

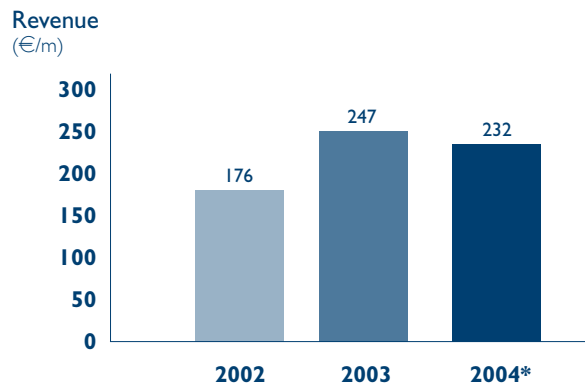
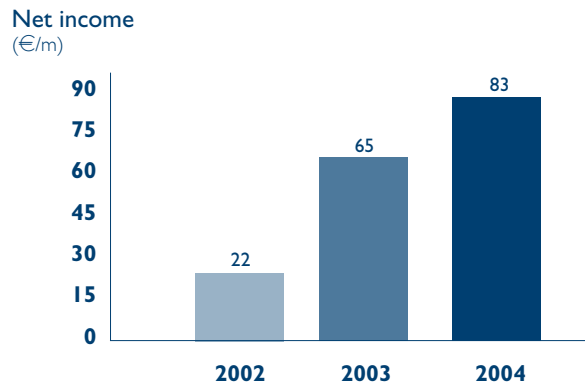


ANNUAL REPORT 2004

SANPAOLO IMI GROUP

A n n u a l R e p o r t 2 0 0 4

■ Highlights - Area Investment Banking

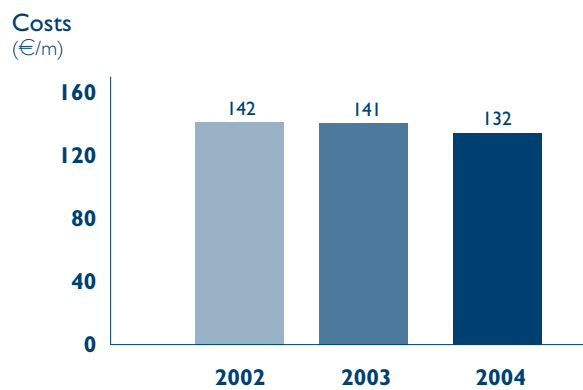


* The figure for the 2004 financial year is for pro-forma revenue (see the Report of the Directors)

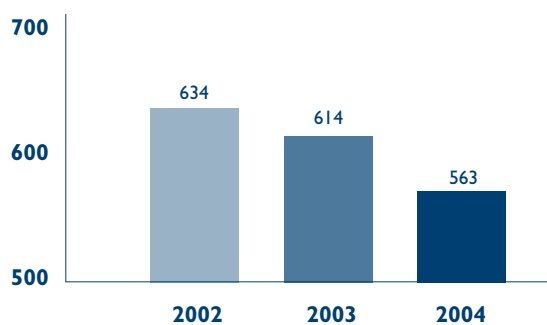
The 2004 financial year saw a significant increase in net income compared to the previous financial year (+28%), partly as a result of the contribution of extraordinary items.

Revenue from Risk Management activities increased significantly, enjoying vigorous growth despite the less-than-ideal macroeconomic climate and difficult financial markets.

The simplification of the Group's system of products and services, together with our activities for increasing the efficiency of our production structures and rationalising our market presence outside Italy, enabled us to further contain structural costs while increasing efficiency.



Personnel at year-end





■ **Mission**

An abstract graphic on the left side of the page, consisting of several overlapping, semi-transparent white wireframe spheres. The spheres are composed of fine, intersecting lines, creating a mesh-like appearance. They are set against a light blue background that transitions from a darker shade at the top to a lighter shade at the bottom. The spheres are positioned in a way that they appear to be floating and overlapping each other, with some in the foreground and others receding into the 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, seamless 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, and offers an extensive range of agency and proprietary listed and OTC financial products. We likewise structure and develop investment products for retail customers as well as risk management products for companies and local bodies. We also offer a wide range of ancillary services, including research, clearing, settlement and custody on the major international markets.

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

Banca IMI's activities are organised in 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. In addition, as part of its commitment to offering an increasingly integrated array of products and services, the Bank also develops customised and innovative structured finance products/solutions in connection with advisory and capital market mandates.

The bank's customer portfolio numbers many of Italy's leading companies and banks, including ENI, ENEL, FIAT, TIM, Telecom Italia, Finmeccanica, Autostrade, Mediaset, Merloni, Buzzi Unicem, ACEA, AEM Torino, AMGA Genova, FS, Edison, IT Holding, Aeroporti di Roma, Tiscali and Banca CR Firenze. Moreover, the bank has significantly increased its mid-corporate business in recent years, with customers that range from Reno De Medici and Gruppo Fontana to Utet, Juventus, Air Dolomiti, Viaggi del Ventaglio and Geox amongst others. The bank also provides support for cross-border operations, including privatisations for the Albanian government, Buzzi's acquisition of Dyckerhoff, Edison's sale of its Egyptian

gas reserves to Petronas, and share placements by ASF, Enagas, PPC, Telekom Austria, Orange, Deutsche Telekom, KPN and General Electric.

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 with contracts and negotiations, and the identification of potential industrial and/or finance partners.

The *equity capital markets* unit offers the benefits of a team with special 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 2004 saw it advising the GEOX initial public offering and Buzzi Unicem's capital increase as coordinator and sole underwriter, while also participating in the ENEL III offerings as a member of the management group for the public offering and as Global Manager for the institutional offering, as well as in the Terna public share offering as a member of the management group. Private placement activities included the Lottomatica and Isagro private placements in particular.

During the year, we likewise completed a further four tranches of Mondo TV's capital increase and two tranches of Buongiorno Vitaminic's capital increase.

The bank also strengthened its position on the international market, acting as co-manager for the institutional offering of ordinary shares in General Electric and the Genworth Financial institutional offering.

Lastly, the Bank's increasing focus on providing support to listed companies in their relations with investors and the market saw us acquire corporate broking mandates from Astaldi, Trevi and Esprinet, as well as a commission for specialist support on the New Market from I.Net, bringing the total number of current mandates to 13.

The principal *corporate finance advisory* transactions completed by the Bank in 2004, included providing support to Edison regarding the sale of Edison T&S and its related high-pressure gas transport network to the Clessidra fund, as well as the ISE valuation, and to AMGA and SMAT in Italgas' acquisition of the majority stake in Acque Potabili. We likewise provided advisory services to Finmeccanica regarding its sale of a 10% stake in ST Microelectronics to Cassa Depositi e Prestiti, and to CR Firenze and Carige in their acquisitions of CR Spezia and CR Carrara respectively.

Also worthy of note were the advisory services provided to IT Holding regarding the sale of its Romeo Gigli and Gentry di Portofino brands, as well as the advisory services to Manuli on the reverse merger acquisition of FinM by Manuli.

The Bank also provided support to the Alitalia Group, FIAT, Ducati, Mediaset, Merlo, Sodexho and Viaggi del Ventaglio, as well as advisory services to the Albanian government on the privatisation of its fixed telephony and oil & gas activities.

Structured Finance activities included a mandate from the Italian Ministry of the Economy and Finance for the structuring and placement of the F.I.P. fund (Fondo Immobili Pubblici - Public Buildings Fund). As part of the phase for structuring this fund, which was completed at the end of the year, the Bank underwrote part of the bridge financing and acquired units in the fund itself.



Global Markets Area

The Global Markets Area covers the bank's agency and proprietary investment services, together with its 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 on the stock markets, and is organised along two main lines: trading and funding.

Equity Trading covers the management of directional market, volatility and correlation risks arising from trading on the cash, derivatives and cw markets. We also have a particularly active team engaged in the pricing and management of capital-protected products.

Equity Funding covers securities lending and arbitrage (index arbitrage, event-driven trading and statistical arbitrage). The desk also engages in market making in ETFs listed on Europe's major stock markets and manages all the 100% delta certificates issued by Banca IMI.

The unit also includes an initial core sales team dedicated specifically to the sale of sophisticated quantitative equity products and services.

Our *global credit trading* activities are split into two blocks: *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 been steadily increased in recent years thanks to the implementation of an advanced in-house modelling system. The bank's membership of 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 in the pricing of even the most complex transactions, from bullet issues to highly-complex securitisation transactions.

Our trading in government securities has gained from a significant technological upgrade towards automatic trading, with important benefits for distribution and our trading team itself. The unit was 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. The former stands out for its use and implementation of advanced modelling. During 2004 in particular, we implemented a propriety pricing model for the unitary management of all exchange rate derivative transactions, whether plain vanilla or exotic. The latter acts as an efficient conduit between the Bank's cash flows and our Parent Company's Treasury cash flows, while also completing the Bank's offer of interest and exchange rate derivatives in the short term.

The *fixed income & derivatives sales* unit benefits from a team of professionals dedicated to the distribution of the fixed-income products that Banca IMI's *Global Markets* area offers 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.

The *Global Brokerage* unit provides investors both with centralised solutions for the electronic execution of a vast range of financial instruments, and an efficient brokerage service in all the main cash and derivative products traded on the financial markets.

The *Retail Desk*, on the other hand, is responsible for the formulation and sale of products and services for the Sanpaolo Group's private and retail customers. The desk proposes investment and loan products and solutions that have been identified with the operating desks as providing the most appropriate solutions to the needs noted by the networks.

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 both 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 dedicated exclusively to structuring securitisation transactions for all types of assets.

Completing 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.

The Global Markets Area benefits from a dedicated Product & Business Development department for solutions to more complex problems requiring substantial quantitative and information support. This department consists of three desks:

- **Product Development.** This desk implements the pricing models, both standard and proprietary, used by the Global Markets Area in its everyday pricing and risk management activities. It is responsible for developing and maintaining the Bank's proprietary financial libraries, together with their use and integration in its information systems.
- **Financial Models** has more specialised duties and focuses on research and theoretical modelling analyses. It is responsible for creating proprietary pricing models for the equity and interest and exchange rate areas, together with the pricing for more complex financial instruments.
- **Credit Models** is engaged in developing proprietary modelling for the credit area, with a special focus on the pricing of credit derivatives and modelling for securitisation products.

