meeting

The shareholders are hereby given notice of an Ordinary General Meeting to be held at the registered office in Corso Matteotti 6, Milan, at 12.00 hrs on 8 April 2004 in first call and, if required, in second call on 9 April at the same place and time to deliberate the following

Agenda:

1. Approval of the 2003 Annual Report.
2. Confirmation of a member of the Board of Directors.
3. Authorisation for the purchase and sale of shares in the parent company Sanpaolo IMI.

The notice of the Ordinary General Meeting was published in the announcements section of Official No. 68 of the Republic of Italy of 22 March 2004.



- **Reclassified Balance Sheet and Income Statement (Analysis)**

Reclassified Balance Sheet

Assets (All figures in thousands of euros)	31.12.2002	31.12.2003
Cash and deposits with central banks	30	18
Loans	6,280,941	11,936,457
<i>Including: - Due from banks</i>	8,096,036	4,962,370
- Due from customers	3,840,421	1,027,800
Dealing securities	6,609,962	10,738,878
<i>Including: - Government securities and bonds</i>	4,686,331	8,648,929
- Equities	1,923,631	2,089,949
Fixed assets	297,563	417,026
<i>Including: - Equity investments</i>	276,456	404,496
- Tangible and intangible fixed assets	21,107	12,530
Other assets	7,718,537	6,435,969
Total assets	26,562,549	23,582,061

Liabilities (All figures in thousands of euros)	31.12.2002	31.12.2003
Payables	17,538,790	15,784,069
<i>Including: - Due to banks</i>	8,720,020	8,220,297
- Due to customers	6,292,103	3,897,970
- Securities issued	2,526,667	3,665,802
Other liabilities	8,452,906	7,117,134
Provisions	15,325	24,504
<i>Including: - Provision for employee severance indemnities</i>	6,155	6,860
- Provision for taxation	2,170	11,181
- Provisions for risks and charges	7,000	6,463
Allowance for possible loan losses	21,209	21,209
Subordinated liabilities	185,000	225,000
Reserve for general banking risks	-	2,000
Shareholders' equity	349,319	408,145
<i>Including: - Share capital</i>	180,000	180,000
- Reserves	167,260	169,319
- Net profit (loss) for the year	2,059	58,826
Total liabilities and shareholders' equity	26,562,549	23,582,061

Analysis

Due from banks

Current accounts	139,156
Repurchase transactions	4,259,335
Deposits/loans	373,185
Securities loaned	190,694
Total	4,962,370

Due from customers

Current accounts	21,455
Repurchase transactions	461,864
Deposits/loans	377,834
Securities loaned	166,379
Other loans	268
Total	1,027,800

Other assets

Due from tax authorities	183,416
Valuations of off balance sheet	5,184,128
Options	861,248
Accrued income and prepaid expenses	158,800
Other assets	48,377
Total	6,435,969

Due to banks

Current accounts	54,660
Repurchase transactions	6,732,121
Deposits/loans	1,242,822
Securities loaned	190,694
Total	8,220,297

Due to customers

Current accounts	140,764
Repurchase transactions	3,384,740
Deposits/loans	206,087
Securities loaned	166,379
Total	3,897,970

Other liabilities

Technical short positions in securities	859,182
Valuations of off balance sheet	5,467,346
Options	595,891
Accrued expenses and deferred income	88,227
Other liabilities	106,488
Total	7,117,134

Reclassified Statement of Income

(All figures in thousands of euros)	2002	2003
Net interest income	(43,432)	26,715
Net income from financial transactions and stock dividends	217,969	186,326
Net commission income	(6,685)	18,933
Other net operating income	3,220	2,344
Total net operating income	171,072	234,318
Administrative expenses	(136,536)	(136,430)
Operating profit/(loss)	34,536	97,888
Adjustments and provisions	(36,007)	(6,226)
Operating profit/(loss) before extraordinary items	(1,471)	91,662
Extraordinary items, net	4,005	(542)
Profit/(loss) before taxes	2,534	91,120
Income taxes	(475)	(32,294)
Net profit/(loss)	2,059	58,826



■ **Report of the Directors**

Results

The 2003 financial year closed with an operating profit of €98.0m compared to €38.1m for 2002. Revenue totalled €221.6m, up from €161.3m in the previous year, while costs were substantially unchanged at €123.6m compared to €123.2m in 2002.

Income before taxes, including provisions of €2.0m to the reserve for general banking risks, adjustments to loans of €2.6m and other provisions of €1.2m, were €91.1m compared to €2.5m for the previous year, which did, however, suffer from write-downs of equity investments in the web trading/banking sector totalling €31.0m.

Net income was €58.8m compared to €2.1m as at 31 December 2002.

The main reclassified balance sheet figures are shown in greater detail below.

All figures in millions of euros	2002¹	2003
Risk Management	99,206	123,503
Sales	28,824	54,233
Corporate Finance	19,955	10,402
Capital Markets	13,305	33,456
Total revenue	161,290	221,594
Personnel expenses	(59,040)	(68,261)
Overhead costs	(44,617)	(41,853)
Depreciation and amortisation	(19,549)	(13,502)
Total costs	(123,206)	(123,616)
Gross operating margin	38,084	97,978
Provisions and adjustments of loans	(5,000)	(3,795)
Adjustments of equity investments	(31,007)	(0,432)
Reserve for general banking risks	-	(2,000)
Extraordinary income (expenses)	0,458	(0,632)
Income before taxes	2,534	91,120
Taxes for the year	(0,475)	(32,294)
Net income for the year	2,059	58,826

¹ The 2002 statement of income was reclassified to enable homogenous comparison with the figures for the 2003 financial year.

Risk Management & Sales activities

Net revenue in this area totalled €177.7m, up from €128.0m in the previous year, with increases in revenue both from risk management (€123.5m compared to €99.2m in 2002) and sales/distribution (€54.2m compared to €28.8m in 2002).

Risk management saw the Equity sector achieve an excellent performance with a 17.3% increase in gross revenue from 2002, accounting for €65.3m of the €138.4m total for risk management revenue gross of business-related costs (€123.5m net of said directly-attributable costs). The bank's equity funding and stock lending activities gave a significant contribution to this result, following a particularly strong growth during the year. Our issue and market-making activities in IMINext certificates and our market-making activities in ETFs also merit special mention due both to their recent expansion and strong future potential. Our activities for structuring/hedging capital protected products with performance linked to the stock markets also made an important contribution to the results.

The performance of Fixed Income and Syndicate & Credit Trading was likewise very positive, with a gross contribution to the sector that was up on the previous year at €73.1m.

Where Fixed income in particular was concerned, our market making activities in complex interest rates, exchange rates and inflation derivatives, which were distributed both through independent channels (Banking, Institutionals, Local and Government Bodies) and through the Group's networks, achieved considerable margins, consolidating the bank's leading position in sectors with the strongest market financial innovation. Market making in swaps (Banca IMI is the only Italian bank that is a member of the SwapClear interbank service) and government securities also made an important positive contribution, with particularly marked profitability peaks in the first and last quarters of the year.

Syndicate & Credit Trading consolidated the business levels achieved in prior years with a significantly higher financial result than the previous year. This result is even more significant if one considers that it was achieved in rather volatile market conditions that deteriorated, above all in the last part of the year, as a result of the Parmalat scandal.

Our sales/distribution activities in the fixed income sector in 2003 were focused on the securities of issuers in the banking and finance sectors (based both in and outside Italy). The Bank was also involved in a number of important institutional issues including the first inflation-linked long-term Treasury Bond (BTP) and the securitization of the activities of Cassa Depositi e Prestiti, the Italian public administration financing body. Corporate issues included the placement of the Edison seven-year bond. The bank's performance on the secondary market (trade with institutional investors such as mutual funds, insurance companies and banks) was outstanding both in government bonds and corporate bonds, with substantial growth on previous years, as it was too where the distribution of derivatives was concerned (including IRS, OTC bond options and other interest and exchange rate derivatives). The year also saw significant growth in the volumes of structured products and thus their contribution to total income. These results may be attributed both to the wider range of products offered and increased coverage of institutional clients (banks and insurance companies).

Trading on behalf of third parties saw revenue increase both in the cash and listed derivatives sector thanks to the steadily increasing coverage of global markets that the bank offers its customers and which has enabled it to increase its market shares notwithstanding the continuing lack of confidence in the stock markets.

Corporate Finance & Capital Market activities

Revenue in this sector totalled €43.9m, up from €33.3m in the previous financial year.

The Equity Capital Markets sector followed a largely positive trend during 2003, following three years of sharply-falling prices on the stock markets. It was not, however, a steady trend, with a negative first quarter influenced by fears regarding the conflict in Iraq being followed by a strong recovery aided by signs of improvement in the international economic situation.

This improvement in the markets was, however, only partially reflected in an upturn in operations on the European primary market, which saw a high level of capital increase transactions linked to financial restructuring processes but still very modest activity in initial public offerings and the listing of new companies. There were only four IPOs on the Italian market in 2003.

Within this context, the bank acted as Joint Bookrunner on the placement of Hera (€377m), one of the main public service operators in Italy, and as Global Coordinator for the listing of the agro-pharmaceutical company Isagro. We also took part in the initial public offering of Meta (€64m) and the placement of capital shares in Edison and CDC (an information technology product distribution company listed on the New Market) with leading institutional investors.

Where capital increases were concerned, the bank coordinated the capital increases of Edison (€2,095m), AEM Torino (€115m) and Reno de Medici (€72m), while acting as Lead Manager for Fiat's capital increase (€1,785m) and Coordinator and Lead Manager for IFIL's capital increase (€502m). In addition 2003 also saw the first four tranches of the capital increase for Mondo TV, an innovative operation on the Italian market that enables the issuer to raise funds in several tranches by issuing new shares under conditions that are in line with market prices. The bank was also involved in the capital increase option of Banca Antoniana Popolare Veneta.

On the delistings front, the bank acted as Joint Advisor and Joint Global Coordinator in the Eni public offer for subscription of Italgas shares (€2,461m) and the Wide Design public offer for subscription regarding Italdesign Giugiaro (€210m), both of which ended with the delisting.

On the international market, the bank strengthened its track record, acting as Guarantor for a number of the biggest operations on Europe's markets, including in particular the capital increases of Banco Comercial Português (€930m), Allianz (€3,454m) and Royal & Sun Alliance (€1,008m). We also acted as Co-manager for the institutional share offer of the major US manufacturer Timken (€166m).

Gross revenue from our Equity Capital Market activities totalled €17.2m.

On the Corporate Finance side, the global M&A market declined significantly both in the number of deals and their total value compared to 2002. There were, however, the first signs of recovery with a significant increase in deals announced from October 2003. In Italy, the M&A market saw a fall in the number of deals but a substantial increase in their value, partly thanks to operations connected with the reorganisation of large groups of companies.

The bank performed well in this scenario during 2003, with total deals of around €8.7bn, providing consultancy services for the main industrial groups in Italy, including our assistance with the sale of Edison's gas reserves in Egypt (€1,600m), the sale of ENEL's electricity generation assets and with increasing the value of Eni's chemical sector assets, while also providing assistance to the Italian Ministry of Economy and Finance for increasing the value of ETI for privatisation, and to BuzziUnicem with the Public Offer for Subscription for Dyckerhoff preference shareholders. Our work for the FIAT Group included advisory services as part of a Global Advisory mandate and the provision of a Business Solution for the sale of the majority holding in subsidiary IPI. At the end of the year a number of operations were still in progress on behalf of FS, Alitalia, Finmeccanica and Mediaset.

Group synergies saw the bank providing parent company Sanpaolo with assistance in the acquisition, along with other financial institutions, of the majority stake in Fidis, in the acquisition of a minority holding in Banca delle Marche and - as part of a framework agreement - in the dynamic management of equity investments and support activities for the valuation process. We also assisted Sanpaolo IMI Wealth Management in the acquisition of EptaFund and in establishing a joint venture with SCH.

Salient amongst the bank's operations for medium-sized enterprises was the assistance provided to the issuers in the Roland, Manuli and Banca di Sassari public offers for subscription and the assistance to the Merlo Group, which operates in the agricultural and building machinery sector, with its company reorganisation with a view to possible listing. We were also involved in two substantial operations in the medium-sized bank sector during the year, assisting Cassa di Risparmio di Firenze and Banca Carige in the acquisition of Cassa di Risparmio di La Spezia and Cassa di Risparmio di Carrara respectively.

The bank's Debt Capital Market operations in 2003 saw us consolidating our presence in the sector with revenue of €16.3m, up from €13.7m in the previous year.

In particular, the bank acted as Lead Manager and Dealer in 62 bond issues with a total value of approximately €24.6bn, confirming its position as one of the leading financial institutions operating on the primary bond market.

Breaking this down by sector, in government securities, the bank played the role of Joint Lead Manager and Bookrunner for the first index-linked treasury bond, which was greeted with considerable interest by investors, being issued for a total amount, including the subsequent reopening, of over €10bn.

In the Financial Institutions sector, the Bank acted as Joint Lead Manager and Bookrunner for senior issues by Sanpaolo IMI, Banca delle Marche, Credito Valtellinese, Landsbanki Islands, Kaupthing Bunadarbanki, Merrill Lynch and Banco Itau Europa, and for subordinated issues by Sanpaolo IMI, Caja de Madrid, Banca

CR Firenze and Findomestic Banca. In addition, the bank also acted as Sole Manager for issues by SNS Bank, Caixa Geral de Depositos, Natexis Banque Populaire and Caixa Economica Montepio Geral, and as arranger for the European Medium Term Note (EMTN) programme of Mediocredito Trentino Alto-Adige.

Where corporate issuers were concerned, the bank acted as co-arranger for Edison's EMTN programme and as Joint Lead Manager and Bookrunner for the related debut issue. We were also Joint Lead Manager & Bookrunner for issues by Deutsche Bahn, Hellenic Railways, GMAC and DaimlerChrysler.