The Financial Models and Credit Models desks also heighten the Bank's visibility in the field of quantitative research through papers published in major international financial magazines and publications, as well as through maintaining contacts with leading authorities in financial quantitative research, including as a result of its staff's involvement as speakers at major Italian and international quantitative finance conferences.



Research

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

At Banca IMI, we make an internal organisational distinction between our marketing literature - which aims to provide direct support for our own dealing activities - and what continues to be core research, conducted, that is to say, 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 for different customer segments: the Global Investment Strategy team carries out macroeconomic research studies and global asset allocation analyses, the Industry Group team carries out sector analyses focused on the equity sector, the Corporate Broking Research team carries out analyses on individual small-to-medium capitalisation issuers to support the Bank's specialist/corporate broker role, the Retail Research team carries out a wide range of analysis and research studies primarily intended for distribution to the Sanpaolo Group's networks, and, lastly, the Research Production & Support team is responsible for managing, translating and distributing all the Bank's research products.



Operations Area

This Area provides the support necessary for the Bank to operate and is responsible for monitoring financial, credit and operational risks, as well as for post-trading activities and clearing settlements for its own and customers' transactions. It is, in addition, also responsible for developing the Bank's organisation, information technology, logistics and general services. Banca IMI's Depository Bank and Custody services also come under the responsibility of this Area.

■ Investment Banking

Corporate Finance Projects

Project	Scope of project
Ministry of the Economy and Finance	Structuring of Fondo Immobili Pubblici
Finmeccanica	Sale of 10% of ST Microelectronics to Cassa Depositi e Prestiti
Edison	Sale of Edison T&S to the Clessidra fund
Edison	Valuation of Iniziative Sviluppo Energie
CRFirenze	Acquisition of CR Spezia
Carige	Acquisition of CR Carrara
Manuli	Fairness Opinion on Manuli reverse merger acquisition of FinM
SIA	Establishing joint venture between SIA and GL Trade
IT Holding	Sale of Romeo Gigli and Gentry Portofino brands
Business Solutions (Fiat Group)	Valuation of Sestrieres
Sanpaolo IMI	Valuation of goodwill
Sanpaolo IMI	Dynamic management of equity investments

Main Bond Placements

Issue	Type	Role	Ccy	Amount
Regione Piemonte	2004/2033 amortizing	Joint Lead Manager	EUR	435,056,000.00
Unibanca	FRN due 2014 (LT2 10NC5)	Sole Manager	EUR	100,000,000.00
Mediocredito Trentino Alto-Adige	FRN due 2009	Lead Manager	EUR	150,000,000.00
Sanpaolo IMI	FRN due 2011	Joint Lead Manager	EUR	600,000,000.00
Sanpaolo IMI	FRN due 2010	Sole Manager	EUR	725,000,000.00
Banca IMI	DFB IX with Advance Repayment	Issuer	EUR	110,670,000.00
Banca Carim	FRN due 2009	Sole Manager	EUR	250,000,000.00
Sanpaolo IMI	5.625% Callable Notes due 2024 (LT2 20NC15)	Joint Lead Manager	GBP	165,000,000.00
GE Capital EUROpean Funding	FRN due 2008	Joint Lead Manager	EUR	750,000,000.00
Hellenic Republic	FRN due 2011	Sole Manager	EUR	1,000,000,000.00
Italia	BTPei 1.65% 2008	Joint Lead Manager	EUR	3,250,000,000.00
GE Capital EUROpean Funding	FRN due 2008	Joint Lead Manager	EUR	250,000,000.00
Republic of Italy	CMS due 2019	Sole Manager	EUR	150,000,000.00
Anglo Irish Bank	FRN due 2009	Sole Manager	EUR	150,000,000.00
Dexia Crediop	FRN due 2011	Sole Manager	EUR	110,000,000.00
Cassa dei Risparmi di Forlì	FRN due 2009	Joint Lead Manager	EUR	450,000,000.00
ENEL	4.125% Notes due 2011	Joint Lead Manager	EUR	750,000,000.00
ENEL	5.25% Notes due 2024	Joint Lead Manager	EUR	750,000,000.00
Banca delle Marche	FRN due 2007	Joint Lead Manager	EUR	250,000,000.00
Sanpaolo IMI	FRN due 2011	Sole Manager	EUR	900,000,000.00
Sanpaolo IMI	FRN due 2016 (LT2 12 NC7)	Joint Lead Manager	EUR	700,000,000.00
Islandsbanki HF	FRN due 2008	Sole Manager	EUR	150,000,000.00
Banca Popolare di Bari	2004/2007 TV	Sole Manager	EUR	50,000,000.00
Banca IMI	2004/2007 TV (T3)	Issuer	EUR	150,000,000.00
Banca Antonveneta	FRN due 2007	Joint Lead Manager	EUR	300,000,000.00
Veneto Banca	FRN due 2009	Joint Lead Manager	EUR	250,000,000.00
Banca IMI	2004/2011 Step-Up Callable	Issuer	EUR	247,421,000.00
Banca IMI	2004/2009 DFB X	Issuer	EUR	300,000,000.00
Banche Popolari Unite	FRN due 2009	Sole Manager	EUR	350,000,000.00
SCIC - Società di Cartolarizzaz. Italiana Crediti	Serie A1	Joint Lead Manager	EUR	300,000,000.00
SCIC - Società di Cartolarizzaz. Italiana Crediti	Serie A2	Joint Lead Manager	EUR	979,000,000.00
IT Holding Finance SA	9.875% Notes 2012	Joint Lead Manager	EUR	150,000,000.00
FTPYME Santander	Class BG	Joint Lead Manager	EUR	373,500,000.00
Banca IMI	2004/2009 DFB XI	Issuer	EUR	218,000,000.00
Comune di Napoli	4.533% Amtz Notes due 2024	Joint Lead Manager	EUR	400,000,000.00
Landsbanki Islands HF	FRN due 2007	Joint Lead Manager	EUR	250,000,000.00
Regione Friuli Venezia Giulia	FRN Amortizing due 2019	Joint Lead Manager	EUR	328,683,000.00
SPLIT 2	Series A WAL 4.2 Yrs	Joint Lead Manager	EUR	1,697,100,000.00
SPLIT 2	Series B WAL 8.1 Yrs	Joint Lead Manager	EUR	63,200,000.00
SPLIT 2	Series C WAL 8.1 Yrs	Joint Lead Manager	EUR	45,150,000.00
Banca IMI	2004/2014 TV (LT2 10NC5)	Issuer	EUR	165,000,000.00

J. L. Manager: Joint Lead Manager

Share Placements

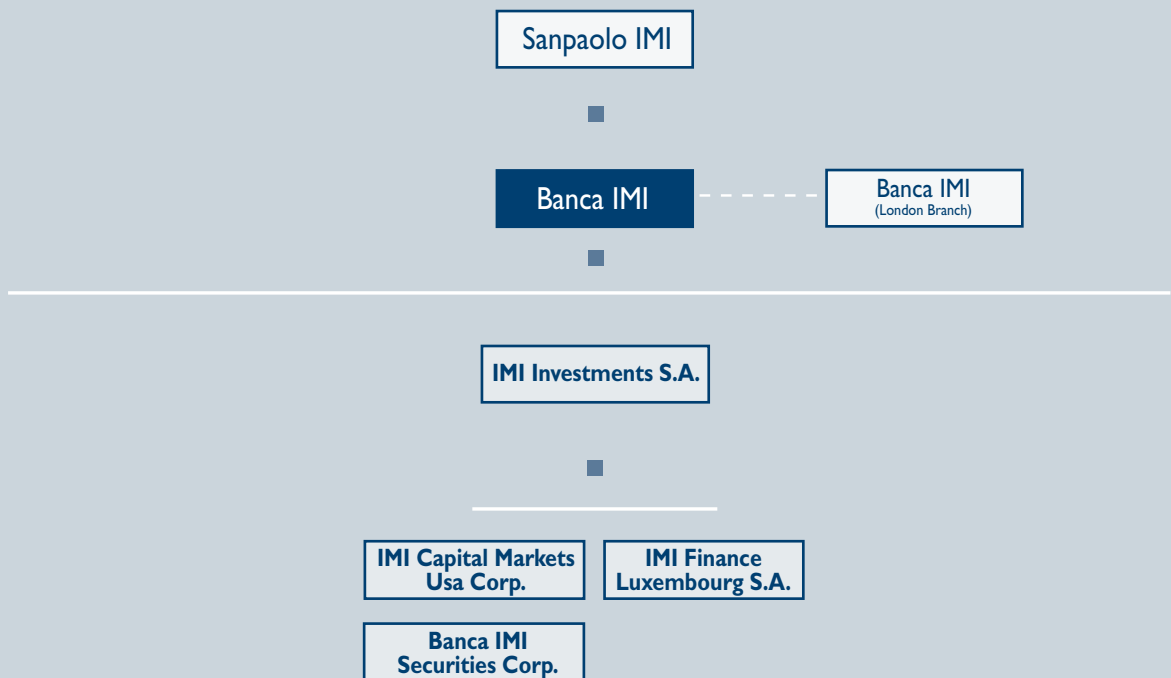
Transaction		
Name	Type	Role of Banca IMI
TECLA FUND (°) [figures refer to number of units]	Public Offer for Sale	Co-Manager of Public Offer for Sale
DMT (°)	Public Offer for Sale	Co-Manager of Public Offer for Sale and Subscription
TERNA (°)	Public Offer for Sale	Management Group of Public Offer
ENEL III	Public Offer for Sale	Management Group of Public Offer, Institutional Global Manager
GEOX	Public Offer for Sale and Subscription	Co-Global Coordinator, Joint Institutional Bookrunner, Joint Lead Manager of Public Offer
Milan City Council Convertible in AEM (°) [figures refer to number of bonds]	Public Offer for Sale	Co-Manager of Public Offer for Sale
GENERAL ELECTRIC (USD)	Institutional Offering	Institutional Co-Manager
GENWORTH FINANCIAL (USD)	Institutional Offering	Institutional Co-Manager
LOTTOMATICA	Private Placement	Sole Manager
AEM TORINO	Private Placement	Sole Manager
ISAGRO	Private Placement	Sole Manager
MONDO TV	Increase Share capital	Sole Manager and Underwriter
BUONGIORNO VITAMINIC	Increase Share capital	Sole Manager and Underwriter
BUZZI UNICEM	Increase Share capital	Sole Manager and Underwriter
EUPHON	Offer to Purchase *	Appointed Broker
SAECO	Offer to Purchase *	Appointed Broker
SAECO residual	Offer to Purchase *	Appointed Broker
BENI STABILI	Offer to Purchase *	Appointed Broker
GRANDI NAVIVELOCI	Offer to Purchase *	Appointed Broker
SAES GETTERS RISP.	Offer to Purchase *	Appointed Broker
ROLAND EUROPE	Offer to Purchase *	Appointed Broker

(°) The figures are for the public offering only.

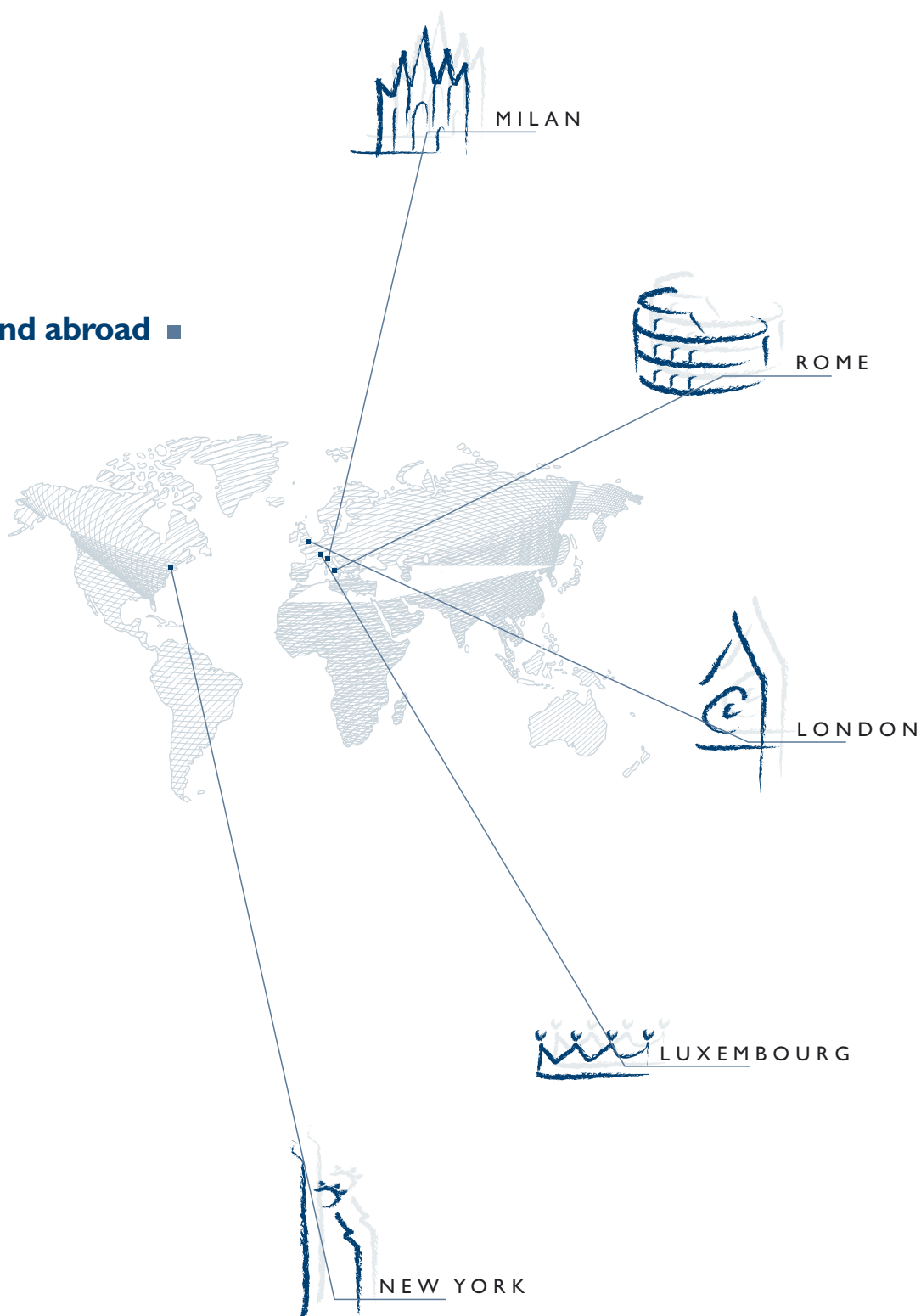
(*) The figures in the "Placed" columns are for the shares sold in each Offer.

By Banca IMI				Transaction total			
Underwritten (shares)	Underwritten (€m)	Placed (shares)	Placed (€m)	Underwritten (shares)	Underwritten (€m)	Placed (shares)	Placed (€m)
-	-	1,254	0.63	-	-	541,272	273.34
22,271	0.47	2,250	0.05	418,800	8.79	418,800	8.75
18,270,000	31.06	129,660,391	220.42	261,000,000	443.70	508,282,000	864.08
66,000,000	438.24	124,844,600	828.97	1,150,000,000	7,636.00	1,150,000,000	7,636.00
15,399,000	70.84	7,147,500	32.88	74,750,000	343.85	74,750,000	343.81
5,000,000	10.60	4,900,000	10.39	110,866,000	235.04	71,115,000	150.76
611,251	19.46	-	-	119,385,000	3,800.02	119,385,000	3,800.02
146,437	2.86	-	-	145,000,000	2,827.50	146,440,000	2,855.58
		5,000,000	107.50			5,000,000	107.50
		9,000,000	17.10			9,000,000	17.10
		1,048,482	4.30			1,048,482	4.30
475,700	14.76			475,700	14.76		
4,991,750	8.09			4,991,750	8.09		
13,811,504	117.40			13,811,504	117.40		
						16,647	0.13
						58,690,523	210.70
						6,232,938	22.38
						32,873,911	22.72
						7,022,892	17.59
						10,300	0.09
						1,168,022	1.87

■ **Group structure**



Banca IMI in Italy and abroad ■





■ Board of Directors

Appointed for 2003-2005

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

* Members of the Executive Committee

⁽¹⁾ Co-opted on 3 December 2004 in place of Luigi MARANZANA, who resigned on 3 December 2004

■ Board of Statutory Auditors

Appointed for 2003-2005

Chairman	Riccardo Perotta
Statutory Auditors	Aureliano Benedetti Mario Paolillo
Independent Auditors	Deloitte & Touche SpA

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First Section
Annual Report 2004



Consolidated
Financial Statements



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

This document is a translation of the Italian original “Bilancio e Relazioni 2004” and has been prepared solely for the convenience of the reader. In the event of any ambiguity, the Italian text will prevail.

“Bilancio e Relazioni 2004” is available in electronic version on www.bancaimi.it, and in hard copy at request to Banca d’Intermediazione Mobiliare IMI SpA.

*Corso Matteotti, 4/6
20121 Milano.*

Reclassified Balance Sheet

Assets (all figures in thousands of euros)	31/12/2003	31/12/2004
Cash and deposits with central banks	23	16
Loans	7,016,672	10,055,719
<i>including: - due from banks</i>	5,919,187	7,510,341
<i>- due from customers</i>	1,097,485	2,545,378
Trading securities	11,548,355	12,047,202
<i>including: - government securities and bonds</i>	9,416,582	9,746,982
<i>- equities</i>	2,131,773	2,300,220
Fixed assets	101,279	87,870
<i>including: - equity investments</i>	83,057	79,541
<i>- tangible and intangible fixed assets</i>	18,222	8,329
Other assets	7,002,249	10,781,642
Total assets	25,668,578	32,972,449

Liabilities

Payables	17,688,970	19,547,920
<i>including: - due to banks</i>	8,303,377	11,978,082
<i>- due to customers</i>	4,711,145	4,305,192
<i>- securities issued</i>	4,674,448	3,264,646
Other liabilities	7,317,396	12,540,846
Provisions	35,976	23,728
<i>including: - provision for employee severance indemnities</i>	6,867	7,457
<i>- provision for taxation</i>	20,706	10,303
<i>- consolidation reserve for future risks and charges</i>	1,807	904
<i>- provisions for risks and charges</i>	6,596	5,064
Allowance for possible loan losses	19,342	15,209
Subordinated liabilities	185,000	355,032
Reserve for general banking risks	2,000	2,000
Shareholder's equity	419,894	487,714
<i>including: - share capital</i>	180,000	180,000
<i>- reserves</i>	175,088	224,945
<i>- net profit (loss) for the year</i>	64,806	82,769
Total liabilities and shareholders' equity	25,668,578	32,972,449

Reclassified Consolidated Statement of Income

(All figures in thousands of euros)	2003	2004
Net interest income	26,446	113,894
Net income from financial transactions and stock dividends	197,758	74,716
Net commission income	31,123	9,273
Other net operating income	2,090	1,899
Total net operating income	257,417	199,782
Administrative and operating expenses	(137,263)	(131,480)
Operating profit/(loss)	120,154	68,302
Adjustments and provisions	(21,163)	(10,384)
Income (loss) from investments carried at equity	6	1,433
Profit/(loss) before extraordinary items	98,997	59,351
Extraordinary items, net	(440)	18,095
Income before taxes and minority interests	98,557	77,446
Income taxes for the year	(33,750)	5,323
Minority interests	(1)	-
Net profit/(loss)	64,806	82,769



- **Report of the Directors**

The consolidated financial statements as at 31 December 2004 show that Banca IMI ended the financial year with net income of €82.8m compared to €64.8m in the previous financial year. The gross operating margin was €59.1m (€105.7m in 2003) and income before taxes was €77.4m (€98.5m in 2003).