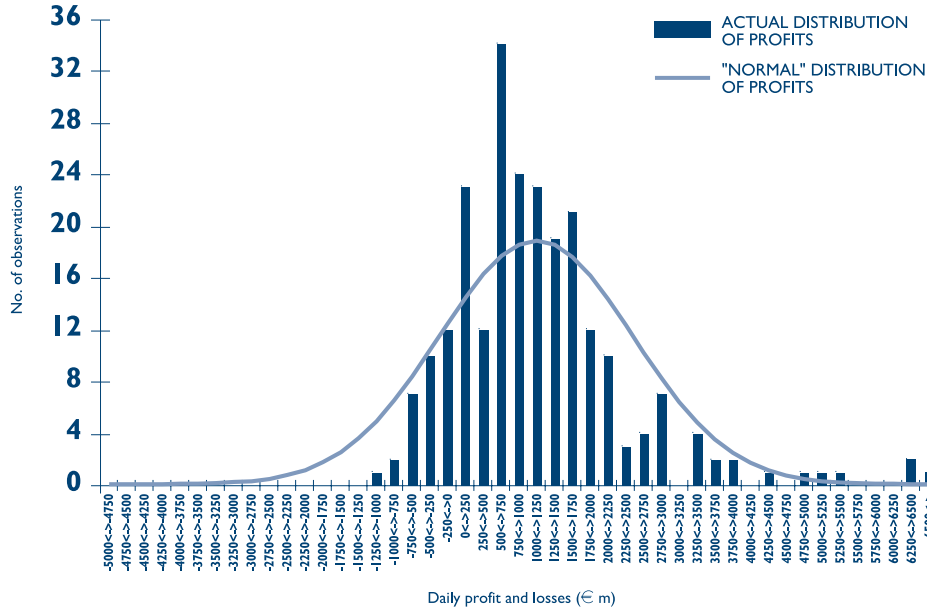
Where local bodies were concerned, the bank acted as Joint Lead Manager & Bookrunner for an issue by Pisa City Council, as rating advisor for the Bolzano Provincial Council and received a mandate as Joint Lead Manager & Bookrunner for an issue by the Piedmont Regional Council.

Lastly, in the securitisation sector, the Bank acted as Joint Arranger & Bookrunner for operations by Cassa Depositi and Prestiti, INPS (fourth tranche) and Master Dolfin (Findomestic Banca), the first Italian master trust for multi-tranche issues.

Risk control

The bank has a system of operational delegation for managing and controlling financial risks that is based on operating limits regarding maximum potential loss (value at risk). The bank uses a stress-testing (worst-case scenario) model to determine maximum potential loss that has proven itself to be both robust and highly reliable. The method employed assesses risk levels in relation to a series of scenarios obtained by applying significant market parameter shocks to the positions concerned. The table below shows the gross daily operating results of risk management activities "discretised" into €0.25m buckets and compared to a normal Gaussian distribution with mean and variance equal to those actually observed.

**Profit and loss distribution in risk management
as at 31 December 2003**



Where the management and control of credit risks principally connected with financial brokerage activities are concerned, the Bank is engaged in developing measurement and monitoring procedures on an ongoing basis together with risk management processes that are strongly geared towards the collateralisation of exposures and use of netting agreements. In line with Group procedures, the control and monitoring of credit risks is implemented using a complex system of operating limits which is, considering the distinctive nature of the bank's activities, subject to a continuous process of refinement regarding both its procedures and methodologies.

The bank's techniques for mitigating credit risks also include using credit derivative products, a sector in which it operates with the prime objective of optimising its trading book management, generally taking the position of net protection buyer. The transactions concluded, all credit default swaps, currently involve a small number of reference entities and were generally entered into with leading institutional counterparties.

Notes to the balance sheet

Analyses of the individual Balance Sheet items and detailed information on the accounting policies adopted can be found in the Notes to the Financial Statements. This section provides information on the most important assets and liabilities items.

The bank's securities holdings totalled €10,739m as at 31 December 2003 compared to €6,610m as at 31 December 2002, comprising €8,649m bonds (including €6,745m government securities and €781m EU public issuer securities) and €2,090m shares and stock in mutual funds, with technical short positions totalling €859m.

As at 31 December 2002, the bank held 1,594,744 Sanpaolo IMI ordinary shares with a market/book value of €9.9m (par value €4.5m) as part of its institutional trading activities. During the year the company completed purchase transactions for 8,542,252 shares (par value €23.9m) with a total value of €77.7m and sale transactions for 10,532,571 shares (par value €29.5m) with a total value of €95.0m. The bank's liabilities as at 31 December 2003 consequently included a "short position" regarding 395,575 shares in the parent company (par value €1.1m) related to normal trading activities that were financially offset by transactions in derivatives.

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The most significant loan items were repurchase agreements and securities lending, which totalled €5,078m (€7,795m as at 31 December 2002), including €4,450m due from banks (€6,211m as at 31 December 2002). The largest item under “other assets” was the valuations of off-balance-sheet transactions totalling €5,184m (€6,549m as at 31 December 2002).

The largest liabilities items were repurchase agreements and securities loaned amounting to €10,474m (€9,653m as at 31 December 2002), deposits from other banks totalling €1,243m (€5,036m as at 31 December 2002) and bonds issued with a total value of €3,666m (€2,527m as at 31 December 2002). Other liabilities included evaluations of off-balance-sheet transactions totalling €5,467m (€6,600m as at 31 December 2002).

Operating costs

Operating costs totalled €123.6m as follows:

- Personnel expenses totalled €68.3m, up €9.3m on the figure of €59.0m for the 2002 financial year as a result of the bank’s policy for reducing fixed costs and a more than proportional increase in the variable part of remuneration linked to the increase in the operating result. Staff numbers totalled 522 at the end of the year (compared to 534 as at 31 December 2002), including 8 at the bank’s London branch (13 as at 31 December 2002). The decrease was a result of the rationalisation of our presence outside Italy.
- Overhead costs were reduced to €41.9m from €44.6m the previous year as a result of the rigorous action taken to control spending processes and an increasingly

effective efficiency drive. The main cost items related to information system use and maintenance costs, charges incurred for access to markets and for the use of information services and data banks, building lease instalments and related operating expenses, telephone and data transmission costs and travel expenses.

- Depreciation of fixed assets was down to €13.5m in 2003 compared with €19.5m in 2002 as a result of the increased efficiency of the investment selection and planning process launched in prior years.

Adjustments to loans, which totalled €2.6m, mainly concerned write-downs of loans for services and other loan amounts recorded in the item “other assets”. Net extraordinary expenses totalled €0.6m (compared to net extraordinary income of €0.5m in 2002) and mainly comprised expenses relating to the bank’s arrangement with the Italian inland revenue, to out-of-period expenses connected with transactions in securities or other items regarding prior years and expenses connected with the closure of our Tokyo branch.

The organisation

During 2003 the bank advanced the programmes for developing its organisation and business in a number of important directions: developing the products distributed by the group’s networks, consolidating its company operating and organisational processes, aligning its production process with the core developments in the structure of the financial markets, rationalising its presence outside Italy, focusing on the investment banking business and leaving the web sector.

The first aspect saw the bank operating in increasingly close cooperation with the

group's networks, continuing the process of strategic and organisational refocusing embarked on in recent years, which aims to increase the range of products and services offered to institutional investors while also meeting the investment needs of retail customers and the financial risk hedging requirements of corporate clients.

The bank adopted a new organisational structure during the year with the primary objective of rationalising its distribution activities, promoting its services for corporate customers and separating its research functions from its operating lines. In particular, the bank decided to redesign its financial analysis production and distribution activities by distinguishing what one might generically refer to as "sales literature" - which aims to explicitly and directly support the delivery of our Global Markets investment services - from what might otherwise be considered "pure" research activities conducted by financial analysts who are independent in the sense that they are not attached to any operating department and also provide an independent service that is representative of the bank's distinctive professional strengths (working under the auspices of the Research Office, which reports directly to the Managing Director).

These "pure" research services include the following financial analysis activities currently provided by the bank: i) global asset allocation analyses; ii) macroeconomic research with a special focus on world interest and exchange rate trends; iii) sector analyses (e.g. equity) and iv) research by retail segment, tailored to the end users of the studies. This research is primarily intended to be consulted by investors, but can also be used within business lines to support the analyses underlying their related operating strategies.

Projects to increase the efficiency of our internal processes focused on improving the bank's operating flows, upgrading information systems, optimising operations and enhancing the control of application security issues. We also continued bringing our systems and procedures into line with the developments planned or being

implemented with regard to the new regulatory framework (transition to International Financial Reporting Standards (IFRS) and New Basle Capital Accord). Considerable efforts were dedicated to aligning our transnational systems with current developments in the market models of the various different trading venues accessed by the bank (introduction of Central Counterparty and implementation of Monte Titoli Express II procedure).

At the same time, important projects were launched to develop new initiatives for our core business products and services (direct membership of Euronext and MTS France), with the aim of consolidating the bank's presence on European markets. We also built on our commitment to LCH.Clearnet's SwapClear initiative, increasing our operations with the other counterparties in the service and simultaneously reducing our counterparty and operating risks.

Testifying to the bank's increasingly efficient approach to global markets, we obtained an Aa3 rating from Moody's in October 2003.

The bank's Product & Business Development Unit is, moreover, committed to continuously developing pricing and trading support products and tools, analysing theoretical models and developing pricing models for particularly complex transactions, while also engaging in quantitative research connected with financial modelling.

The first half of the year saw the planned sale of 80% of the bank's holding in IMIWEB Bank (now IW Bank) as well as its holding in IMIWEB UK. At the same time, the bank decided to centralise the activities of its Tokyo branch and conduct them directly from Milan as part of the rationalisation process of its business and production structures.

As part of the group's operating risk policies, the bank continued developing and

implementing its own internal operational risk model during 2003.

The bank took prompt action regarding the new Italian data protection provisions brought in by Legislative Decree No. 196/2003 and has already prepared a security programme document in accordance with article 6 of Italian Presidential Decree 318/1999, which is currently being updated in accordance with the provisions of point 19 of the Technical Regulations set out in Annex B of said decree No. 196/2003. This update will be issued within the time established by law.

Relationships with group companies

The bank's investment and financial relationships with the companies in the Sanpaolo IMI Group are set out in Part B, section 3, and Part C, section 7, of the Notes to the Financial Statements. The previous section "Notes to the balance sheet" details the volume of transactions in the parent company's shares.

Transactions with "related parties", as defined and regulated by the Italian National Commission for Listed Companies and the Stock Exchange (Consob) in Notice DAC/97001574 of 20.02.97, Notice DAC/98015375 of 27.02.98 and Notice DEM/2064231 of 30.09.02, formed part of the bank's ordinary operations and were generally conducted under arm's-length conditions and in all circumstances on the basis of mutually-advantageous economic valuations. The bank did not engage in any atypical or unusual transactions with related parties in 2003.

Subsequent events and outlook

As part of the project for rationalising the group's production structures, the bank is in the process of formalising an agreement to sell its controlling stake in the single manager speculative fund management company Obiettivo SGR, established in 2001, to Sanpaolo WM S.p.A. We are likewise in the process of formalising an agreement to sell our minority holding in Sanpaolo Institutional Asset Management SGR to Sanpaolo WM. It is anticipated that both contracts will be executed by the date of the Shareholders' Meeting to approve the financial statements.



The outlook for 2004 is in line with the performance achieved in 2003.



Annual Report 2003

Dear Shareholders,

We hereby submit the financial statements as at 31 December 2003, which show a net income of €58,826,339, for your approval.

Considering that the Legal Reserve already amounts to 20% of the share capital, we propose the following allocation of net income for the year:

- distribution of dividends to shareholders: €27m (€0.15 per share);
- allocation of the remainder to the Extraordinary Reserve: €31,826,339.

The Board of Directors

10 March 2004



- **Balance Sheet and Statement of Income**

Balance Sheet

Assets (All figures in euros)		31/12/2003	31/12/2002
10	Cash and deposits with central banks and post offices	17,976	30,073
20	Government bonds and similar instruments eligible for refinancing with central banks	909,909,800	912,866,155
30	Due from banks	4,962,370,241	8,096,036,379
	(a) On demand	441,109,546	333,788,913
	(b) Other	4,521,260,695	7,762,247,466
40	Loans to customers	1,027,799,676	3,840,421,268
50	Bonds and other debt securities	7,739,019,119	3,773,465,796
	(a) Public issuers	6,935,314,223	2,887,488,643
	(b) Banks	580,959,674	317,007,044
	<i>Including: Own securities</i>	<i>128,242,866</i>	<i>12,562,724</i>
	(c) Financial institutions	162,210,168	498,276,732
	(d) Other issuers	60,535,054	70,693,377
60	Shares, quotas and other equity interest	2,089,948,592	1,923,630,557
70	Equity investments	31,215,969	23,579,179
80	Investments in group companies	373,279,767	252,876,543
90	Intangible fixed assets	11,245,561	18,353,191
	<i>Including: - Start-up costs</i>	<i>97,470</i>	<i>146,204</i>
	- Goodwill	1,807,599	2,169,119
100	Tangible fixed assets	1,285,158	2,753,855
130	Other assets	6,277,169,187	7,578,880,191
140	Accrued income and prepaid expenses:	158,799,831	139,655,648
	(a) Accrued income	157,845,549	138,094,318
	(b) Prepaid expenses	954,282	1,561,330
	Total assets	23,582,060,877	26,562,548,835

Liabilities (All figures in euros)		31/12/2003	31/12/2002
10	Due to banks	8,220,297,146	8,720,019,515
	(a) On demand	1,486,959,502	728,005,334
	(b) Time or notice	6,733,337,644	7,992,014,181
20	Due to customers	3,897,970,351	6,292,103,426
	(a) On demand	513,229,642	496,080,113
	(b) Time or notice	3,384,740,709	5,796,023,313
30	Securities issued	3,665,801,716	2,526,666,753
	(a) Bonds	3,665,801,716	2,526,666,753
50	Other liabilities	7,028,906,852	8,372,913,665
60	Accrued expenses and deferred income	88,226,839	79,993,124
	(a) Accrued expenses	88,125,727	79,409,103
	(b) Deferred income	101,112	584,021
70	Provision for employee severance indemnities	6,860,398	6,154,665
80	Provisions for risks and charges	17,643,351	9,169,802
	(a) Pensions and similar obligations	-	-
	(b) Taxation	11,180,899	2,169,802
	(c) Other provisions	6,462,452	7,000,000
90	Allowance for possible loan losses	21,209,210	21,209,210
100	Reserve for general banking risks	2,000,000	-
110	Subordinated liabilities	225,000,000	185,000,000
120	Share capital	180,000,000	180,000,000
130	Additional paid-in capital	131,259,962	131,259,962
140	Reserves	38,058,713	36,000,000
	(a) Legal reserve	36,000,000	36,000,000
	(c) Statutory reserves	-	-
	(d) Other reserves	2,058,713	-
170	Net profit (loss) for the year	58,826,339	2,058,713
Total liabilities		23,582,060,877	26,562,548,835