The 2004 financial year once again saw the Bank continue with its strong performance in risk management and in the distribution of financial products, which continue to represent the most important revenue items in the financial statements. The widely-reported affairs that have affected corporate Italy in recent years and the macroeconomic situation in general adversely impacted our performance on the capital markets both in the debt and equity sectors. Conversely, the Bank's advisory and structured finance activities largely held their previous levels during the reference period despite a difficult market environment.

The tax rate decreased considerably compared to the previous financial year, with a net positive contribution of an amount of €5.3m due to the recovery of tax assets in respect of tax charges accrued in the 2004 financial year for an amount of €33.7m in 2003. The effect is mainly due to the new tax provisions regarding the taxation of share income. This also affected gross revenue, the operating margin and income before taxes, which were down, notwithstanding an increase in net income for the period.

During the year we also continued simplifying the Group's products and services, and increasing the efficiency of our production structures. The latter saw us launching a centralisation process for the custody and administration services for third parties and as a depository bank in our parent company, as well as pursuing a series of initiatives to restructure our equity investments. Where this restructuring was concerned, the year saw the sale of Obiettivo SGR (a single-manager speculative fund management company) and the acquisition of IMI Bank (Lux) (a Luxembourg bank operating in trading & sales, asset management and agency sales) by Sanpaolo Bank SA, whose holding was subsequently sold to the parent company. Both companies were consolidated line by line until the 2003 financial year.

In order to enable a meaningful comparison of the figures for the 2004 and 2003 financial years, taking the two aforementioned phenomena into account (different tax

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treatment of certain types of revenue and changes in the scope of consolidation), the operating results were reformulated using pro-forma calculations,

- excluding the result of Obiettivo SGR and IMI Bank Lux (*) from the consolidated figures for 2003, and
- recalculating the 2004 aggregate results, including gross 2004 income for the year, to make it comparable with the figures for the previous year, and recalculating the (notional) tax rate (**).

Consolidated operating results - Investment banking

	2003	2003 (*)	2004	2004 (**)
(All figures in millions of euros)	pro forma		pro forma	
Risk Management	139.7	130.7	113.6	150.9
Sales	62.8	61.3	52.8	52.8
Corporate Finance	10.4	10.4	8.9	12.4
Capital Markets	33.7	33.7	15.6	15.6
Total revenues	246.6	236.1	190.9	231.7
Personnel expenses	(76.7)	(72.1)	(75.3)	(75.3)
Overhead costs	(49.5)	(46.0)	(46.0)	(46.0)
Depreciation and amortisation	(14.7)	(13.9)	(10.5)	(10.5)
Total costs	(140.9)	(132.0)	(131.8)	(131.8)
Gross operating margin	105.7	104.1	59.1	99.9
Provisions and adjustments	(5.8)	(5.7)	(0.7)	(0.7)
Profit/losses on equity investments in associated companies	(0.4)	(0.4)	2.3	2.3
Extraordinary income/(expenses)	(0.9)	(0.9)	16.8	16.8
Income before taxes	98.5	97.1	77.4	118.2
Taxes for the year	(33.7)	(33.0)	5.3	(35.4)
Net profit	64.8	64.1	82.8	82.9

Profit/losses on equity investments in associated companies related to the equity investment in IW Bank (previously IMIWEB Bank) and comprised €1.4m pertaining to the valuation of the company on the basis of the percentage of shareholders' equity held (20%), and €0.9m regarding a reduction in the same company's allocation to provisions for future losses. Where the 2003 financial year was concerned, this item principally reflected the losses of IMI Solutions SpA, which merged with Banca IMI during 2004, with effect from 1 January 2004.

Extraordinary income/ (expenses) (€16.8m) included extraordinary income for the period of the Consolidating Bank, Banca IMI (including a tax rebate received by its London branch, a claim regarding a securities transaction from prior years, and gains on the sale of equity investments to Group companies), together with consolidated extraordinary income resulting from increased consolidated gains relating to the sale of equity investments in Obiettivo SGR and IMI Bank (Lux).

The average number of staff employed at Banca IMI and the companies, offices and branches included in the consolidation was 544 (572 in 2003 for a comparable consolidation¹⁾), including 513 at our registered office in Milan (517 in 2003), 7 at our London branch (10 in 2003), and 40 at our subsidiary Banca IMI Securities Corp. in New York (42 in 2003).

The economy and market trends

After a relatively volatile first half in 2004, the major stock markets showed a clear bullish trend from August, ending the year with positive results (EuroStoxx +10%, MIB-30 +14.8%, DJ Industrial +3% and NASDAQ +8.6%). In Asia, the Nikkei in Japan rose 7.6% and the Hang Seng in Hong Kong gained 13.2%,

⁽¹⁾ The average number of total staff employed at Banca IMI and the companies, offices and branches included in the consolidation was 627 in the previous financial year, including 48 employees at IMI Bank (Lux) and 7 at Obiettivo SGR.

while the Chinese stock market fell by over 15% due to fears of further action by the Chinese economic policy authorities, who in 2004 raised rates for the first time in almost ten years to dampen growth.

In general, securities benefited from positive company relations, a substantial recovery in M&A activity (in the telecoms, pharmaceutical, cement and banking sectors), which was in turn aided by attractive valuations, low interest rates and sustained economic growth. The Eurozone saw rises in the financial, utilities and telephone sectors in particular.

From October, gains by the US indices were clearly linked to the strong depreciation of the US dollar against the other major currencies (measured in euros, the rise in the S&P was only 1% in 2004).

Concerns that the strong euro and high oil prices could lead to a slowdown in economic growth in the Eurozone contributed to a further fall of euro denominated bond yields. The 10Y Bund rate ended the year at 3.71%, down 56bp from year-end 2003, while US 10Y bonds were at 4.22% at the end of December 2004, down slightly on the year before. However, in the US, TIPS fell by over 30bp for the 2008 maturity, suggesting that investors continue to have doubts about the sustainability of US economic growth.

The US dollar continued its downward trend, devaluing by almost 9% with respect to a basket that includes the United States' 26 main trading partners, having lost over 15% in 2003.

The global economy showed sustained growth rate in 2004 (around 5%), despite the geopolitical tensions, currency instability and pressure of raw materials costs during the year. The economies of the United States (estimated +4.4%) and Asia (Japan +4%, China +9%) drove world economic growth. Growth in the Eurozone was lower, estimated to be 1.8%, although up on 2003. Inflation rose by over 2% in the Eurozone and over 3% in the United States. However, the indices net of volatile components, such as energy, had much lower inflation rates. During the early months of 2004, the economies of the United States, the United Kingdom

and Asia, including Japan, had particularly high growth rates, while Eurozone GDP growth was modest. The weakness of the United States job market in the early months of 2004 and sluggish Eurozone domestic demand, partly due to low consumer confidence, influenced by rising unemployment and the terrorist attack in Spain in early March, fuelled doubts that the economy would not be able to continue its positive performance. In early April, the publication of better-than-expected figures for new employees in non-agricultural employment in the USA in March, caused a sudden upwards correction of bond yields, in both the United States and the Eurozone, causing forecasts of the anticipated rise in the US Federal Funds rate to be revised forwards.

And indeed, on 30 June 2004, the Fed raised its reference rates for the first time in four years, embarking on a restrictive phase of gradual but continual increases that took the Fed Funds rate to 2.25% at the end of December 2004 compared to 1% at the end of December 2003.

The European Central Bank followed macroeconomic developments closely, but the expectations of possible cuts, fed by rumours on the market at the end of the first quarter, entirely subsided in the wake of stronger economic performance and an acceleration in inflation, with the trend rising to 2.4% in June.

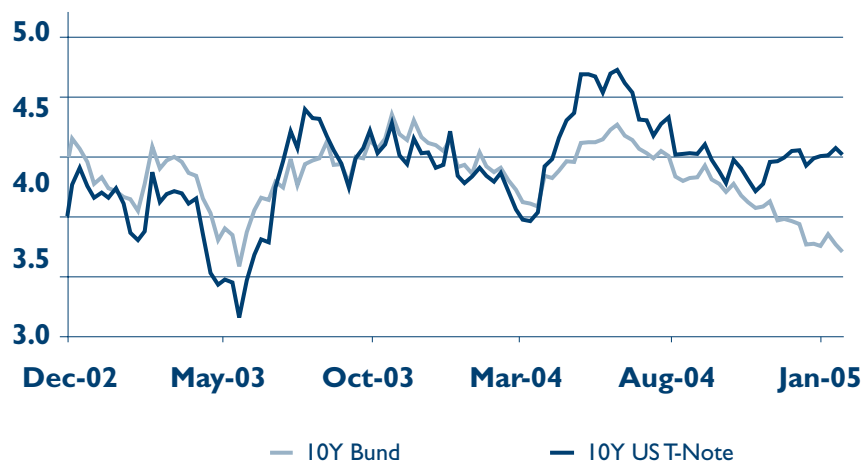
During the second quarter of 2004, the increasing strength of the economy and rising inflation led to a significant increase in bond yields in both the EMU zone and the US. Bonds more than lost the gains they had made in the first quarter. In the second quarter, conversely, the stock markets showed signs of modest rises in share prices. In the third quarter, GDP growth continued to be particularly strong in the United States, albeit slowing with respect to the very strong trend during the first few months of the year. Conversely, there was some acceleration in Eurozone growth, albeit modest. However, concerns that the high cost of energy products and other raw materials would dampen world economic growth increased. These fears contributed to a fall in bond yields, which sank to close to their March lows. On the other hand, the third quarter was not positive for the stock markets, which were all down, suffering from rising oil prices and

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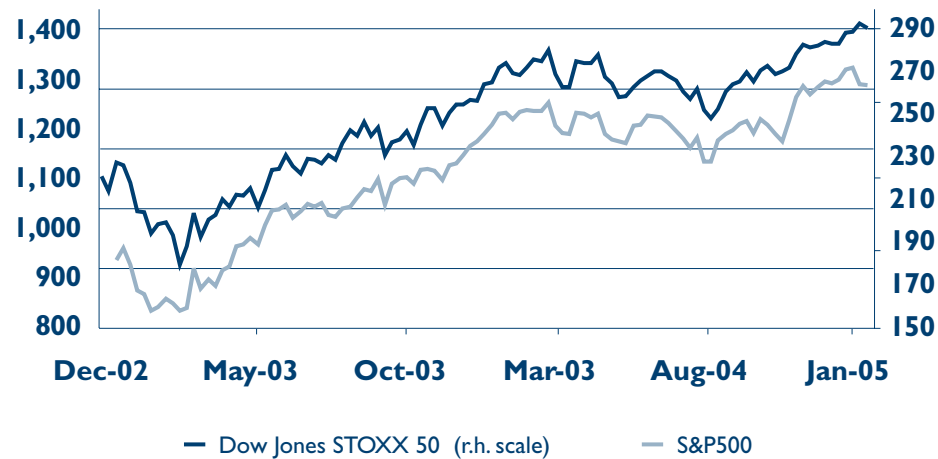
concerns about the profit momentum. The fourth quarter of 2004 was the best in the year for the stock markets, with the EuroStoxx rising over 8%, the DJ Industrial gaining 7%, the NASDAQ 14.7% and the Nikkei 6.2%. Share prices benefited, amongst other things, from a temporary lull in the upward pressure on oil prices.

The currency market saw investor attention returning to the imbalances in the US economy and the dollar started falling against other major currencies again. In the fourth quarter of 2004, the euro gained almost 10% against the dollar. Worries that the strong euro would hamper recovery in the Eurozone contributed to a further fall in the yields of bonds denominated in euros, which touched lows for the year in December. The European Central Bank kept the repo rate unchanged from the 2% it had been set at since June 2003, despite emphasising its concerns regarding excessive growth in the money supply and inflation, which was running at over the target rate of 2% at the end of 2004. The persistent weakness of the EMU economy and revaluation of the euro, which had a restrictive effect on the economy, persuaded the ECB to keep rates on hold.

Yields of long-term securities



Stock market performance



Consolidation and results

The consolidation included the following companies as at 31 December, which were consolidated line by line:

- IMI Investments S.A.
- IMI Finance S.A.
- IMI Capital Markets USA Corp.
- Banca IMI Securities Corp.

As previously explained, IMI Bank (Lux) ceased to be included in the consolidation in 2004, having been acquired by Sanpaolo Bank S.A., a company in the Sanpaolo IMI S.p.A. Group also based in Luxembourg, on 1st September 2004, with effect for accounting purposes from 1st January. This equity investment was sold to the parent company Sanpaolo IMI in September 2004.

The bank's stake in Obiettivo S.G.R., which had previously been consolidated line by line, was likewise sold during the year, to Sanpaolo IMI Wealth Management S.p.A.

Moving on to the results, in line with the above-mentioned different tax treatment of dividends on shares forming part of the bank's ordinary trading activities, the pro-forma operating results show a substantial contribution to the result for the period from Risk Management activities, with a strong performance in the Global Fixed Income and Global Equity Trading sectors.

In the fixed income area, trading and market making in structured interest rate derivatives generated an increase in net operating margin, and exchange rate activities likewise made a positive contribution. Conversely, trading in government securities was down. Global Equity Trading improved on the results for the previous year thanks to the favourable performance of our equity funding & lending activities and market making in derivatives. Credit trading suffered from an extremely adverse market situation, with very narrow spreads and lower volumes, resulting in a substantial fall in revenues. Taking the overall market context into account, however, this performance could not be considered negative. Lastly, proprietary trading made a positive contribution.

Revenue from the distribution sector was down, with fixed income sales being impacted by a decline in volumes on the corporate bonds market, while the corporate derivatives sector was not only affected by the widely-reported financial scandals, but also saw a change in the pattern of demand, which now mainly derives from the mid-corporate segment, rather than the large corporate segment as in the past.

The contribution of brokerage on behalf of third parties was, on the other hand, up on the 2003 results regarding securities and derivatives listed both on the Italian and world markets, thanks to the growth of our brokerage activities in foreign shares and Italian bonds.

The Capital Markets overall were down from their 2003 volumes. The equity sector, which saw a timid recovery in international share prices and a consequent significant

increase in the volume and number of transactions, nevertheless fell short of the results of the previous year, while the decline in the debt sector was principally due to the lacklustre period that corporate Italy was going through.

Advisory and Structured Finance activities largely held their previous levels, despite a contraction in the overall market.

Structural costs for a comparable consolidation were generally unchanged from the previous financial year, albeit with changes in the totals of the individual cost items. Personnel Expenses were up slightly, while overhead costs were largely the same and amortisation and depreciation were down following the gradual completion of the amortisation and depreciation process regarding the substantial hardware and software investments made in prior years.

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

All figures in million of euros at exchange rates as at 31.12.04	Net income/(loss)
Banca IMI	70.3
IMI Investments	7.6
IMI Finance	0.0
IMI Capital Markets	0.0
Banca IMI Securities	2.4
Income of companies consolidated line by line	80.3
IW Bank	1.4
Income from investments carried at equity	1.4
Consolidation eliminations	(7.5)
Minority interest in net income	0.0
Consolidation adjustments	8.6
Consolidated net profit	82.8

Information on 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 Group's securities portfolio totalled €12,047m as at 31 December 2004 compared to €11,548m as at 31 December 2003, comprising €9,747m bonds (including €5,438m government securities) and €2,300m shares and units in mutual funds, with technical short positions totalling €2,447m.

As at 31 December 2004, the Bank's securities holdings included 1,166 shares in its parent company Sanpaolo IMI with a par value of €0.003m and total value of €0.012m, for which a reserve was set aside in accordance with art. 2359 bis of the Italian Civil Code. Purchases and sales during the year came to a total of €44.7m (4,707,753 shares with a total par value of €13.2m) and €42.3m (4,311,012 shares with a total par value of €12.1m) respectively, and resulted from basket trading. As at 31 December 2003, there was a short position in 395,575 shares in the parent company Sanpaolo IMI SpA with a total value of €4.1m (total par value €1.1m).

The most significant receivable items were repurchase agreements and stock lending transactions, which totalled €8,867m (€5,823m as at 31 December 2003), including €6,862m due from banks (€5,125m as at 31 December 2003) and, under other assets, the balancing entries for the revaluation of off-balance sheet transactions totalling €8,932m (€5,184m as at 31 December 2003).

The largest liabilities items were repurchase agreements and securities loaned amounting to €12,630m (€11,216m as at 31 December 2003), deposits from other banks totalling €3,251m (€1,295m as at 31 December 2003), bonds issued with a total value of €3,265m (€4,674m as at 31 December 2003) and, under other

liabilities, the balancing entries for the revaluation of off-balance-sheet transactions totalling €9,110m (€5,494m as at 31 December 2003).

The reconciliation of the parent 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	70,340	383,145	453,485
Effect of consolidation of subsidiaries on a line-by-line basis	10,039	505,170	515,209
Effect of consolidation of subsidiaries carried at equity	1,433	-	1,433
Minority interests	-	-	-
Consolidation adjustments:			
- book value of equity investments		(477,735)	(477,735)
- dividends	(7,562)	-	(7,562)
- other	8,519	(3,635)	4,884
Consolidated financial statement balance	82,769	406,945	489,714

Consolidated companies

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

IMI Investments SA

The aggregate net income of IMI Investments and its subsidiary IMI Finance Luxembourg S.A. totalled €7.6m compared to €5.3m as at 31 December 2003. This was to a large extent due to the increased value of the equity investment in the German company Dyckerhoff AG made in 2002. In particular, the companies had acquired a stake of 5,000,000 shares with voting rights (equal to 24.2% of the share capital with voting rights and 12.1% of the total share capital), which gained them an equal number of put options to sell to the Buzzi Unicem Group (previously Dyckerhoff's reference shareholder). These options were exercised at the end of the year for settlement (as subsequently occurred) on 31 January 2005.

IMI Investments' main reclassified aggregate results are shown below.

IMI Investments operating results

(All figures in millions of euros)	2003	2004
Risk Management & Sales	5.5	7.7
Corporate Finance & Capital Markets	0.1	0.0
Total revenue	5.6	7.7
Personnel expenses	-	(0.0)
Overhead costs	(0.2)	(0.2)
Depreciation and amortisation	-	0.0
Total Costs	(0.2)	(0.2)
Gross operating margin	5.4	7.5
Provisions and adjustments	-	0.0
Extraordinary income/(expenses)	-	0.0
Income before taxes	5.4	7.5
Taxes for the year	(0.1)	0.1
Consolidated net profit	5.3	7.6

Banca IMI Securities Corp.

Our US subsidiaries IMI Capital Markets USA and Banca IMI Securities achieved an aggregate net income of €2.4m (€2.7m in 2003).

Banca IMI Securities saw its revenue decline compared to the previous year as a result of the slowdown in brokerage activities on the US and European stock markets, since net commission income is always strongly dependent on the performance of the markets themselves and was only partially offset by growth in securities lending revenue, which was up on the previous year thanks to an increase in average matched book assets.

Primary market transaction origination activities were also positive where American issuers were concerned, while sales of European bonds to American institutional investors remained at low levels.

Structural costs for the period were down slightly on 2003.

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

Banca IMI Securities operating results

(All figures in millions of euros)	2003	2004
Risk Management & Sales	11.4	9.7
Corporate Finance & Capital Markets	0.1	0.5
Total revenue	11.5	10.2
Personnel expenses	(5.1)	(5.0)
Overhead costs	(2.6)	(2.5)
Depreciation and amortisation	(0.3)	(0.2)
Total costs	(8.0)	(7.7)
Gross operating margin	3.6	2.5
Provisions and adjustments	-	0.0
Extraordinary income/(expenses)	(0.2)	(0.1)
Income before taxes	3.4	2.4
Taxes for the year	(0.7)	0.0
Consolidated net profit	2.7	2.4

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 details the volume of transactions in the parent company's shares.