Guarantees and Commitments

10	Guarantees	43,370,706	2,549,900,857
20	Commitments	4,836,052,833	5,227,096,110
	<i>Including: Sales with repurchase agreements</i>	<i>0</i>	<i>969,963,670</i>
30	Credit derivatives	318,160,936	146,273,050

Statement of Income

(All figures in euros)		31/12/2003	31/12/2002
10	Interest income and similar revenue	459,364,568	453,885,927
	<i>Including: - Loans to customers</i>	<i>47,863,316</i>	<i>34,535,696</i>
	<i>- Debt securities</i>	<i>251,268,815</i>	<i>232,872,058</i>
20	Interest expense and similar charges	(432,649,034)	(497,318,286)
	<i>Including: - Deposits from customers</i>	<i>(147,925,252)</i>	<i>(114,802,879)</i>
	<i>- Securities issued</i>	<i>(68,496,943)</i>	<i>(30,635,546)</i>
30	Dividends and other revenue	227,828,833	411,210,280
	a) Shares, quotas and other equities	222,499,032	396,140,621
	b) Equity investments	2,617,318	3,797,659
	c) Investments in group companies	2,712,483	11,272,000
40	Commission income	91,089,142	68,032,361
50	Commission expense	(72,155,974)	(74,716,962)
60	Profits (losses) on financial transactions	(41,503,107)	(193,240,836)
70	Other operating income	2,681,223	3,524,670
80	Administrative costs		
	a) Payroll costs	(65,501,008)	(56,687,627)
	<i>Including: - Wages and salaries</i>	<i>(49,575,647)</i>	<i>(42,508,311)</i>
	<i>- Social security contributions</i>	<i>(13,215,999)</i>	<i>(11,588,297)</i>
	<i>- Provision for employee severance indemnities</i>	<i>(2,181,329)</i>	<i>(2,082,942)</i>
	<i>- Pensions and similar obligations</i>	<i>(528,033)</i>	<i>(508,077)</i>
	b) Other administrative expenses	(57,426,352)	(60,298,640)
90	Adjustments to intangible and tangible fixed assets	(13,502,533)	(19,549,973)
100	Provisions for risks and charges	(1,212,609)	(5,000,000)
110	Other operating expenses	(336,691)	(304,722)
120	Adjustments to loans and provisions for guarantees and commitments	(2,581,962)	-
130	Write-backs of loans and provisions for guarantees and commitments	-	-
140	Provisions for possible loan losses	-	-
150	Adjustments to financial fixed assets	(431,746)	(31,007,272)
170	Profit (loss) from ordinary activities	93,662,750	(1,471,080)
180	Extraordinary income	5,166,277	11,082,797
190	Extraordinary expenses	(5,708,753)	(7,078,136)
200	Net extraordinary income (loss)	(542,476)	4,004,661
210	Change in reserve for general banking risks	(2,000,000)	-
220	Income taxes	(32,293,935)	(474,868)
230	Net profit (loss) for the year	58,826,339	2,058,713



- **Notes to the Financial Statements**

Notes to the Financial Statements

The financial statements as at 31 December 2003 were prepared in accordance with the provisions of Italian Legislative Decree No. 87 of 27 January 1992, implementing EC Directive 86/635, and the Bank of Italy Regulations of 16 January 1995 as most recently amended by the Regulations of 30 July 2002, supplemented where necessary by the general provisions of the Italian Civil Code and other relevant laws and regulations.

These notes to the financial statements are divided into the following parts:

Part A - Accounting policies

Part B - Notes to the Balance Sheet

Part C - Notes to the Statement of Income

Part D - Other information

Schedule - Statement of changes in shareholders' equity

In line with the regulations of the Bank of Italy and the Italian National Commission for Listed Companies and the Stock Exchange (Consob), the Balance Sheet and Statement of Income figures are in euros, while the figures for the Notes to the Financial Statements are in thousands of euros unless specified otherwise. Tables without figures have been omitted from the Notes to the Financial Statements.

The accounting policies adopted were agreed with the Board of Statutory Auditors where required by law and notified to the Independent Auditors Deloitte & Touche SpA.

Part A - Accounting Policies

The financial statements as at 31 December 2003 were prepared adopting the same accounting policies as the financial statements as at 31 December 2002 and as our Parent Company Sanpaolo IMI SpA.



Section I - Statement of accounting policies.

I. Loans, guarantees and commitments

I.1 Loans

Loans are recorded at their estimated realisable value. Write-downs of loans on the basis of debtor solvency are recorded by deducting the value directly from the asset item concerned, with a balancing entry in the statement of income.

I.2 Guarantees, commitments and credit derivatives

Guarantees given are recorded at the total value of the exposure and valued adopting the same criteria as for loans.

Commitments regarding securities purchases not yet settled and foreign exchange transactions at period-end are recorded at their trading price. Commitments regarding derivatives are recorded at the notional value. Exposures regarding underlying borrowers for credit derivatives for which the Bank has assumed the credit risk as protection seller are recorded as commitments.

Credit derivatives, which are included in the trading book, are valued individually to take the associated credit risk and market risk into account in accordance with the criteria explained in section 7.1 below.



2. Securities and off-balance-sheet transactions (other than foreign currency transactions)

2.1 Investment securities

The company does not hold any investment securities.

2.2 Dealing securities

The cost of securities holdings is calculated using the moving weighted average cost method on a daily basis.

Securities held for dealing are valued as follows:

- a) if listed on Italian or foreign regulated markets, at their market value at the reference prices (or official or closing prices) on the last significant trading day (in terms of volumes traded) of the year;
- b) if unlisted, they are valued at whichever is the lower cost or estimated realisable value, determined in relation to the market value of listed securities with similar financial characteristics, discounting back future flows on the basis of anticipated market yields and other elements that can be determined objectively. The original values of securities written down in accordance with the said valuation criterion are reinstated if the reasons for said write-downs cease to apply.

Unlisted securities and other financial instruments linked to derivative contracts are recorded at their market value, in line with the valuation of these contracts.

Trading transactions are recorded in relation to the settlement dates of the related sale and purchase contracts.

Sale and purchase transactions with settlement dates subsequent to the year end are valued in the same way as securities holdings.

The accrual for the year is calculated on the issue premium or discount for own bonds and included in net interest income in accordance with current regulations.

2.3 Repurchase agreements and securities lending transactions

Repurchase agreements are recorded as financial transactions in accordance with current regulations, with the difference between the spot and forward prices being spread over the duration of the contracts and accrued on a time basis.

Securities lending transactions which are guaranteed by sums of money that revert in full to the lender are treated in the same way as repurchase agreements. Securities lending transactions that are not guaranteed by sums of money are recorded in the financial statements as a combination of two related transactions, involving a loan receivable and a loan payable, offset by funding or investment transactions. These funding or investment transactions are treated in the same way as repurchase agreements, so that the securities being lent continue to be shown in the lender's portfolio.

3. Equity investments

Equity investments are, as a rule, stated at cost, adjusted for any impairment in value. The original value is reinstated if the reasons for any adjustments cease to apply and the reinstated cost is recorded in the statement of income under item 160, "Write-backs of financial fixed assets".

Following the introduction of accounting for internal hedging deals, the accounting principles for which are set out in section 7.2, variations in exchange rates are taken into account for equity investments denominated in foreign currencies in accordance with the hedging valuation principle.

4. Assets and liabilities denominated in foreign currencies (including "off-balance-sheet transactions")

Assets and liabilities denominated in or linked to foreign currencies are translated using the year-end exchange rates.

The effects of contractual obligations regarding transactions in foreign currencies (including options) are reported in the statement of income at the agreed maturity dates, taking amounts accrued but not yet settled on the accounting reference date into account as described below.

All off-balance-sheet transactions denominated in foreign currencies and not entered into for hedging purposes are valued in accordance with the provisions of article 21 of Italian Legislative Decree No. 87/92, using the period-end spot exchange rate for transactions that have not yet been settled, or the year-end forward exchange rate for the maturity dates of the transactions being valued for forward transactions. The balancing entries for these revaluations are recorded under other assets and other liabilities.

5. Tangible fixed assets

Tangible fixed assets are recorded at cost, net of depreciation, which is calculated on a straight-line basis using the ordinary and accelerated depreciation rates permitted by Italian tax legislation, which are considered representative of the estimated useful life of the assets concerned.

Depreciation commences in the year that the asset enters service. The depreciation rates are halved for purchases in the period.

6. Intangible fixed assets

Intangible fixed assets are, with the agreement of the Board of Statutory Auditors, recorded at cost net of amortisation, calculated on a straight-line basis over a period of between three and five years, depending on their expected useful life. The only exception to this is the goodwill in Intersim S.p.A., purchased in 1999, which is being amortised on a straight-line basis over 10 years, a period considered to reflect its future utility.

7. Other aspects

7.1 OTC derivatives transactions

Differentials on derivatives transactions are recorded in the statement of income on their settlement date, taking into account any amounts accrued but not yet settled at the accounting reference date.

The market value of derivatives transactions with underlying securities or linked to interest rates, indices or other assets is calculated using mathematical models that are widely accepted in accounting practice, based on parameters that are listed on the reference markets or implicitly derived from listed values.

The balancing entries of these valuations, which essentially represent the counterparty risk of the transactions themselves, are included without offsetting in other assets or other liabilities as appropriate.

Over-the-counter derivatives margined through clearing organisations (e.g. SwapClear) are recorded in accordance with the principles set out in section 7.3 below.

7.2 Internal Deals

The bank's organisational structure and system of internal delegation provides for the specialisation of different operating units (desks) that are authorised to operate on the market where certain derivatives are concerned. Each desk manages different types of risks and operates within its given net risk operating limits. In order to optimise risk management efficiency and the identification of cost and revenue sources, the bank introduced accounting for internal deals from 1999 with the aim of protecting the value of equity investments in foreign currencies and bonds issued by the bank from the risk of adverse changes in market parameters.

A transaction is considered a hedging transaction when the following conditions are both satisfied and documented:

- a) intention to use for hedging purposes;
- b) high correlation between the technical and financial characteristics of the assets or liabilities being hedged and those of the hedging contract.

Where the accounting of internal deals and their impact on income are concerned, the trading desks' internal contracts are recorded at their market value. The hedging contracts of the internal units' receiving the protection are valued in the same way as the assets or liabilities being hedged.

7.3 Listed futures and options

The initial margins of over-the-counter futures, options and derivatives margined through clearing systems are recorded as assets. Changes in margins that reflect gains or losses with respect to the period-end market values of open contracts are recorded in the statement of income.

The results of the valuation of stock-style options in relation to their official prices are recorded in the statement of income.

7.4 Payables

Amounts due to banks and due to customers are recorded at their nominal value.

7.5 Provision for employee severance indemnities

The provision is calculated in accordance with current legislation and employment agreements.

7.6 Income taxes

The total payable for corporate income tax (IRPEG) and regional business tax (IRAP) is calculated on the basis of a cautious estimate of the Bank's current tax burden.

Timing differences regarding which there is a reasonable certainty of tax recovery are recorded, as are taxable timing differences that will become due in forthcoming years.

7.7 Allowance for possible loan losses

This reserve comprises amounts set aside in previous financial years to cover risks, including those related to derivative contracts. Since these risks are only potential, this provision is not deducted from assets.

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7.8 Other provisions

The provisions for risks and charges solely cover known or likely losses, charges or liabilities, the timing and amount of which cannot be determined with certainty at year-end.

7.9 Reserve for general banking risks

This provision, which covers general business risks, constitutes part of the shareholders' equity in accordance with the accounting principles laid down by the Supervisory Authorities and the Bank of Italy's regulations.

7.10 Securities issued and subordinated liabilities

These are recorded at their par value, which is their maturity value. The book values of liabilities denominated in foreign currencies are adjusted to the year-end exchange rates.

7.11 Interest and other revenue and expenses

Interest income and expenses, commission and other revenue and expenses are recorded on an accruals basis.

7.12 Dividends

Dividends are recorded at the time of the resolution to distribute them with the exception of the dividends of subsidiaries (controlled directly or at group level), which are recorded in the statement of income for the financial year in which they accrue.



Section 2 – Adjustments and provisions for tax purposes

2.1 Adjustments made solely for tax purposes

None.

2.2 Provisions made solely for tax purposes

None.



Part B - Notes to the Balance Sheet

Section I - Loans

The Bank's loans, which are the sum of Balance Sheet assets items 10, 30 and 40, totalled €5,990,188,000 net of adjustments as follows:

	31/12/02	31/12/03
Cash and deposits with central banks and post offices (item 10)	30	18
Due from banks (item 30)	8,096,036	4,962,370
Loans to customers (item 40)	3,840,421	1,027,800

■

I.1 Breakdown of item 30 "due from banks"

	31/12/02	31/12/03
a) Due from Central Banks	24,357	27,031
b) Bills eligible for refinancing with central banks	-	-
c) Repurchase agreements	5,971,867	4,259,335
d) Securities lending	239,047	190,694

■

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Breakdown of item 30 “due from banks”

Amounts due from banks totalled €4,962,370,000 as follows:

	31/12/02	31/12/03
Due from Central Banks:		
- Compulsory reserve	24,357	26,169
- Other	-	862
Due from other banks:		
- Repurchase transactions	5,971,867	4,259,335
- Current accounts	64,937	112,125
- Securities lending	239,047	190,694
- Deposits and loans	1,795,828	373,185
Total	8,096,036	4,962,370

The item “loans and bank deposits” included €143,184,000 bank deposits as collateral guaranteeing contracts on financial instruments.



The breakdown of the item “securities lending” was as follows:

	31/12/02	31/12/03
Loans for securities lending transactions	115,813	119,716
Repurchase agreements for securities lending transactions	123,234	70,978



I.2 Analysis of due from banks

	Gross value	Total adjustments	Net book value
A. Doubtful loans	-	-	-
A.1 Non-performing loans	-	-	-
A.2 Doubtful loans	-	-	-
A.3 Loans currently being restructured	-	-	-
A.4 Restructured loans	-	-	-
A.5 Unsecured loans exposed to country risk	-	-	-
B. Performing loans	4,962,370	-	4,962,370

■

I.5 Analysis of item 40 “loans to customers”

	31/12/02	31/12/03
a) Bills eligible for refinancing with central banks	-	-
b) Repurchase agreements	1,331,116	461,864
c) Securities lending	252,666	166,379

■

Breakdown of item 40 “loans to customers”

Loans to customers totalled €1,027,800,000 as follows:

	31/12/02	31/12/03
Current accounts	58,169	21,455
Interest-bearing cash deposits with clearing organisations	54,144	104,162
Repurchase agreements	1,331,116	461,864
Securities lending	252,666	166,379
Deposits	2,144,058	273,672
Non-performing loans	268	268
Total	3,840,421	1,027,800

The item “deposits” included €113,507,000 deposits as collateral guaranteeing contracts on financial instruments.

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The breakdown of the item “securities lending” was as follows:

	31/12/02	31/12/03
Loans for securities lending transactions	137,677	126,765
Repurchase agreements for securities lending transactions	114,989	39,614



I.6 Secured loans to customers

	31/12/02	31/12/03
a) Mortgages	-	-
b) Pledged assets:		
1. Cash deposits	-	-
2. Securities	19	42,000
3. Other instruments	-	-
c) Guarantees given by:		
1. Governments	-	-
2. Other public entities	-	-
3. Banks	-	14,945
4. Others	8	8

Other secured loans included repurchase agreements totalling €461,864 and repurchase agreements for securities lending transactions totalling €39,614.



I.7 Analysis of loans to customers

	Gross value	Total adjustments	Net book value
A. Doubtful loans	1,858	(1,590)	268
A.1 Non-performing loans	1,573	(1,305)	268
A.2 Problem loans	285	(285)	-
A.3 Loans currently being restructured	-	-	-
A.4 Restructured loans	-	-	-
A.5 Unsecured loans exposed to country risk	-	-	-
B. Performing loans	1,027,532	-	1,027,532



I.8 Changes in doubtful loans to customers during the year

Categories/values	Non-performing	Problem loans	Loans currently being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Gross value					
as at 31/12/2002	1,573	285	-	-	-
A.1. Including:					
Default interest	-	-	-	-	-
B. Increases					
B.1. Transfers from performing loans	-	625	-	-	-
B.2. Default interest	-	6	-	-	-
B.3. Transfers from other categories of doubtful loans	-	-	-	-	-
B.4. Other increases	-	-	-	-	-
C. Decreases					
C.1. Transfers to performing loans	-	-	-	-	-
C.2. Write-offs	-	-	-	-	-
C.3. Collections	-	(631)	-	-	-
C.4. Disposals	-	-	-	-	-
C.5. Transfers to other categories of doubtful loans	-	-	-	-	-
C.6. Other decreases	-	-	-	-	-
D. Gross value					
as at 31/12/2003	1,573	285	-	-	-
D.1. Including:					
Default interest	-	-	-	-	-

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I.9 Adjustments to loans to customers during the year

Categories/values	Non-performing	Problem loans	Loans currently being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Total adjustments						
as at 31/12/2002	1,305	285	-	-	-	-
A.1. Including:						
Default interest	-	-	-	-	-	-
B. Increases						
B.1. Adjustments	-	-	-	-	-	-
B.1.1 Including:						
Default interest	-	-	-	-	-	-
B.2. Utilisation of reserve for possible for loan losses	-	-	-	-	-	-
B.3. Transfers from other categories of loans	-	-	-	-	-	-
B.4. Other increases	-	-	-	-	-	-
C. Decreases						
C.1. Write-backs from year-end valuations	-	-	-	-	-	-
C.1.1. Including:						
Default interest	-	-	-	-	-	-
C.2. Write-backs following collections	-	-	-	-	-	-
C.2.1. Including:						
Default interest	-	-	-	-	-	-
C.3. Write-offs	-	-	-	-	-	-
C.4. Transfers from other categories of doubtful loans	-	-	-	-	-	-
C.5. Other decreases	-	-	-	-	-	-
D. Total adjustments						
as at 31/12/2003	1,305	285	-	-	-	-
D.1. Including:						
Default interest	-	-	-	-	-	-

Section 2 - Securities

2.1 Investment securities

The Bank does not hold any investment securities.



2.3 Trading securities

The analysis of dealing securities below shows the book values and corresponding market values of the different financial instruments separately for listed securities and unlisted securities.

	31/12/02		31/12/03	
	Book value	Market value	Book value	Market value
1. Debt securities				
1.1 Government securities				
Listed	1,795,404	1,795,404	6,745,234	6,745,234
Unlisted	3,425	3,425		
1.2 Other securities				
Listed	2,582,072	2,582,072	1,470,391	1,470,391
Unlisted	305,430	306,670	433,304	438,500
2. Equities				
Listed	1,795,371	1,795,371	1,886,915	1,886,915
Unlisted	128,260	128,260	203,034	203,034
Total	6,609,962	6,611,202	10,738,878	10,744,074



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2.4 Changes in trading securities during the year

A. Opening balance	6,609,962
B. Increases	
B.1 Purchases	
Debt securities	
- Government securities	239,949,776
- Other securities	102,391,944
Equities	11,824,229
B.2 Write-backs and revaluations	63,645
B.3 Transfers from investment portfolio	
B.4 Other increases	1,456,724
C. Decreases	
C.1 Sales and redemptions	
Debt securities	
- Government securities	(234,458,971)
- Other securities	(103,198,166)
Equities	(11,932,319)
C.2 Adjustments	(39,327)
C.3 Transfers to investment portfolio	
C.5 Other decreases	(1,928,619)
D. Closing balance	10,738,878

The item “other increases” comprised €859,182,000 year-end technical short positions in securities, €572,972,000 trading profits, €9,214,000 positive exchange rate differences and €15,356,000 issue discounts accrued.

The item “other decreases” comprised €1,345,282,000 beginning-of-year technical short positions in securities, €564,202,000 trading losses, €14,505,000 exchange rate differences and €4,630,000 issue discounts on short positions.

Short positions are recorded under “other liabilities” as appropriate.

The opening and closing net balances were as follows:

Net opening balance as at 31.12.02	5,264,680
- Long positions	6,609,962
- Short positions	(1,345,282)
Net closing balance as at 31.12.03	9,879,696
- Long positions	10,738,878
- Short positions	(859,182)

The technical short positions as at 31 December 2003 included a short position in shares in the parent company Sanpaolo IMI SpA with a total value of €4.1m (corresponding to 395,575 shares).

This position was due to the bank's institutional brokerage activities and related to transactions in OTC derivatives and on regulated markets.

Section 3 - Equity Investments

Equity investments, recorded in balance sheet asset items 70 and 80, totalled €404,496,000, including €377,181,000 significant investments as per articles 4 and 19 of Italian Legislative Decree 87/92.

3.1 Significant investments

Company	Registered office	Shareholders' equity	Profit/Loss	% owned	Book value
A. Subsidiaries					
IMI Bank (Lux) S.A.	Luxembourg	76,640 ¹	1,258	99.99	98,915
IMI Investments S.A.	Luxembourg	270,284 ²	2,661	99.99	268,764
Obiettivo SGR S.p.A.	Milan	1,631 ³	(869)	99.99	3,187
IMI Solutions S.p.A.	Milan	94 ³	(499)	100.00	94
B. Companies subject to considerable influence					
AF Merlo S.p.A.	Milan	15,060 ⁴	(102)	33.42	5,000
IW Bank S.p.A.	Milan	15,141 ⁵	30	20.00	1,221

¹ The shareholders' equity as recorded in the financial statements as at 31 December 2003, included retained profit of €1,258,000, which represented the total net income for the 2003 financial year.

² The share capital is denominated in US dollars. The shareholders' equity as recorded in the financial statements as at 31.12.2003 totalled USD 341,369,000 and included retained profit of USD 168,000.

³ The shareholders' equity as recorded in the financial statements as at 31.12.2003 included the net loss for the 2003 financial year.

⁴ The shareholders' equity as recorded in the financial statements as at 30.06.2003 included net income for the period.

⁵ The shareholders' equity as recorded in the financial statements as at 31.12.2003 did not include net income for the year.

The investments in subsidiaries all concern group companies.

The shareholders' equity includes retained profits.

The negative differences between the shareholders' equities of subsidiaries IMI Bank (Lux) and Obiettivo SGR as at 31 December 2003 and the corresponding book values of the equity investments are not considered likely to be permanent, bearing in mind the companies' growth plans, goodwill and the composition of their assets.

3.2 Amounts due to and from group companies

	31/12/02	31/12/03
ASSETS		
1. Due from banks	1,294,754	479,650
<i>Including: subordinated</i>	-	-
2. Due from financial institutions	503,360	57,922
<i>Including: subordinated</i>	-	-
3. Due from other customers	-	-
<i>Including: subordinated</i>	-	-
4. Bonds and other debt securities	131,916	316,139
<i>Including: subordinated</i>	15,516	24,828
LIABILITIES		
1. Due to banks	5,157,692	1,147,925
2. Due to financial institutions	105,403	25,919
3. Due to other customers	-	-
4. Securities issued	-	-
5. Subordinated liabilities	35,000	15,000
GUARANTEES AND COMMITMENTS		
1. Guarantees issued	369	-
2. Commitments	185,265	218,990

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3.3 Amounts due to and from equity investments (non-group companies)

There were no amounts due to or from equity investments (non-group companies).

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3.4 Breakdown of item 70 “equity investments”

	31/12/02	31/12/03
(a) Investments in unlisted banks	-	1,222
(b) Investments in unlisted financial institutions	-	699
(c) Other unlisted investments	23,579	29,295



3.5 Breakdown of item 80 “investments in group companies”

	31/12/02	31/12/03
(a) Investments in unlisted banks	105,022	98,915
(b) Investments in unlisted financial institutions	147,842	274,258
(c) Other unlisted investments	13	107



3.6 Changes in equity investments

3.6.1 Investments in group companies

	31/12/02	31/12/03
A. Opening balance	311,065	252,877
B. Increases		
B1. Purchases	-	2,808
B2. Write-backs	-	-
B3. Revaluations	-	-
B4. Other increases	-	150,695
C. Decreases		
C1. Sales	(13)	(6,613)
C2. Adjustments		
Including: Permanent write-downs	(31,007)	(432)
C3. Other decreases	(27,168)	(26,055)
D. Closing balance	252,877	373,280
E. Total revaluations	-	-
F. Total adjustments	92,215	432



The item “Purchases” included the purchase of the 100% holding in IMIWEB UK Ltd from IW Bank SpA (previously IMIWEB Bank SpA) for €2,282,000 and the subsequent increase in the former’s share capital and the purchase of the entire stake in IMI Solutions SpA (named Cardine Financial Innovation SpA until 24 February 2004) held by Cardine Finanziaria SpA for €526,000. The item “other increases” included an informal capital contribution to subsidiary IMI Investments SA totalling €150,000,000, a payment of €687,000 to cover the 2002 net loss of subsidiary Obiettivo SGR and €8,000 exchange rate differences.

The item “sales” comprised the sale of 80% of the equity investment in IW Bank for €4,888,000 and the sale of the aforementioned 100% stake in IMIWEB UK Ltd to a leading English financial group for €1,725,000.

The permanent write-downs solely regarded the holding in IMI Solutions SpA.

The bank retained a 20% stake in the share capital of IW Bank which is no longer a member of the Sanpaolo IMI Banking Group and was therefore recorded in assets item 70 (“equity investments”). The item “other decreases” included the said transfer of the residual holding in IW Bank totalling €1,222,000, the €24,269,000 effect of exchange rate changes on the equity investment in IMI Investments and a €564,000 loss on the sale of the equity investment in IMIWEB UK. This loss was, however, offset by a €1,689,000 contribution received from the transferor, IW Bank.

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3.6.2 Other equity investments

	31/12/02	31/12/03
A. Opening balance	23,488	23,579
B. Increases		
B1. Purchases	18,130	6,487
B2. Write-backs	-	-
B3. Revaluations	-	-
B4. Other changes	3,516	1,274
C. Decreases		
C1. Sales	(18,242)	(119)
C2. Adjustments		
Including: Permanent write-downs	-	-
C4. Other changes	(3,313)	(5)
D. Closing balance	23,579	31,216
E. Total revaluations	-	-
F. Total adjustments	-	-

The item “purchases” comprised the purchase of a 33% holding in AF Merlo SpA for €5,000,000 and the purchase of LCH Clearnet shares to the value of €1,487,000 at the same time as the merger of the London Clearing House, in which the bank held shares, and Clearnet SA. Where the equity investment in AF Merlo SpA was concerned, the bank entered into derivatives transactions in which these shares are the underlying securities.

The item “other increases” included €20,000 and €32,000 gains regarding the sale of equity investments in Il Sole 24 Ore Television and the Euroclear Clearance System respectively, in addition to the aforementioned transfer of the equity investment in IW Bank from assets item 80.

The breakdown of “other equity investments” was as follows:

	Book value
Borsa Italiana SpA	21,464
AF Merlo Spa	5,000
LCH Clearnet SA	1,941
IW Bank Spa	1,221
SIA SpA	887
MTS SpA	699
Kiwi I Ventura Service	4
Cosete Srl in liquidazione	-
Total	31,216

Cosete Srl in liquidation was carried at €0.01.