Subsequent events and outlook

There have been no significant events subsequent to the closure of the financial year.

■

The outlook for 2005 is in line with the performance achieved in 2004

■

Milan, 5 April 2005

■



- **Consolidated Balance Sheet and Statement of Income**

Consolidated Balance Sheet

Assets (all figures in thousands of euros)		31/12/2004	31/12/2003
10	Cash and deposits with central banks and post offices	16	23
20	Treasury securities and similar instruments for refinancing with central banks	789,819	909,910
30	Due from banks	7,510,341	5,919,187
	(a) on demand	1,109,349	1,569,583
	(b) other	6,400,992	4,349,604
40	Loans to customers	2,545,378	1,097,485
50	Bonds and other debt securities	8,957,163	8,506,672
	(a) public issuers	7,278,040	7,106,399
	(b) banks	1,044,621	851,316
	(c) financial institutions	320,817	417,516
	(d) other issuers	313,685	131,441
60	Shares, quotas and other equity interest	2,300,220	2,131,773
70	Equity investments	79,499	78,821
	(a) carried at equity	4,467	3,034
	(b) other	75,032	75,787
80	Investments in Group companies	42	4,236
	(a) carried at equity	29	1,177
	(b) other	13	3,059
110	Intangible fixed assets	7,210	12,973
	<i>including: - start-up costs</i>	<i>49</i>	<i>97</i>
	<i>- goodwill</i>	<i>1,446</i>	<i>1,807</i>
120	Tangible fixed assets	1,119	5,249
150	Other assets	10,606,145	6,673,500
160	Accrued income and prepaid expenses:	175,497	328,749
	(a) accrued income	174,306	294,893
	(b) prepaid expenses	1,191	33,856
Total assets		32,972,449	25,668,578

Liabilities (all figures in thousands of euros)		31/12/2004	31/12/2003
10	Due to banks	11,978,082	8,303,377
	(a) on demand	3,055,470	1,514,026
	(b) time or notice	8,922,612	6,789,351
20	Due to customers	4,305,192	4,711,145
	(a) on demand	1,052,048	1,334,362
	(b) time or notice	3,253,144	3,376,783
30	Securities issued	3,264,646	4,674,448
	(a) bonds	3,264,646	4,674,448
	(b) certificates of deposit	-	-
50	Other liabilities	12,453,198	7,099,589
60	Accrued expenses and deferred income	87,648	217,807
	(a) accrued expenses	86,645	217,260
	(b) deferred income	1,003	547
70	Provision for employee severance indemnities	7,457	6,867
80	Provisions for risks and charges	16,271	29,109
	(a) pensions and similar obligations	-	-
	(b) taxation	10,303	20,706
	(c) consolidation reserve for future risks and charges	904	1,807
	(d) other provisions	5,064	6,596
90	Allowance for possible loan losses	15,209	19,342
100	Reserve for general banking risks	2,000	2,000
110	Subordinated liabilities	355,032	185,000
120	Negative goodwill arising on consolidation	14,035	206
140	Minority interests (+/-)	-	2
150	Share capital	180,000	180,000
160	Additional paid-in capital	131,260	131,260
170	Reserves	79,650	43,620
	(a) legal reserve	36,000	36,000
	(c) statutory reserves	-	-
	(d) other reserves	43,650	7,620
190	Profits carried forward	-	-
200	Net profit (loss) for the year	82,769	64,806
Total liabilities		32,972,449	25,668,578

Guarantees And Commitments

10	Guarantees	369	43,370
20	Commitments	5,890,780	5,374,605
30	Credit derivatives	798,807	318,161

Consolidated Statement Of Income

(All figures in thousands of euros)		2004	2003
10	Interest income and similar revenue	625,499	498,085
	<i>including: - loans to customers</i>	<i>87,002</i>	<i>50,233</i>
	<i>- debt securities</i>	<i>427,074</i>	<i>275,504</i>
20	Interest expense and similar charges	(511,605)	(471,639)
	<i>including: - deposits from customers</i>	<i>(153,242)</i>	<i>(158,418)</i>
	<i>- securities issued</i>	<i>(79,378)</i>	<i>(91,421)</i>
30	Dividends and other revenue	79,903	225,410
	a) shares, quotas and other equities	78,234	222,518
	b) equity investments	1,669	2,892
40	Commission income	85,988	103,460
50	Commission expense	(76,715)	(72,337)
60	Profits (losses) on financial transactions	(5,187)	(27,652)
70	Other operating income	1,921	2,624
80	Administrative costs		
	a) Payroll costs	(73,491)	(74,464)
	<i>including: - wages and salaries</i>	<i>(56,242)</i>	<i>(57,257)</i>
	<i>- social security contributions</i>	<i>(14,301)</i>	<i>(14,233)</i>
	<i>- provision for employee severance indemnities</i>	<i>(2,193)</i>	<i>(2,224)</i>
	<i>- retirement benefits and similar obligations</i>	<i>(755)</i>	<i>(750)</i>
	b) Other administrative and operating expenses	(57,989)	(62,799)
90	Adjustments to intangible and tangible fixed assets	(10,540)	(14,670)
100	Provisions for risks and charges	-	(1,271)
110	Other operating expenses	(22)	(534)
120	Adjustments to loans and provisions for guarantees and commitments	(750)	(2,582)
140	Provisions to the allowance for possible loan losses	-	-
150	Adjustments to financial fixed assets		(640)
160	Write-backs of financial fixed assets	3	
170	Income (loss) from investments carried at equity	1,433	6
180	Profit (loss) from ordinary activities	58,448	100,997
190	Extraordinary income	20,624	5,275
200	Extraordinary expenses	(2,529)	(5,715)
210	Net extraordinary income (loss)	18,095	(440)
220	Utilisation of the consolidation reserve for future risks and charges	903	-
230	Change in reserve for general banking risks	-	(2,000)
240	Income taxes for the year	5,323	(33,750)
250	Minority interests in net income (loss)	-	(1)
260	Net profit (loss) for the year	82,769	64,806

The financial statements have been translated into English from the original version in Italian. They 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.



- **Notes to the 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 Sanpaolo IMI S.p.A. (the direct parent company of Banca IMI, 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 2004 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 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

Schedule - Statement of changes in shareholders' equity

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 2004 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 on 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 financial statements details negative goodwill arising upon consolidation.

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 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 S.p.A.

Part A - Accounting policies

Changes to the accounting policies

The balance sheet and statement of income as at 31 December 2004 were prepared adopting the same accounting policies as the financial statements as at 31 December 2003 and as Parent Company Sanpaolo IMI S.p.A.



I. 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 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 their notional value. Exposures regarding underlying borrowers for credit derivatives for which the Bank has assumed the credit risk as protection seller are recorded under the item “Credit derivatives”. 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.

Trading 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 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 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".

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 in the year of purchase.

6. Intangible fixed assets

Intangible fixed assets are 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 are included without offsetting in other assets or other liabilities as appropriate.

Transactions in derivatives linked to assets or liabilities on or off the balance sheet are valued adopting criteria in line with those used for the aforesaid assets or liabilities. 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 Consolidating 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.

Internal deals therefore enable our risk management systems to monitor and track exposures to the risk factors hedged and therefore the actual hedging of the risks themselves.

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 loans 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 expense, commission income and expense, 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.

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Section 2 - Adjustments and provisions for taxes

2.1 Adjustments made solely for tax purposes

Not provided for by the regulations.

2.2 Provisions made solely for tax purposes

Not provided for by the regulations.

■

Part B - Notes to the Balance Sheet

Section I - Loans

Consolidated loans, which are the sum of Balance Sheet assets items 10, 30 and 40, totalled €10,055,735,000 net of adjustments as follows:

	31/12/03	31/12/04
Cash and deposits with central banks and post offices (item 10)	23	16
Due from banks (item 30)	5,919,187	7,510,341
Loans to customers (item 40)	1,097,485	2,545,378



I.1 Analysis of item 30 "Due from banks"

	31/12/03	31/12/04
a) Due from Central Banks	31,216	21,975
b) Bills eligible for refinancing with central banks	-	-
c) Finance leases	-	-
d) Repurchase agreements	4,933,749	6,311,582
e) Securities lending	190,694	550,163



Breakdown of item 30 “Due from banks”

Amounts due from banks totalled €7,510,341,000 as follows:

	31/12/03	31/12/04
Due from Central Banks:		
- compulsory reserve	30,354	21,491
- repurchase transactions and other transactions	862	484
Due from other banks:		
- repurchase agreements	4,933,749	6,311,582
- current accounts	169,371	141,205
- securities lending	190,694	550,163
- deposits and loans	594,157	485,416
- subordinated loans	-	-
Total	5,919,187	7,510,341

■

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

	31/12/03	31/12/04
Loans for securities lending transactions	119,716	357,557
Repurchase agreements for securities lending transactions	70,978	192,606

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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	7,510,341	-	7,510,341

■

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

	31/12/03	31/12/04
a) Bills eligible for refinancing with central banks	-	-
b) Finance leases	-	-
c) Repurchase agreements	533,447	1,195,357
d) Securities lending	164,285	810,258

■

Analysis of item 40 “Loans to customers”

Loans to customers totalled €2,545,378,000 as follows:

	31/12/03	31/12/04
Current accounts	20,873	27,816
Interest-bearing cash deposits with clearing organisations	104,162	76,648
Repurchase agreements	533,447	1,195,357
Securities lending	164,285	810,258
Deposits	273,905	435,029
Subordinated loans	256	-
Other	557	270
Total	1,097,485	2,545,378

■

The breakdown of the item “Securities loaned” was as follows:

	31/12/03	31/12/04
Loans for securities lending transactions	126,765	308,499
Repurchase agreements for securities lending transactions	37,520	501,759

■

1.6 Secured loans to customers

	31/12/03	31/12/04
a) Mortgages	-	-
b) Pledged assets:		
1. cash deposits	-	-
2. securities	42,000	-
3. other instruments	-	-
c) Guarantees issued by:		
1. governments	-	-
2. other public entities	-	-
3. banks	14,945	-
4. other operators	8	149,526

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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:

	31/12/03	31/12/04
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	2,545,110	-	2,545,110

■

1.8 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 31/12/2003	1,573	285	-	-	-
A.1. including: default interest	-	-	-	-	-
B. Increases					
B.1. transfers from performing loans	-	-	-	-	-
B.2. default interest	-	-	-	-	-
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	-	-	-	-	-
C.4. disposals	-	-	-	-	-
C.5. transfers to other categories of doubtful loans	-	-	-	-	-
C.6. other decreases	-	-	-	-	-
D. Gross value as at 31/12/2004	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	Performing loans
A. Total adjustments as at 31/12/2003	1,305	285	-	-	-	-
A.1. including: default interest	-	-	-	-	-	-
B. Increases						
B.1. adjustments	-	-	-	-	-	-
B.1.1 including: default interest	-	-	-	-	-	-
B.2. utilisation of 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 31/12/2004	1,305	285	-	-	-	-
D.1. including: default interest	-	-	-	-	-	-

Section 2 - Securities

2.1 Investment securities

The Group does not hold any investment securities.