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Section 4 - Tangible and intangible fixed assets

	31/12/02	31/12/03
Tangible fixed assets (item 100)	2,754	1,285
Intangible fixed assets (item 90)	18,353	11,246

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Breakdown of item 100 “tangible fixed assets”

	31/12/02	31/12/03
Furniture and equipment		
Office furniture and equipment	326	128
Electronic equipment	2,212	1,107
General and specific equipment	216	50
Total	2,754	1,285



Breakdown of item 90 “intangible fixed assets”

	31/12/02	31/12/03
Software	14,350	8,290
Start-up and expansion costs	146	97
Goodwill	2,169	1,807
Other deferred costs	1,688	1,052
Total	18,353	11,246

Goodwill regarded the purchase of a division of the company Intersim SpA (now IW Bank).

The item “other deferred costs” included €827,000 expenses for leasehold improvements.



4.1 Changes in tangible fixed assets during the financial year

A. Opening balance	2,754
B. Increases	
B1. Purchases	676
B2. Write-backs	
B3. Revaluations	
B4. Other increases	39
C. Decreases	
C1. Sales	(27)
C2. Adjustments:	
(a) Depreciation	(2,075)
(b) Permanent write-downs	
C3. Other decreases	(82)
D. Closing balance	1,285
E. Total revaluations	
F. Total adjustments	
(a) Depreciation	48,340
(b) Permanent write-downs	

The main investments in 2003 concerned the turnover project for individual productivity tools as well as hardware, network and IT infrastructure upgrades.

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4.2 Changes in intangible fixed assets during the year

A. Opening balance	18,353
B. Increases	
B1. Purchases	4,442
B2. Write-backs	
B3. Revaluations	
B4. Other increases	38
C. Decreases	
C1. Sales	(12)
C2. Adjustments:	
(a) Amortisation	(11,292)
(b) Permanent write-downs	(136)
C3. Other decreases	(147)
D. Closing balance	11,246
E. Total revaluations	
F. Total adjustments	
(a) Amortisation	33,001
(b) Permanent write-downs	5,668

Changes in individual items during the year were as follows:

	Start-up and expansion costs	Goodwill	Software	Other deferred costs
A. Opening balance	146	2,169	14,350	1,688
B. Increases				
B1. Purchases		4,326	116	
B4. Other increases			38	
C. Decreases				
C1. Sales			(12)	
C2. Adjustments:				
(a) Amortisation	(49)	(362)	(10,270)	(611)
(b) Permanent write-downs			(136)	
C3. Other decreases			(18)	(129)
D. Closing balance	97	1,807	8,290	1,052
E. Total revaluations				
F. Total adjustments				
(a) Amortisation	146	1,808	29,041	2,006
(b) Permanent write-downs		5,668		

The following projects constituted the Bank's main investments in 2003:

- membership of new markets and development of products and services including direct membership of Euronext and expanding our operations in credit derivatives;
- developing our trading, pricing and clearing systems, including developing IMIDirect and expanding the SwapClear procedures;
- developing internal systems and procedures connected with the development of market models (e.g. Express II);
- upgrading our back office and administrative systems and developing our data warehouse;
- developing our middleware system;
- organisational developments including rationalising our operating processes and procedures and completing our website;
- upgrading our logical security measures including developing a software life cycle methodology.

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Section 5 - Other assets

5.1 Breakdown of item 130 "other assets"

The item "other assets" totalled €6,277,169,000 as follows:

	31/12/02	31/12/03
Due from tax authorities:		
Tax credits from prior years	92,635	93,052
Tax credits on dividends	142,802	78,672
Withholding taxes incurred	1,979	1,434
Deferred tax assets	31,047	9,742
Advance tax on severance indemnities (as per Italian law 662/96)	125	60
Prepayments	-	-
Other tax credits	330	456
Off-balance-sheet transactions:		
Interest rate contracts	5,426,944	4,477,034
Foreign exchange contracts	797,005	414,455
Securities contracts	318,714	266,584
Index contracts	4,114	3,544
Credit derivatives	-	20,948
Securities commitments	2,377	1,563
Options and similar instruments	682,786	861,248
Trans. to be settled securities on own behalf	22,186	11,558
Dividends approved by subsidiaries	11,272	13,653
Guarantee deposits	2,126	47
Advances to employees	24	7
Receivables from third parties	17,163	16,928
Coupon receivables exposed to country risk	-	55
Other loans	25,251	6129
Total	7,578,880	6,277,169

The fall in the balancing entries for the revaluation of off-balance-sheet transactions on interest rates, which occurred despite a rise in volumes, was principally due to an increase in positions in OTC derivatives margined through the SwapClear clearing system.

The item “receivables from third parties”, mainly concerned receivables for advisory and dealing services for institutional and corporate customers. These receivables are recorded at their estimated realisable value net of the write-downs recorded in statement of income item 120 “adjustments to loans”.

The amount recorded in the item “coupon receivables exposed to country risk” refers to coupons to be collected on securities issued in Argentina and recorded net of a write-down on a lump-sum basis.

The breakdown of the item “deferred tax assets”, which has a balancing entry in the statement of income, was as follows:

Adjustments to loans	301
Adjustments to equity investments	1,649
Adjustments to equity investments	4,989
Provisions for contingencies	2,185
Other costs temporarily not tax deductible	618
Tax losses carried forward	-
Total	9,742

The deferred tax assets relating to adjustments to equity investments concerned timing differences regarding tax deductions on the write-down of IW Bank SpA in the 2002 financial year, in relation to the part of the equity investment still held (20%), and the write-down of IMI Solutions SpA in 2003, which is tax deductible over five years.

The adjustments to equity investments concerned the accounting regarding write-downs of securities holdings that were not tax deductible in the financial year (art. 61 of Italian Legislative Decree No. 917/86).

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5.2 Breakdown of item 140 “accrued income and prepaid expenses”

Accrued income and prepaid expenses amounted to €157,846,000 and €954,000 respectively, totalling €158,800,000.

The breakdown of accrued income was as follows:

	31/12/02	31/12/03
Interest on securities	84,012	98,750
Interest on deposits	4,267	81
Interest on repurchase agreements	33,869	32,763
<i>Including: - Due to customers</i>	5,568	1,937
- Due to banks	28,301	30,826
Income from hedging transactions	12,868	21,339
Other revenue	3,078	4,913
Total	138,094	157,846

Prepaid expenses totalled €954,000 (€1,561,000 in 2002) and comprised prepaid expenses (stamp duty, fixed charges etc.) pertaining to subsequent years.



5.3 Adjustments to accrued income and prepaid expenses

No adjustments were made.



5.4 Subordinated assets

	31/12/02	31/12/03
a) Due from banks	-	-
b) Loans to customers	-	-
c) Bonds and other debt securities	58,925	112,877

■

Section 6 - Payables

The bank's total funding, as shown in liability items 10, 20 and 30 of the Balance Sheet, amounted to €15,784,069,000 as follows:

	31/12/02	31/12/03
Due to banks (item 10)	8,720,020	8,220,297
Due to customers (item 20)	6,292,103	3,897,970
Securities issued (item 30)	2,526,667	3,665,802

■

6.1 Breakdown of item 10 "due to banks"

	31/12/02	31/12/03
a) Repurchase agreements	3,407,148	6,732,121
b) Securities lending	239,047	190,694

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Breakdown of item 10 “due to banks”

Amounts due to banks totalled €8,220,297,000 as follows:

	31/12/02	31/12/03
Due to central banks:		
- Advances	7,327	-
- Repurchase transactions	369,628	801,122
Due to other banks:		
- Deposits	5,036,262	1,242,822
- Repurchase transactions	3,037,520	5,930,999
- Securities lending	239,047	190,694
- Current accounts	30,236	54,660
Total	8,720,020	8,220,297

The item “deposits” included €414,542,000 deposits as collateral guaranteeing contracts on financial instruments.



The breakdown of the item “securities lending” was as follows:

	31/12/02	31/12/03
Loans for securities lending transactions	123,234	70,978
Repurchase agreements for securities lending transactions	115,813	119,716



6.2 Breakdown of item 20 “due to customers”

	31/12/02	31/12/03
a) Repurchase agreements	5,754,236	3,384,740
b) Securities lending	252,666	166,379

■

Breakdown of item 20 “due to customers”

Direct customer deposits, including amounts due to customers, amounts due under repurchase agreements and securities lending, totalled €3,897,970,000 as follows:

	31/12/02	31/12/03
Current accounts	66,306	140,764
Repurchase agreements	5,754,236	3,384,740
Securities lending	252,666	166,379
Other	218,895	206,087
Total	6,292,103	3,897,970

The item “other” included €203,358,000 deposits as collateral guaranteeing contracts on financial instruments.

■

The breakdown of the item “securities lending” was as follows:

	31/12/02	31/12/03
Loans for securities lending transactions	114,989	39,614
Repurchase agreements for securities lending transactions	137,677	126,765

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Breakdown of item 30 “securities issued”

Security	ISIN Code	Currency	Maturity	Par value	Book value
Banca IMI 1999/2004 Nikkei Linked	IT0001318036	EUR	22-Mar-04	85,000	85,000
Banca IMI 2002/2004 Cliquet Eurostoxx Bond	IT0003266357	EUR	16-Apr-04	12,394	12,394
Banca IMI 2002/2004 DJ Eurostoxx 50	IT0003245237	EUR	30-Apr-04	1,130	1,130
Banca IMI 2002/2004 Mib30 Prudente	IT0003318174	EUR	28-Jun-04	399,000	399,000
Banca IMI 2002/2004 Mib30 Dinamica	IT0003318208	EUR	28-Jun-04	281,000	281,000
Banca IMI 2001/2004 Serie Speciale Rinascente	IT0003125314	EUR	13-Aug-04	22,090	22,090
Banca IMI 2002/2004 Lookback	IT0003359558	EUR	1-Oct-04	182,298	182,298
Banca IMI 2002/2004 Rinascente Indicizzato	IT0003346191	EUR	15-Oct-04	7,600	7,600
Banca IMI 2002/2005 Doppia Sicurezza	IT0003372619	EUR	11-May-05	205,319	205,319
Banca IMI 2002/2005 W Dynamic Basket	IT0003364194	EUR	30-Sep-05	338,378	338,378
Banca IMI 2002/2005 2A Dynamic Fund	IT0003372700	EUR	30-Oct-05	272,720	272,720
Banca IMI 2003/2006 Dynamic Fund Bond III	IT0003413637	EUR	30-Jan-06	191,607	191,607
Banca IMI 2003/2006 Dynamic Fund Bond IV	IT0003441356	EUR	8-Apr-06	220,000	220,000
Banca IMI 2003/2006 Dollar Based	IT0003500417	USD	5-Aug-06	18,800	14,885
Banca IMI 2003/2006 Dynamic Fund Bond V	IT0003450308	EUR	6-Nov-06	167,692	167,692

Security	ISIN Code	Currency	Maturity	Par value	Book value
Banca IMI 2003/2006 Dynamic Fund Bond VI Gold	IT0003474514	EUR	4-Dec-06	2,624	2,624
Banca IMI 2001/2006 W Dynamic Basket	IT0003195325	EUR	21-Dec-06	185,000	185,000
Banca IMI 2003/2007 Dynamic Fund Bond VII Gold	IT0003491377	EUR	05-Feb-07	1,700	1,700
Banca IMI 2003/2007 Strategia Equity Cap. Garantito	IT0003455182	EUR	5-May-07	19,983	19,983
Banca IMI 2002/2007 Basket Coupon	IT0003382188	EUR	7-Nov-07	4,860	4,860
Banca IMI 2002/2007 Rendita Più	IT0003398150	EUR	30-Dec-07	108,979	108,979
Banca IMI 2002/2008 W Dynamic Sector Bond	IT0003275077	EUR	3-Jun-08	77,000	77,000
Banca IMI 1998/2008 Dual Rate in USD con indicizz. al Treasury C.M. a 10 anni	IT0001259800	USD	25-Sep-08	16,100	12,747
Banca IMI 2003/2008 Perf. Ced. MIB30	IT0003521223	EUR	30-Sep-08	137,553	137,553
Banca IMI 2003/2008 Dynamic Fund Bond VIII	IT0003536635	EUR	24-Oct-08	250,000	250,000
Banca IMI Locomotiva 2003/2008	IT0003569370	EUR	23-Dec-08	170,124	170,124
Banca IMI 1998/2018 Step Down	IT0001398830	ITL	4-Nov-18	311,000,000	160,619
Banca IMI 1999/2024 Fixed & Zero	IT0001271003	EUR	1-Feb-24	118,000	118,000
Banca IMI 1999/2024 CMS Linked	IT0001304341	EUR	5-Jul-24	15,500	15,500
Total					3,665,802

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Section 7 - Provisions

The provisions that do not serve to adjust asset values are recorded in balance sheet liability items 70, 80 and 90, and totalled €45,713,000 as follows:

	31/12/02	31/12/03
70. Provision for employee severance indemnities	6,155	6,860
80. Provisions for risks and charges		
b) Taxation	2,170	11,181
c) Other provisions	7,000	6,462
90. Allowance for possible loan losses	21,209	21,209



Changes in item 70 “provision for employee severance indemnities”

Opening balance	6,155
Minus:	
- Severance indemnities paid	(299)
- Authorised advances	(146)
- Amounts transferred to the Pension Fund	(1,008)
- Other changes	(23)
Plus:	
- Provision for the year	2,181
Closing balance	6,860



7.1 Breakdown of item 90 “reserve for possible loan losses”

The allow for possible loan losses totalled €21,209,000, all of which was tax exempt and set aside exclusively to cover potential risks.



7.2 Changes in item 90 “allowance for possible loan losses”

A. Opening balance	21,209
B. Increases	
B 1. Provisions	-
B 2. Other increases	-
C. Decreases	
C 1. Utilisation	-
C 2. Other decreases	-
D. Closing balance	21,209

■

7.3 Breakdown of sub-item 80 c) “provisions for risks and charges: other provisions”

The provisions for risks and charges includes provisions for potential liabilities and losses regarding disputes with customers.

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Changes in item 80 c) “provisions for risks and charges - other provisions”

Opening balance	7,000
Increases	
- Provisions	1,213
Decreases	
- Utilisation during the year	(1,751)
Closing balance	6,462

The utilisation of €1,750,000 regarded an extraordinary contribution to the Contract Guarantee Fund as per article 5.2.1 of the Regulatory Provisions governing the markets regulated and managed by Borsa Italiana SpA, relating to the insolvency of the stock broker Mr. Bartolini.

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Breakdown of item 80 b) “provisions for risks and charges - taxation”

The provision comprised current taxes for the year (corporate income tax - IRPEG) totalling €10,955,000 and deferred tax liabilities (IRPEG) of €225,000 relating to intra-group dividends for the year recorded in the statement of income.

Regional business tax (IRAP) was not stated since gross production was negative.



Changes in item 80 b) “provisions for risks and charges - taxation”

Opening balance	2,170
Minus:	
- Utilisation for tax payments	(1,978)
- Other decreases	(11)
Plus:	
- Provision for current taxes for the year	10,955
- Other increases	45
Closing balance	11,181

No prepayments were made during the year.



7.4 Changes in “deferred tax assets”

1. Opening balance	31,047
2. Increases	
2.1 Deferred tax assets arising in the year	6,451
2.2 Other increases	329
3. Decreases	
3.1 Deferred tax assets reserved in the year	(28,085)
3.2 Other decreases	-
4. Closing balance	9,742

The item “deferred tax assets arising in the year” comprised €4,989,000 regarding write-downs of securities held that were not tax deductible in 2003, €142,000 regarding write-downs of equity investments, €301,000 relating to write-downs of receivables and €1,019,000 concerning costs and provisions that were temporarily not tax deductible.

The item “deferred tax assets reserved in the year” referred to non-deductible losses on investment securities recorded in the prior year financial statements for a total of €14,850,000, to €7,530,000 regarding losses on the sale of the equity investment in IW Bank SpA, which was written down in the prior year to bring it into line with the sale price, to a €595,000 utilisation for allocations to the provisions for risks and charges, a €4,934,000 utilisation for prior year tax losses and €176,000 regarding costs that became tax deductible during the year.

7.5 Changes in “deferred tax liabilities”

1. Opening balance	191
2. Increases	
2.1 Deferred tax liabilities arising in the year	45
2.2 Other increases	-
3. Decreases	
3.1 Deferred tax liabilities reserved in the year	-
3.2 Other decreases	(11)
4. Closing balance	225

The item “deferred tax liabilities arising in the year” referred to the recording in the statement of income of a divided accrued from subsidiary IMI Investments S.A. totalling €2,528,000 and from subsidiary Sanpaolo IMI Institutional Asset Management SpA totalling €185,000.



Deferred taxation

As previously stated the Bank recognises deferred tax assets as well as current taxes and deferred tax liabilities.

Deferred tax assets - including those linked to tax benefits resulting from prior year tax losses - are recorded on the assumption that there will be taxable income in future years, cautiously taking the business plans for the next three-year period into account. Tax-deductible and taxable timing differences are shown in items 5.1 and 7.5.

The corporate income tax (IRPEG) rate for calculating and stating deferred tax assets and liabilities was 33%.



Section 8 - Capital, reserves, reserve for general banking risks and subordinated liabilities

Total shareholders' equity at year-end 2003, including the reserve for general banking risks, was €410,145,000, while subordinated liabilities totalled €225,000,000, as follows:

	31/12/02	31/12/03
Shareholders' equity:		
- Share capital (item 120)	180,000	180,000
- Additional paid-in capital (item 130)	131,260	131,260
- Reserves (item 140)		
a) Legal reserve	36,000	36,000
c) Other reserves (extraordinary)	-	2,059
- Reserve for general banking risks	-	2,000
- Net income (to be distributed)	2,059	58,826
Total Shareholders' Equity	349,319	410,145
Subordinated liabilities	185,000	225,000

The fully-paid-up share capital totalled €180,000,000 and consisted of 180,000,000 ordinary shares with a par value of €1 (one euro) each, all owned by Sanpaolo IMI SpA. The Reserve for general banking risks, set up in 2003 to cover general business risks, totalled €2,000,000. As a capital reserve it is recorded amongst the positive components of the regulatory capital. For further information, see the Report of the Directors and the statement of changes in shareholders' equity provided in the schedules.

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Breakdown of item 110 “subordinated liabilities”

Subordinated liability	Currency	Amount (€)	Interest rate	Maturity	Advance repayment
Subordinated bond loan ⁽¹⁾ 1999-09	EUR	150,000,000	Variable	10.12.09	From 10.12.04 ⁽³⁾
Subordinated loan ⁽¹⁾ 1999-08	EUR	15,000,000	Variable	30.06.08	Yes ⁽³⁾
Tier 3 subordinated bond loan ⁽¹⁾⁽²⁾ 2002-05	EUR	60,000,000	Variable	30.03.05	No

⁽¹⁾ Should the issuing bank go into liquidation, the bond holders will only be repaid after all other creditors not similarly subordinated have been paid.

⁽²⁾ Includes a clause for freezing the principal and interest if payment/repayment of them would cause the bank's total capital reserves to fall below 100% of the total individual capital requirements.

⁽³⁾ Subject to authorisation by the Bank of Italy.

Regulatory capital

The breakdown of “regulatory capital” below is provided in accordance with the Bank of Italy regulations.

	31/12/02	31/12/03
A. Regulatory capital		
A.1 Tier 1 capital	328,907	340,073
A.2 Tier 2 capital	184,858	184,779
A.3 Deductions	-	(1,221)
A.4 Regulatory capital	513,765	523,631
B. Minimum regulatory requirements		
B.1 Credit risks	104,246	56,332
B.2 Market risks	328,994	466,654
<i>Including: - Trading portfolio risks</i>	<i>325,569</i>	<i>455,701</i>
<i>- Exchange-rate risk</i>	<i>3,425</i>	<i>9,526</i>
<i>- Concentration risks</i>	<i>-</i>	<i>1,426</i>
B.2.1 Tier 3 subordinated loans	(60,000)	(60,000)
B.3 Other minimum requirements	1,727	794
B.4 Total minimum requirements	434,966	523,780
C. Risk-weighted assets		
C.1 Risk weighted assets (1)	6,220,017	7,490,053
C.2 Tier 1 capital / Risk-weighted assets	5.29%	4.54%
C.3 Regulatory capital / Risk-weighted assets (2)	9.22%	7.79%

(1) Total precautionary requirements multiplied by the reciprocal of the mandatory minimum credit risk weighting (1/0.07, equal to a multiplier of 14.3)

(2) The tier 3 subordinated loan was included in the regulatory capital for the purposes of calculating the total risk ratio.

Section 9 - Other liabilities

9.1 Breakdown of item 50 “other liabilities”

The item “other liabilities” totalled €7,028,907,000 as follows:

	31/12/02	31/12/03
Technical short positions in securities	1,345,282	859,182
Due to tax authorities:		
Withholding taxes	1,711	1,651
Other	902	1,040
Off-balance-sheet transactions:		
Interest rate contracts	5,189,886	4,335,535
Foreign exchange contracts	741,918	418,394
Securities contracts	664,570	690,936
Credit derivatives	-	21,658
Index contracts	3,411	273
Securities commitments	439	550
Options and similar instruments	342,211	595,891
Securities transactions to be settled	29,067	29,139
Liabilities in process of settlement	3,277	759
Customer advances	-	-
Personnel expenses due	11,668	23,921
Due to third parties	22,839	1,517
Other payables	15,733	48,461
Total	8,372,914	7,028,907

Technical short positions in securities are recorded at their market value in the same way as long positions in the bank’s portfolio.

The fall in the balancing entries for the revaluation of off-balance-sheet transactions on interest rates was due to an increase in positions in OTC derivatives margined through the SwapClear clearing system.

9.2 Breakdown of item 60 “accrued expenses and deferred income”

“Accrued expenses and deferred income” amounted to €88,126,000 and €101,000 respectively, totalling €88,227,000.

The breakdown of “accrued expenses” was as follows:

	31/12/02	31/12/03
Technical short positions in securities	17,200	9,542
Interest on deposits	8,688	1
Interest on repurchase agreements	30,592	43,782
<i>Including - Due to customers</i>	<i>6,075</i>	<i>3,708</i>
<i>- Due to banks</i>	<i>24,517</i>	<i>40,074</i>
Interest on issues	19,843	28,451
Derivative contracts	1,659	3,086
Other accrued expenses	1,427	3,264
Total	79,409	88,126

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Section 10 - Guarantees and commitments

10.1 Breakdown of item 10 “guarantees issued”

	31/12/02	31/12/03
(a) Commercial guarantees	2,544,496	369
(b) Financial guarantees	-	-
(c) Assets lodged in guarantee	5,405	43,001



10.2 Breakdown of item 20 “commitments”

	31/12/02	31/12/03
a) Commitments to grant finance (certain to be called on)	4,257,121	3,897,882
<i>Including: - Securities receivable for transactions to be settled</i>	3,509,701	2,327,627
- Deposits and loans to be made	747,420	1,587,823
- Margins on irrevocable lines of credit	-	10,000
b) Commitments to grant finance (not certain to be called on)	969,975	938,171
<i>Including: - Put options on securities</i>	969,963	729,449
- Margins on revocable lines of credit	-	181,142
- Commitments regarding membership of F.I.T.D <i>(Italian Interbank Deposit Protection Fund)</i>	12	12



Breakdown of item 30 “credit derivatives”

This item comprised protection sold totalling €318,161,000 as at 31 December 2003. Protection sold as at 31 December 2002 totalled €146,273,000. All the positions for the current year and prior year are included in the trading book. See Table 10.6 for further information.

■

10.3 Assets lodged to guarantee the bank’s liabilities

	31/12/02	31/12/03
a) Derivatives transactions	23,829	31,407
b) Securities lending transactions	10,313	18,188
c) Repurchase agreements	3,187,851	6,259,562
d) Clearing transactions	-	-
e) BI-REL (Bank of Italy real-time gross settlement system) transactions	112,733	582,388
Total	3,334,726	6,891,545

■

10.4 Unused lines of credit available

The unused lines of credit available regarded credit ceilings agreed to by counterparties. These credit ceilings included the limits assigned to the bank as part of the group’s centralised liquidity management (unused lines of credit as at 31 December 2003: approximately €3bn).

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10.5 Forward transactions

	31/12/02			31/12/03		
	Hedging	Dealing transactions	Other	Hedging	Dealing transactions	Other
1. Purchases/sales of						
1.1 Securities						
- Purchases	-	3,509,713	-		2,327,627	
- Sales	-	2,551,061	-		1,999,180	
1.2 Currency						
- Cross-currency	-	8,422	-		183,738	
- Purchases against euro	-	2,052,087	-		2,256,135	
- Sales against euro	-	2,790,833	-		2,839,348	
2. Deposits and loans						
- To be disbursed	-		747,420			1,587,823
- To be received	-		2,135,986			2,641,659
3. Derivative contracts						
3.1 With exchange of capital						
a) Securities						
- Purchases	-	3,639,761	-		1,992,418	
- Sales	-	6,865,464	-		2,002,936	
b) Currency						
- Cross-currency	-	144,615	-		1,366,169	
- Purchases against euro	-	1,566,857	-		9,278,450	
- Sales against euro	-	1,498,294	-		7,029,224	
c) Other instruments						
- Purchases	-	-	-			
- Sales	-	-	-			
3.2 Without exchange of capital						
a) Currency						
- Cross-currency	-	-	-			
- Purchases against euro	-	2,363	-		7,406	
- Sales against euro	-	210	-		17,895	
b) Other instruments						
- Purchases		121,405,809	-		229,274,809	326,937
- Sales	-	126,308,118	2,187,768		269,233,644	3,889,769

Basis swaps totalled €13,842,784,000 and were recorded under both purchases and sales.

Structured financial instruments, consisting of an underlying host security and an embedded derivative instrument able to alter the cash flows generated by the underlying security, had a total notional value of € 4,908,993,000 as at 31 December 2003.

Internal deals

The Bank entered into internal deals between trading units and hedging units regarding derivative financial instruments during the year in order to improve its operating efficiency and market risk management. The total par value of these deals recorded in the statement of income was €3,103,984,000 for hedging risks regarding bond issues. The table below shows the notional principals of the derivative contracts that were the subject of internal deals recorded in the statement of income and in force as at 31 December 2003. Each contract is recorded as both a purchase and a sale.

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Category	Hedging units		Trading units	
	Purchases	Sales	Purchases	Sales
Purchase/sale of currency				
Derivative contracts with exchange of capital				
Derivative contracts without exchange of capital	4,076,079	3,791,045	3,791,045	4,076,079
Total				

The internal hedging transactions valued on the hedging units side had made gains of €75,583,000 as at 31 December 2003, which were not recorded in the accounts. This value was not recorded in the financial statements given the hedging function of the internal deals, with these contracts being recorded in the same way as the transactions being hedged.



10.6 Credit derivatives

	31/12/02 Trading	31/12/02 Other transactions	31/12/03 Trading	31/12/03 Other transactions
1. Protection purchases				
1.1 With exchange of capital		-		-
Type of contract:				
credit default swap	90,150		321,000	
1.2 Without exchange of capital	-	-	-	-
2. Protection sales				
2.1 With exchange of capital		-		-
Type of contract:				
credit default swap	146,273		318,161	
2.2 Without exchange of capital	-	-	-	-



Breakdown of transactions in credit derivatives

	31/12/02 Trading	31/12/02 Other transactions	31/12/03 Trading	31/12/03 Other transactions
Protection Purchases				
- Banks	80,150	-	242,000	-
- Financial institutions	10,000	-	79,000	-
Total	90,150	-	321,000	-
Protection Sales				
- Banks	57,100	-	152,000	-
- Financial institutions	20,000	-	52,000	-
- Insurance Companies	69,173	-	114,161	-
Total	146,273	-	318,161	-

■

Section II - Distribution of assets and liabilities

II.1 Significant exposures

The Bank had 5 positions that exceeded 10% of the regulatory capital, amounting to a risk-weighted total of €549,599,000. One of these positions exceeded 40% of the regulatory capital, leading to a further capital requirement for concentration risk of €1,426,000.