■

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.

	31/12/03		31/12/04	
	Book value	Market value	Book value	Market value
1. Debt securities				
1.1 Government securities				
- listed	6,916,318	6,916,318	5,438,341	5,438,341
- unlisted	-	-	-	-
1.2 Other securities				
- listed	2,066,960	2,066,960	3,845,881	3,845,881
- unlisted	433,304	438,500	462,760	463,405
2. Equities				
- listed	1,918,395	1,918,395	2,004,101	2,004,101
- unlisted	213,378	213,378	296,119	296,119
Total	11,548,355	11,553,551	12,047,202	12,047,847

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2.4 Changes in trading securities during the year

A. Opening balance	11,548,355
B. Increases	
B.1 Purchases	
Debt securities	
- government securities	192,888,446
- other securities	101,051,707
Equities	15,715,102
B.2 Write-backs and revaluations	100,275
B.3 Transfers from investment portfolio	
B.4 Other increases	3,683,939
C. Decreases	
C.1 Sales and redemptions	
Debt securities	
- government securities	(195,221,447)
- other securities	(99,226,946)
Equities	(15,805,643)
C.2 Adjustments	(37,664)
C.3 Transfers to investment portfolio	
C.5 Other decreases	(2,648,922)
D. Closing balance	12,047,202

The items “Other increases” and “Other decreases” included €2,446,560,000 year-end technical short positions in securities and €859,182,000 beginning-of-year technical short positions in securities respectively. Short positions in securities are recorded under “Other liabilities” as appropriate”

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Net opening balance as at 31.12.03	10,689,173
- long positions	11,548,355
- short positions	(859,182)
Net closing balance as at 31.12.04	9,600,642
- long positions	12,047,202
- short positions	(2,446,560)

■

Section 3 - Equity investments

Equity investments in companies that are not consolidated line by line, recorded in consolidated balance sheet asset items 70 and 80, totalled €79,541,000.

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3.1 Significant investments

	Registered office	Shareholders' Rel.	Shareholders' equity	Profit/ (Loss) 2004	Held by	% owned	Consolidated book value
A. Companies included in the consolidation							
A.1 Companies consolidated line by line							
IMI Investments S.A. ¹	Luxembourg	1	261,915	7,914	Banca IMI Banca IMI Securities	99.99 0.01	
IMI Capital Markets USA Corp. ¹	United States	1	120,316	3	IMI Investments	100.00	
Banca IMI Securities Corp. ¹	United States	1	119,446	2,399	IMI Capital Markets	100.00	
IMI Finance Luxembourg S.A.	Luxembourg	1	7,118	525	IMI Investments	100.00	
B. Investments carried at equity							
IW Bank SpA	Milan	8	22,335	7,165	Banca IMI	20.00	4,467
Cedar Street Securities Corp	United States	1	28	-	Banca IMI Securities	100.00	29
C. Other investments							
AF Merlo SpA	Turin	8	16,235	1,175	Banca IMI	33.33	5,000

(1) The functional currency of the financial statements is the US dollar. For the purposes of the present table, the figures for shareholders' equity and net income were converted into euros at the exchange rate as at 31.12.04 (1.3621 USD/EUR). A "1" in the column "Relationship" (Rel.) indicates a controlling interest (as per art. 2359, subparagraph 1, No. 1, of the Italian Civil Code). An "8" indicates other associated companies. The column "Shareholders' equity" includes retained profits for the period.

The following significant equity investments, which were previously consolidated line by line, were sold to related parties during the year:

- The sale to Sanpaolo Bank S.A. of 100% of the share capital of IMI Bank (Lux) S.A., 99.99% of which was held by Banca IMI S.p.A. and 0.01% by IMI Investments S.A., for a total of €100m. In the financial statements of the subsidiaries, this sale generated gains of €1,085,000 with respect to the book values (historical cost). In the consolidated financial statements, the sale of the equity investment had a further positive effect of €6,015,000 resulting from the deconsolidation of IMI Bank (Lux) S.A. This initial goodwill arising on consolidation of €13,829,000 for this equity investment (see section 8 of Part B) was recovered in full.

- The sale to Sanpaolo IMI Wealth Management S.p.A. of 100% of the share capital of Obiettivo S.G.R., 99.99% of which was held by Banca IMI S.p.A and 0.01% by IMI Bank (Lux) S.A., for a total of €4,187,000. This sale generated gains of €1m in the financial statements of the subsidiaries. In the consolidated financial statements, the sale of the equity investment had a further positive effect of €1,556,000 resulting from the deconsolidation of Obiettivo S.G.R.

3.2 Amounts due to and from Group companies (Sanpaolo IMI)

	31/12/03	31/12/04
ASSETS		
1. Due from banks	678,835	45,885
<i>including: subordinated</i>	-	-
2. Due from financial institutions	12,690	-
<i>including: subordinated</i>	-	-
3. Due from other customers	-	-
<i>including: subordinated</i>	-	-
4. Bonds and other debt securities	434,019	144,038
<i>including: subordinated</i>	24,828	8,924
LIABILITIES		
1. Due to banks	1,146,706	3,391,351
2. Due to financial institutions	12,932	-
3. Due to other customers	-	60
4. Securities issued	-	-
5. Subordinated liabilities	35,000	355,000
Guarantees and commitments		
1. Guarantees issued	-	-
2. Commitments	673,237	207,579

(*) 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 or from equity investments (non-group companies).

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3.4 Breakdown of item 70 “Equity investments”

	31/12/03	31/12/04
(a) Investments in banks		
1. listed	-	-
2. unlisted	3,034	4,467
(b) Investments in financial institutions		
1. listed	-	-
2. unlisted	699	699
(c) Other investments		
1. listed	45,000	45,000
2. unlisted	30,088	29,333



3.5 Breakdown of item 80 “Investments in Group companies”

	31/12/03	31/12/04
(a) Investments in banks		
1. listed	-	-
2. unlisted	-	-
(b) Investments in financial institutions		
1. listed	-	-
2. unlisted	4,223	29
(c) Other investments		
1. listed	-	-
2. unlisted	13	13

Investments in other Sanpaolo IMI Group companies totalled €42,000 and comprised €29,000 investments consolidated using the equity method - Cedar Street Sec. Corp., see table 3.1 - and a €13,000 investment in Sanpaolo IMI Group company Consorzio Studi e Ricerche Fiscali, in which the Consolidating Bank holds a 5% stake.



3.6 Changes in equity investments during the year

3.6.1 Investments in Group companies (Sanpaolo IMI)

	31/12/03	31/12/04
A. Opening balance	4,151	4,236
B. Increases		
B1. Purchases	526	
B2. Write-backs	-	
B3. Revaluations	-	
B4. Other increases	-	3,589
C. Decreases		
C1. Sales	(2)	(5,470)
C2. Adjustments	(432)	
C3. Other decreases	(7)	(2,313)
D. Closing balance	4,236	42

The item “Other increases” included the effect of the sale of the equity investment in Sanpaolo IMI Institutional Asset Management SGR for €2,979,000 and the capital increase of subsidiary IMI Solutions SpA, which merged with the parent company on 3 November 2004.

The item “Sales” refers exclusively to said sale of the equity investment in Sanpaolo IMI Institutional Asset Management SGR to Sanpaolo Wealth Management SpA.

The item “Other decreases” of €1,792,000 refers to the equity investments in Sanpaolo IMI Institutional Asset Management and IMI Bank Lux, which were sold during 2004.

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3.6.2 Other equity investments

	31/12/03	31/12/04
A. Opening balance	69,760	78,821
B. Increases		
B1. Purchases	6,487	1
B2. Write-backs		3
B4. Other increases	3,086	1,433
C. Decreases		
C1. Sales	(340)	(450)
C3. Other decreases	(172)	(309)
D. Closing balance	78,821	79,499

The item “Purchases” refers to the purchase of 1 share in the renewable source electricity distribution company Idroenergia Scarl, the parent company’s acquisition of which has gained it access to the energy free market.

The item “Write-backs” refer exclusively to the equity investment in the NASDAQ held by Banca IMI Securities Corp., which reduced its stake in said company during 2004. The total amount of this sale, €450,000, is recorded under the item “Sales”.

The item “Other increases” refers exclusively to the equity consolidation method used for the investment in IWBank S.p.A.

“Other decreases” included €238,000 regarding the reduction of the equity investment in Borsa Italiana resulting from the deconsolidation of IMI Bank (Lux).