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11.2 Distribution of loans to customers by category of borrower

	31/12/02	31/12/03
a) Governments		
b) Other public entities		
c) Non-financial companies	118	118
d) Financial institutions	3,840,303	1,027,681
e) Family businesses		
f) Other operators		
Total	3,840,421	1,027,799



11.3 Distribution of loans to Italian-resident non-financial and family businesses

	31/12/02	31/12/03
a) Other services	118	118



11.4 Distribution of guarantees issued by main counterparty categories

	31/12/02	31/12/03
a) Governments	-	-
b) Other public entities	-	-
c) Banks	369	369
d) Non-financial companies	2,544,127	
e) Financial institutions	5,405	43,001
f) Family businesses	-	-
g) Other operators	-	-
Total	2,549,901	43,370

■

11.5 Geographical distribution of assets and liabilities

Item/Country	Italy	Other EU countries	Other countries
1. Assets			
1.1 Due from banks	1,479,078	3,411,461	71,831
1.2 Loans to customers	487,120	450,400	90,280
1.3 Securities	8,231,345	2,361,629	145,904
2. Liabilities			
2.1 Due to banks	4,572,002	3,642,275	6,020
2.2 Due to customers	3,158,297	656,172	83,501
2.3 Securities issued	3,653,055	12,747	-
2.4 Other accounts	150,000	55,000	20,000
3. Guarantees and commitments	3,558,963	1,674,613	4,102

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11.6 Maturities of assets and liabilities

Items / residual duration	SPECIFIED MATURITY		
	On demand	Up to 3 months	Between 3 months and 12 months
ASSETS			
Treasury Securities eligible for refinancing	30,986	21,951	152,804
Due from banks	441,110	4,033,643	428,948
Loans to customers	565,668	461,864	
Bonds and other debt securities	14,207	228,416	2,439,299
“Off-balance-sheet” transactions	9,877,551	149,027,746	170,293,232
LIABILITIES			
Due to banks	1,486,960	4,742,726	1,990,611
Due to customers	513,229	3,188,481	196,260
Securities issued			
Bonds		85,000	905,512
Subordinated liabilities			
“Off-balance-sheet” transactions	10,318,424	146,390,136	172,401,150

**UNSPECIFIED
MATURITY**

Between 1 and 5 years		Over 5 years		
Fixed rate	Floating rate	Fixed rate	Floating rate	
239,459	182,889	261,444	20,377	
32,500				26,169
				268
4,111,338	354,886	442,023	148,850	
78,400,005	23,221,214	48,457,130	1,704,760	
2,381,171		294,119		
	75,000		150,000	
72,123,264	30,278,768	47,836,974	1,632,922	

■

11.7 Assets and liabilities denominated in foreign currencies

	31/12/02	31/12/03		31/12/02	31/12/03
ASSETS			LIABILITIES		
1. Due from banks	81,367	85,202	1. Due to banks	169,091	26,263
2. Loans to customers	19,505	64,701	2. Loans due to customers	28,645	29,618
3. Securities	58,424	59,568	3. Securities issued	30,133	27,633
4. Equity investments	143,488	269,217	4. Other accounts	-	-
5. Other accounts	5	14			

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The liquidity, interest rate and exchange rate risks inherent in the bank's assets, liabilities and off-balance-sheet transactions, of which tables 11.6 and 11.7 provide a simplified year-end overview in relation to the bank's typical activities, are monitored by the bank's sophisticated risk management and control system (see the Report of the Directors).

The spot exchange rates as at 31 December 2003 of the main currencies used to calculate the counter values of the bank's assets and liabilities are shown below:

Currency	Spot 31.12.02	Spot 31.12.03	Change %
US dollar	1.0487	1.2630	-20.43%
Pound sterling	0.6505	0.7048	-8.35%
Swiss franc	1.4524	1.5579	-7.26%
Japanese yen	124.3900	135.0500	-8.57%
Canadian dollar	1.6550	1.6234	1.91%



11.8 Securitization transactions

Securities held following securitization of third parties

The bank operates in the securitization sector as an arranger and holds securities in its trading portfolio that result from securitization transactions for third parties.

The following table shows the types of securities concerned, the assets securitized and whether they were performing or non-performing.



	Performing/ Non-performing	Senior Notes	Mezzanine Notes	Junior Notes	Total
Residential mortgages	Performing	154			154
	Non-performing				
Commercial/industrial/ agricultural mortgages	Performing	20			20
	Non-performing				
Leasing	Performing	1,232			1,232
	Non-performing				
Public real estate	Performing	5,393			5,393
	Non-performing				
National insurance contributions	Performing	6,310			6,310
	Problem loans	5,124			5,124
Other loans	Performing	1,029	11,349		12,378
	Non-performing				
TOTAL		19,262	11,349		30,611

The adjustments made to securitized positions were negligible.

The bank acted as arranger and joint lead-manager for the following securitization transactions in 2003: Società Cartolarizzazione Crediti INPS (4): €3,100m; Master Dolphin: €350m; CPG: €3,326m.

The bank also organised a securitization transaction (Tacchini group) that was executed through a programme for issuing asset-backed commercial paper (€30.6m). Given the type of securities issued, the bank was not involved in their placement but acted as master purchaser of the loans being securitized, for their subsequent sale to a platform and as co-guarantor of a liquidity line in favour of the issuer ABCP.

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The risks and financial results connected with the positions in securities resulting from securitization transactions are monitored in relation to investor reports and available information on the issuers and underlying assets, the valuation of the credit spreads implicit in the securities' quotations, information on the reference markets of the underlying loans and comparison with similar transactions.

The bank does not act as a servicer and did not carry out any securitization transactions in originated loans.



Section 12 - Asset management and brokerage on behalf of third parties

12.1 Securities brokerage

The volume of securities traded on behalf of third parties was as follows:

	31/12/02	31/12/03
a) Purchases		
1) Settled	70,980,075	109,333,907
2) Not settled	8,448	4,725
b) Sales		
1) Settled	73,249,390	121,274,260
2) Not settled	5,489	2,093

Purchases (item a.1) included €9,104,102,000 trading in derivatives on regulated markets on behalf of third parties. Sales (item b.1) included €21,130,748,000 regarding the same activity.



12.2 Asset management

The breakdown of assets under management was as follows:

	31/12/02	31/12/03
Securities issued by the bank that prepares the financial statements	-	-
Other	1,299	1,170

■

12.3 Custody and administration of securities

	31/12/02	31/12/03
(a) Third-party securities held on deposit	5,163,324	13,484,183
(b) Third-party securities deposited with third parties	5,163,324	13,484,183
(c) Own securities deposited with third parties	3,049,363	8,663,001

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12.4 Collection of receivables on behalf of third parties: credit and debit adjustments

None.

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12.5 Other transactions

There were no significant transactions to report.

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Part C - Notes to the Statement of Income

Section I - Interest

I.1 Breakdown of item 10 "interest income and similar revenue"

	2002	2003
(a) On amounts due from banks	186,480	160,161
<i>Including: Deposits with central banks</i>	1,270	747
(b) On loans to customers	34,534	47,863
<i>Including: Loans using third-party funds under management</i>		
(c) On debt securities	232,872	251,269
(d) Other interest income	-	72
(e) Net differential on hedging transactions	-	-
Total	453,886	459,365

Interest income on amounts due from banks included interest on repurchase agreements totalling €102,820,000. Interest income on loans to customers included interest on repurchase agreements totalling €17,477,000.

I.2 Breakdown of item 20 “interest expense and similar charges”

	2002	2003
(a) On amounts due to banks	302,332	201,128
(b) On amounts due to customers	144,798	147,925
(c) On securities issued	30,636	68,497
<i>Including: Certificates of deposit</i>	-	-
(d) On third-party funds under management	-	-
(e) On subordinated liabilities	7,338	6,646
(f) Net differential on hedging transactions	12,214	8,453
Total	497,318	432,649

Interest expense on amounts due to banks included interest on repurchase agreements totalling €122,636,000. Interest expense on amounts due to customers included interest on repurchase agreements totalling €108,681,000.

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I.3 Breakdown of item 10 “interest income and similar revenue”

a) On assets denominated in foreign currencies	2,727
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I.4 Breakdown of item 20 “interest expense and similar charges”

a) On liabilities denominated in foreign currencies	4,778
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Section 2 - Commission income and expense

2.1 Breakdown of item 40 “commission income”

	2002	2003
a) Guarantees issued	8,909	-
b) Credit derivatives	-	-
c) Asset management, brokerage and advisory services		
1. Securities brokerage	26,916	32,989
2. Currency brokerage	-	-
3. Asset management	-	-
3.1. Individual	-	-
3.2. Collective	-	-
4. Custody and administration of securities	901	1,304
5. Depository bank	66	102
6. Placement of securities	11,182	25,844
7. Acceptance of instructions	3,593	5,749
8. Advisory services	16,341	24,432
9. Provision of third-party services	-	-
9.1. Asset management	-	-
9.1.1. Individual	-	-
9.1.2. Collective	-	-
9.2. Insurance products	-	-
9.3. Other products	-	-
d) Collection and payment services	-	-
e) Securitization servicing	-	-
f) Tax collection services	-	-
g) Other services	124	669
Total	68,032	91,089

Securities brokerage commissions included €7,128,000 from trading on regulated derivatives markets on behalf of third parties.

The item “advisory services” included €5,360,000 fees for advisory services regarding guaranteed/protected capital products issued by third parties.

2.2 Breakdown of item 40 “commission income”: distribution channels for products and services

	2002	2003
a) Own branches:		
1. Asset management	-	-
2. Placement of securities	11,182	25,844
3. Third-party products and services	-	-
b) Other channels		
1. Asset management	-	-
2. Placement of securities	-	-
3. Third-party products and services	-	-



2.3 Breakdown of item 50 “commission expense”

	2002	2003
a) Guarantees received	-	-
b) Credit derivatives	-	-
c) Management and brokerage services		
1. Securities brokerage	19,646	22,114
2. Currency brokerage	203	149
3. Asset management		
3.1 Proprietary portfolio	-	-
3.2 Third-party portfolio	-	-
4. Custody and administration of securities	1,925	2,612
5. Placement of securities	48,619	39,969
6. Off site sales of securities, financial products and services	-	-
d) Collection and payment services	-	-
e) Other services	4,324	7,312
Total	74,717	72,156

Securities brokerage commissions included €5,480,000 from derivatives transactions, including €1,432,000 on behalf of third parties.

Commission expense on the placement of securities included €35,972,000 for the distribution of bonds issued by the bank.



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Commission expense on other services included €599,000 expenses paid to subsidiary IMI Bank (Lux) SA for back-office activities, €1,192,000 clearing fees regarding margined over-the-counter derivatives and €3,017,000 bank charges.



Section 3 - Trading profits and losses on financial transactions

3.1 Breakdown of item 60 “profits and losses on financial transactions”

Item/Transaction	Securities transactions 31 Dec 2003	Currency transactions 31 Dec 2003	Other transactions 31 Dec 2003
A.1 Revaluations	127,167	xxx	1,741,258
A.2 Write-downs	(134,782)	xxx	(1,889,408)
B Other profits/losses	(114,445)	1,044	227,663
Total	(122,060)	1,044	79,513
1. Government securities	(54,347)		
2. Other debt securities	(8,825)		
3. Equities	99,001		
4. Securities derivatives	(157,889)		

Item/Transaction	Securities transactions 31 Dec 2002	Currency transactions 31 Dec 2002	Other transactions 31 Dec 2002
A.1 Revaluations	314,159	xxx	1,677,901
A.2 Write-downs	(120,742)	xxx	(2,575,197)
B Other profits/losses	(412,224)	(5,859)	928,721
Total	(218,807)	(5,859)	31,425
1. Government securities	42,550		
2. Other debt securities	45,395		
3. Equities	(537,221)		
4. Securities derivatives	230,469		



Section 4 - Administrative and operating expenses

Administrative and operating expenses totalled €122,927,000 as follows:

	2002	2003
Payroll costs	56,687	65,501
<i>Including: - Wages and salaries</i>	42,508	49,576
- Social security contributions	11,588	13,216
- Provision for employee severance indemnities	2,083	2,181
- Supplementary pension fund	508	528
Other administrative expenses	60,299	57,426
<i>Including: - Building rent and maintenance</i>	4,581	4,608
- Equipment and hardware maintenance	3,089	2,951
- Software maintenance and upgrades	3,250	2,911
- Postage and telegraphic expenses	27	28
- Consultancy	6,603	7,485
- Data transmission	813	983
- Power	111	254
- Advertising and entertainment	3,056	2,744
- Telephone	2,400	1,838
- Equipment rental	445	461
- Insurance premiums	159	309
- Legal services	1,475	1,756
- Cleaning	407	362
- Office supplies	351	248
- Processing by third parties and market access	8,105	9,374
- Data bank access fees	11,056	9,460
- Couriers and transport	260	157
- Maintenance of rented property	771	145
- Trade union dues and trade/professional association membership fees	861	631
- Secondment	880	344
- Emoluments of directors and statutory auditors	1,187	2,815
- Services by subsidiaries	3,016	2,340
- Travel	2,845	1,819
- Other personnel expenses	1,522	1,344
- Books and periodicals	255	224
- Assets valued at less than €516	205	159
- Other expenses	1,543	1,017
- Tax on stock market contracts	191	189
- Indirect taxes and levies	835	470
Total administrative expenses	116,986	122,927

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4.1 Average number of employees

	2002	2003
Average number of employees:		
a) Executive personnel	45	48
b) Managers	285	289
c) Other personnel	204	190
Total	534	527



Section 5 - Adjustments, write-backs and provisions

Item 90 “adjustments to intangible and tangible fixed assets” totalled €13,503,000 as follows:

	2002	2003
Intangible fixed assets	11,390	11,428
- Amortisation of start-up and expansion costs	261	49
- Amortisation of goodwill	362	362
- Amortisation of software	10,144	10,406
- Amortisation of other deferred costs	623	611
Tangible fixed assets	8,160	2,075
- Depreciation of furniture and equipment	8,160	2,075
Total	19,550	13,503



The depreciation and amortisation rates applied were as follows:

Office furniture and equipment	12%
Motor vehicles	25%
Electronic office equipment	20%
Telephone and other installations	20%
Deferred costs	20%
Software (*)	20%, 33%

Assets entering service during the financial year were calculated at half the standard rate.

(*) The 33% rate was exclusively for assets entering service in 2001.



Breakdown of item 100 “provisions for risks and charges”

The allocation of €1,213,000 to the provisions for risks and charges included €600,000 for possible losses regarding securities transactions in prior years (coupon claims) and €300,000 for possible disbursements regarding guarantees given as part of the sale of the equity investment in IMIWeb UK, with the remainder being for the risk of possible financial sacrifices connected with litigation regarding a number of receivables for services rendered.



Breakdown of item 120 “adjustments to loans and provisions for guarantees and commitments”

	2002	2003
Analytical adjustments to receivables for financial services rendered	-	1,589
Lump-sum adjustments to receivables for financial services rendered	-	911
Lump-sum adjustments for country risk	-	82
Total	-	2,582



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The adjustments regarded receivables for financial services rendered and other receivables included in item 130 “other assets” which were therefore recorded net of said adjustments. The adjustments were calculated in relation to the probability of collection assessed on the basis of debtor solvency and the information available when the financial statements were prepared.

The lump-sum adjustments for country risk regarded interest coupons due on securities issued by the Argentine government and written down by 60%.

■

Breakdown of item 130 “write-backs to loans”

None.

■

Breakdown of item 140 “provisions to the reserve for possible loan losses”

None.

■

Section 6 - Other Statement of income items

Items 30, 70, 110, 150, 180, 190 and 220 were as follows:

	2002	2003
Dividends and other revenue (item 30)	411,210	227,829
Other operating income (item 70)	3,525	2,681
Other operating expenses (item 110)	(305)	(337)
Adjustments to financial fixed assets (item 150)	(31,007)	(432)
Extraordinary income (item 180)	11,083	5,166
Extraordinary expenses (item 190)	(7,078)	(5,709)
Income taxes for the year (item 220)	(475)	(32,294)

■

Breakdown of item 30 “dividends and other revenue”

	2002	2003
Shares, quotas and other equities:		
Dividends	254,610	144,769
Tax credit	141,531	77,730
Equity investments:		
Dividends		
Borsa Italiana SpA	1,764	1,546
Cedel International	266	-
Monte Titoli SpA	392	-
SIA SpA	104	104
IMI Investments SA	11,272	2,528
Sanpaolo IMI Institutional Asset Management Sgr SpA	-	210
Tax credit	1,271	942
Total	411,210	227,829

■

6.1 Breakdown of item 70 “other operating income”

	2002	2003
Expenses recovered	2,739	2,369
Sundry income and revenue	786	312
Total	3,525	2,681

The total shown for expenses recovered principally comprised €472,000, which were mainly incurred in the provision of advisory services, €192,000 secondment expenses recovered and €591,000 recovery of costs incurred in the provision of services to the subsidiary Obiettivo SGR.

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6.2 Breakdown of item 110 “other operating expenses”

	2002	2003
Sundry charges	305	337
Total	305	337



Breakdown of item 150 “adjustments to financial fixed assets”

	2002	2003
Adjustments to equity investments	31,007	432
Total	31,007	432

The above amount was for the write-down of the equity investment in IMI Solutions to align the book value with the company’s shareholders’ equity as at 31 December 2003.



6.3 Breakdown of item 180 “extraordinary income”

	2002	2003
Out-of-period income	7,643	3,147
Gains on sale of equity investments	3,425	52
Gains on disposal of furniture and equipment	15	39
Other extraordinary income	-	1,928
Total	11,083	5,166

Out-of-period income included €917,000 lower expenses settled or lower costs already recorded in the statement of income, €584,000 commission income regarding the previous year and €1,157,000 positive components relating to the settlement of items pertaining to prior years.

Other extraordinary income included a €1,689,000 contribution received from IW Bank SpA regarding the purchase of the equity investment in subsidiary IMIWEB UK from said IW Bank.



6.4 Breakdown of item 190 “extraordinary expenses”

	2002	2003
Out-of-period expenses	5,980	2,282
Other extraordinary expenses for restructuring	1,098	510
Losses on sale of furniture and equipment	-	40
Losses on sale of intangible fixed assets	-	129
Losses on sale of equity investments	-	564
Other extraordinary expenses	-	2,184
Total	7,078	5,709

The item out-of-period expenses included €574,000 commission expenses regarding the previous year and €1,504,000 relating to the settlement of items pertaining to prior years.

The item “other extraordinary expenses” included €539,000 regarding compromise agreements and €1,267,000 for the bank to avail itself of the benefits provided for by Italian law 282/2002.

The item “losses on sale of equity investments” solely regarded the sale of the equity investment in IMIWeb (UK).

■

6.5 Breakdown of item 220 “income taxes for the year”

	2002	2003
1. Current taxes	(1,885)	(10,955)
2. Change in deferred tax assets	1,601	(21,305)
3. Change in deferred tax liabilities	(191)	(34)
4. Income taxes for the year	(475)	(32,294)

■

Section 7 - Other information on the Statement of income

7.1 Geographical distribution of revenue

This information is not provided since the geographical origins of revenue do not differ significantly from one another in view of the distinctive nature of the Bank's business.



Intra-group income and expenses

	2002	2003
Income:		
Interest income and similar revenue	28,146	35,595
Dividends and other income	15,069	2,738
Commission income	12,077	11,944
Income on financial transactions	1,235,099	2,931,603
Other operating income	1,811	571
Extraordinary income	-	-
Total income	1,292,202	2,982,451
Expenses:		
Interest expenses and similar charges	104,936	65,987
Commission expenses	52,741	40,049
Charges on financial transactions	1,589,566	2,427,241
Administrative costs	4,246	2,776
Extraordinary expenses	31,007	-
Total expenses	1,782,496	2,536,053



Part D - Other information

Section I - Directors and statutory auditors

I.1 Emoluments

	2002	2003
(a) Directors	1,019	2,647
(b) Statutory Auditors	168	168

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I.2 Loans and guarantees issued

No loans or guarantees were issued for members of the Board of Directors or Statutory Auditors.

■

Section 2 - Parent company

Banca IMI S.p.A. is under the management and coordination of the sole shareholder Sanpaolo IMI S.p.A. and is a member of the Sanpaolo IMI Banking Group.

2.1 Name: “Sanpaolo IMI S.p.A.”

2.2 Registered office: Piazza San Carlo, 156 - Turin, Italy

The financial statements of the Bank and its subsidiaries are consolidated line by line in the consolidated financial statements of parent company Sanpaolo IMI SpA, which are published in Turin, Italy.

The Bank is not required to prepare consolidated financial statements in accordance with article 27 of Italian Legislative Decree 87/92.

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Schedule

The following schedule provides additional information to the Notes to the Financial Statements and forms an integral part of them.

Statement of changes in shareholders' equity in 2003 and 2002.

	Share capital	Legal reserve	Extraordinary reserve
Balance as at 31.12.2002	180,000	36,000	-
Allocation of profits for the year:			
Reserves			2,059
Net income 2003			
Prov. to Reserve for Gen. Banking Risks			
Balance as at 31.12.2003	180,000	36,000	2,059

	Share capital	Legal reserve	Extraordinary reserve
Balance as at 31.12.2001	180,000	36,000	-
Allocation of profits for the year			
Reserves			
Net income 2002			
Prov. to Reserve for Gen. Banking Risks			
Balance as at 31.12.2002	180,000	36,000	-

Additional paid-in capital	Goodwill on mergers	Reserve for banking risks	Net profit/ (loss)	Shareholders' equity
131,260	-	-	2,059	349,319
			(2,059)	
			58,826	58,826
		2,000		2,000
131,260	-	2,000	58,826	410,145

Additional paid-in capital	Goodwill on mergers	Reserve for banking risks	Net profit/ (loss)	Shareholders' equity
136,237	-	-	(4,977)	347,260
(4,977)			4,977	
			2,059	2,059
131,260	-	-	2,059	349,319



■ **Reports and Resolutions**

Report of the Board of Auditors to the Shareholders' meeting

in accordance with article 153 of Italian Legislative Decree no. 58/98 and article 2429, subparagraph 3, of the Italian Civil Code

Dear Shareholders,

Pursuant to article 153 of said legislative decree, we hereby communicate the auditing activities carried out by us and the most important decisions resulting therefrom, declaring that during the financial year ended 31 December 2003 we carried out the auditing activities provided for by Italian law, acting in conjunction with the Independent Auditors and according to the code of conduct recommended for Boards of Auditors by the National Council of Certified Accountants in Italy (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri).

As part of these duties, the Board of Auditors acted as follows:

- We attended the meetings of the Board of Directors and Executive Committee and periodically obtained information from the Directors on the activities carried out and the salient economic, financial and investment transactions engaged in by the company and its subsidiaries, ascertaining that the actions decided upon and implemented were in accordance with the Law and Articles of Association, were not manifestly careless or risky and did not potentially conflict with the resolutions of the Shareholders' Meeting.
- We became acquainted with and investigated the suitability of the company's organisational structure and its respect for correct management principles within the bounds of our remit, through direct observation, gathering information from management and meetings with the Independent Auditors at the auditing company, aiming to keep each other mutually informed.

- We evaluated and investigated the appropriateness of the internal auditing system and administrative/accounting system, as well as the reliability of the latter at presenting an accurate view of management procedures through obtaining specific information from management, examining company documents and analysing the results of the work carried out by the Auditing Company.
- We verified compliance with the Laws regarding the structure and accounting policies adopted for the financial statements and the group's consolidated financial statements, together with the related Reports of the Directors through direct inspection and examination of the information obtained by the Independent Auditors.
- The Independent Auditors, with whom we held periodic meetings throughout the year for the purposes of sharing important data and information, informed us that nothing untoward, requiring censure or special note, had been encountered during the course of their auditing work regarding the financial statements for the year, the consolidated financial statements and quarterly statements. The Independent Auditors' report, issued on 18 March 2004, does not contain any related objections or reservations.

During the auditing activities described above no significant facts emerged warranting a report to the Supervisory Authorities or warranted mentioning in this report.

In consideration of the above, the Board of Auditors cannot see any reason to oppose approving the financial statements as at 31 December 2003 and the motions of the Board of Directors.

Milan, 22 March 2004

Board of Auditors
Riccardo Perotta
Mario Paolillo
Aureliano Benedetti

**REPORT OF THE INDEPENDENT AUDITORS
PURSUANT TO ART. 156 AND ART. 165
OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998**

**To the Shareholder of
Banca d'Intermediazione Mobiliare IMI S.p.A.**

We have audited the financial statements of Banca d'Intermediazione Mobiliare IMI S.p.A. as of and for the year ended December 31, 2003. These financial statements are the responsibility of the Bank's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob"). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the prior year's financial statements, which are presented for comparative purposes as required by law, reference should be made to the auditors' report dated March 25, 2003, issued by Deloitte & Touche Italia S.p.A.

In our opinion, the financial statements of Banca d'Intermediazione Mobiliare IMI S.p.A. as of and for the year ended December 31, 2003, comply with the Italian statutory provisions related to financial statements; therefore they give a true and fair view of the financial position and results of operations of the Bank.

DELOITTE & TOUCHE S.p.A.

Signed by
Ezio Bonatto
Partner

Milan, Italy,
March 18, 2004

This report has been translated into the English language solely for the convenience of international readers.

Minutes of the Ordinary General Meeting

8 April 2004

At 12.00 hrs on 8 April 2004, BANCA D'INTERMEDIAZIONE MOBILIARE IMI S.p.A's shareholders met for the Ordinary General Meeting, in first call, to discuss and approve the following:

Agenda

1. Approval of the 2003 Annual Report

DELIBERATE OMISSION

In the absence of Chairman Rag. LUIGI MARANZANA, Dott. CARLO CORRADINI chaired the Ordinary General Meeting, as a member of the Board of Directors. Dott. MARIO PAOLILLO, the Permanent Auditor, was also present.

The following persons gave reasons for their absence: Rag. LUIGI MARANZANA and the Board Members Dott. ITALO CACOPARDI, Dott. STEFANO DEL PUNTA, Rag. ROBERTO FIRPO, Dott. MASSIMO MATTERA, Dott. MARCELLO MENTINI and for the Statutory Board of Auditors, the Chairman Prof. RICCARDO PEROTTA as well as the Permanent Auditor, Dott. AURELIANO BENEDETTI.

The Chairman, with the approval of the other members, asked the Lawyer ANTONIO SPALLANZANI to act as secretary, who immediately accepted and fulfilled his role as secretary.

The Chairman, given that:

- the meeting was called through a notice placed in the Official Gazette of the Republic of Italy – second part, on 12 March 2004, page insertion number n. M-1167;
- Dott. FABIO RASTRELLI was the Sole shareholder representing Sanpaolo IMI

S.p.A., which holds n. 180,000,000 shares, equal to 100% of the share capital of €180,000,000;

- the aforementioned shares, in accordance with the law, are held at the Sanpaolo IMI head office;
- he asked the shareholders present at the meeting if they knew of any possible cancellation of voting rights;
- he found that, based on available information, Sanpaolo IMI S.p.A. was entitled to exercise its voting rights at Banca d'Intermediazione Mobiliare IMI S.p.A.'s shareholders meetings;

declared that the meeting was legally constituted, in order to approve the items on the agenda.

1. Approval of the 2003 Annual Report and subsequent discussions

The shareholders' meeting had to examine and approve the Bank's financial statements for 2003, which show that Banca IMI closed the fiscal year with net income of €58,826,339, and the proposal by the Board of Directors' to distribute a dividend of €0.15 for each share issued, thereby allocating €27,000,000 for this purpose, as well as allocating the remaining €31,826,339 to the extraordinary reserve. The shareholders present unanimously agreed that the Annual report as at 31 December 2003, the Report by the Board of Directors on operating results, and the Report by the Statutory Auditors, are to be taken as read.

The meeting, having examined the Statutory Auditors' report and visualised the certification issued by Deloitte & Touche S.p.A., approved the Report by the Board of Directors on operating results and the Financial Statements as at 31 December 2003, together with the relevant notes to the financial statements, while allocating €27,000,000 of income as dividends and €31,826,339 to the extraordinary reserve.

DELIBERATE OMISSION

As there was no further item on the agenda and no-one present had anything further to add, the meeting was closed at 12.20 hrs.



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