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

	Book value
Dyckerhoff A.G.	45,000
Borsa Italiana S.p.A.	21,463
AF Merlo S.p.A.	5,000
LCH Clearnet S.A.	1,940
IW Bank S.p.A.	4,467
S.I.A. S.p.A.	887
MTS S.p.A.	699
NASDAQ Stock Market Inc.	38
Kiwi I Ventura Servicios S.A.	4
Idroenergia Scarl	1
Total	79,499

■

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 totalled €8,329,000.

	31/12/03	31/12/04
Tangible fixed assets (item 120)	5,249	1,119
Intangible fixed assets (item 110)	12,973	7,210

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Breakdown of item 120 “Tangible fixed assets”

	31/12/03	31/12/04
Property		
- used for operating purposes	3,480	-
Furniture and equipment		
- motor vehicles	-	-
- office furniture and equipment	261	118
- electronic equipment	1,213	856
- general and specific equipment	295	145
Total	5,249	1,119



Breakdown of item 110 “Intangible fixed assets”

	31/12/03	31/12/04
Software	9,206	4,144
Start-up and expansion costs	97	49
Goodwill	1,807	1,446
Other deferred costs	1,863	1,571
Total	12,973	7,210

The item “Other deferred costs” included €1,016,000 expenses for leasehold improvements.



4.1 Changes in tangible fixed assets during the financial year

A. Opening balance	5,249
B. Increases	
B1. Purchases	983
B3. Revaluations	
B4. Other increases	32
C. Decreases	
C1. Sales	(11)
C2. Adjustments:	
(a) amortisation	(1,239)
(b) permanent write-downs	
C3. Other increases	(3,895)
D. Closing balance	1.119
E. Total revaluations	
F. Total adjustments	
(a) amortisation	48,944
(b) permanent write-downs	-

The item 'Other decreases' refers to the tangible fixed assets held by the company IMI Bank (Lux) and its subsidiaries, which were previously included in the consolidation.

The main investments in 2004 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	12,973
B. Increases	
B1. Purchases	4,380
B4. Other increases	36
C. Decreases	
C1. Sales	
C2. Adjustments:	
(a) amortisation	(9,301)
(b) permanent write-downs	
C3. Other increases	(878)
D. Closing balance	7,210
E. Total revaluations	
F. Total adjustments	
(a) amortisation	31,661
(b) write-offs	5,668

The item 'Other decreases' included €19,000 and €778,000 relating to the effects of Obiettivo SGR and IMI Bank Lux respectively no longer being included in the consolidation, and €68,000 exchange rate differences regarding the initial balances of the fixed assets held by subsidiary Banca IMI Securities Corp.

Changes in individual items during the year were as follows:

	Start-up and expansion costs	Goodwill	Software	Other deferred costs
A. Opening balance	97	1,808	9,226	1,842
B. Increases				
B1. Purchases			3,949	431
B4. Other increases				36
C. Decreases				
C1. Sales				
C2. Adjustments:				
(a) amortisation	(48)	(362)	(8,204)	(687)
(b) permanent write-downs				
C3. Other increases			(827)	(51)
D. Closing balance	49	1,446	4,144	1,571
E. Total revaluations				
F. Total adjustments				
(a) amortisation	194	2,169	25,286	4,012
(b) write-offs			5,668	

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The main investments in 2004 regarded projects completed by the Consolidating Bank, which included the following:

- Market trends, Organised Trading Systems (OTS) and clearing and settlement systems, including the development of the Swapclear procedures, membership of new platforms for trading on own behalf and telematic access to new markets and OTSs for third parties.
- The development of automatic trading and execution tools and the development of the FastTrack system in particular.
- Membership of new markets and development of products and services.
- The development of systems for trading on behalf of third parties and for the receipt, transmission and recording of instructions and instruction-executed notices.

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- The development of an internal financial risk management model.
- The upgrading of the Bank's accounting and management control information system, including the development of an automatic system supporting Post Trading in OTC derivatives, and an event concentrator.



Section 5 - Other assets

5.1 Breakdown of item 150 "Other assets"

The item "Other assets" totalled €10,606,145,000 as follows:

	31/12/03	31/12/04
Due from tax authorities:		
- tax credits from prior years	93,052	85,505
- tax credits on dividends	78,672	-
- withholding taxes incurred	1,434	3,104
- deferred tax assets	9,802	22,366
- advance tax on severance indemnities (as per Italian law 662/96)	60	-
- prepayments	166	-
- other receivables	3,059	1,091
Off-balance-sheet transactions:		
- interest rate contracts	4,479,776	8,100,170
- foreign exchange contracts	414,462	497,872
- option and index contracts	267,340	296,715
- credit derivatives	20,948	12,891
- securities commitments	1,563	24,237
Options and similar instruments	1,221,680	1,393,994
Transit items	49,056	99,341
Other receivables	32,430	68,859
Total	6,673,500	10,606,145



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

Adjustments to loans	548
Adjustments to equity investments	1,283
Adjustments to securities	1,657
Provisions for contingencies	1,273
Other costs temporarily not tax deductible	1,945
Tax losses carried forward	15,660
Total	22,366

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

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5.2 Breakdown of item 160 “Accrued income and prepaid expenses”

Accrued income and prepaid expenses amounted to €174,306,000 and €1,191,000 respectively, totalling €175,497,000.

The breakdown of accrued income was as follows:

	31/12/03	31/12/04
Accrued income on:		
- derivative contracts	145,377	9,945
- interest on loans to customers	1,989	53
- interest on securities	111,522	108,242
- interest on amounts due from banks	31,092	48,384
- other revenue	4,913	7,682
Total	294,893	174,306

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5.3 Adjustments to accrued income and prepaid expenses

No adjustments were made.



5.4 Subordinated assets

	31/12/03	31/12/04
a) Due from banks	-	-
b) Loans to customers	256	-
c) Bonds and other debt securities	112,877	112,253



Section 6 - Payables

The Bank's total inflows, the sum of Balance Sheet liabilities items 10, 20 and 30, amounted to €19,547,920,000 as follows:

	31/12/03	31/12/04
Due to banks (item 10)	8,303,377	11,978,082
Due to customers (item 20)	4,711,145	4,305,192
Securities issued (item 30)	4,674,448	3,264,646



6.1 Analysis of item 10 “Due to banks”

	31/12/03	31/12/04
a) Repurchase agreements	6,748,389	8,126,955
b) Securities lending	190,694	550,163

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Breakdown of item 10 “Due to banks”

Amounts due to banks totalled €11,978,082,000 as follows:

	31/12/03	31/12/04
Due to central banks:		
- advances	-	24,354
- repurchase agreements	801,122	1,090
Due to other banks:		
- deposits	1,295,414	3,251,076
- repurchase agreements	5,947,267	8,125,864
- securities lending	190,694	550,163
- current accounts	68,871	25,535
- other	9	-
Total	8,303,377	11,978,082

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The breakdown of the item “Securities loaned” was as follows:

	31/12/03	31/12/04
Loans for securities lending transactions	70,978	192,606
Repurchase agreements for securities lending transactions	119,716	357,557

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6.2 Breakdown of item 20 “Due to customers”

	31/12/03	31/12/04
a) Repurchase agreements	4,112,688	3,142,680
b) Securities lending	164,285	810,258



Analysis of item 20 “Due to customers”

Direct customer deposits totalled €4,305,192,000 as follows:

	31/12/03	31/12/04
Current accounts	209,437	105,958
Repurchase agreements	4,112,688	3,142,680
Securities lending	164,285	810,258
Other	224,735	246,296
Total	4,711,145	4,305,192

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



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

	31/12/03	31/12/04
Loans for securities lending transactions	37,520	501,759
Repurchase agreements for securities lending transactions	126,765	308,499



6.3 Breakdown of item 30 “Securities issued”

	31/12/03	31/12/04
Securities with maturities of three months or less	85,000	-
Securities with maturities of between three months and one year	905,512	706,417
Securities with maturities of between one and five years	3,389,817	2,068,914
Securities with maturities of more than five years	294,119	489,315
Total	4,674,448	3,264,646

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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 €38,937,000 as follows:

	31/12/03	31/12/04
Provision for employee severance indemnities	6,867	7,457
Provisions for risks and charges:		
- pensions and similar obligations	-	-
- taxation	20,706	10,303
- consolidation reserve for future risks and charges	1,807	904
- other provisions	6,596	5,064
Allowance for possible loan losses	19,342	15,209

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Changes in item 70 “Provision for employee severance indemnities”

Opening balance	6,867
Minus:	
- severance indemnities paid	(439)
- authorised advances	(50)
- amounts transferred to the Pension Fund	(1,107)
- other increases	(7)
Plus:	
- provision for the year	2,193
- other increases	-
Closing balance	7,457

The item “Other decreases” comprised €7,000 regarding the deconsolidation of Obiettivo SGR.



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 €15,209,000.



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

A. opening balance	19,342
B. increases	
B1. Allocations	
B2. Other increases	
C. Decreases	
C1. Utilisation	
C2. Other decreases	(4,133)
D. Closing balance	15,209

The item “Other decreases” comprised €4,133,000 regarding the deconsolidation of IMI Bank Lux.



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

Opening balance	6,596
Minus:	
- Utilisation	(2,184)
- Other increases	(665)
Plus:	
- Provision for the year	1,317
- Other increases	-
Balance as at 31 December 2004	5,064

The utilisation of €2,184,000 related to the settlement of disputes with customers regarding services rendered. Other decreases included a €580,000 increase in allocations for said risks, which were recorded in the Statement of Income for the period and €58,000 regarding the deconsolidation of Obiettivo SGR following its sale to Sanpaolo IMI Wealth Management SpA.

The provision for the year of €1,317,000 regarded personnel expenses and therefore has a balancing entry under item 80.a in the Statement of Income.

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Changes in item 80 c) “Provisions for risks and charges - consolidation fund for future risks and charges”

Opening balance	1,807
Minus:	
- utilisation	(903)
- other decreases	
Plus:	
- provision for the year	
- other increases	
Balance as at 31 December 2004	904

This fund regarded the equity investment in IW Bank SpA. In consideration both

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of the positive performance of subsidiary IW Bank in the last two years and of its growth plans, the provision previously set aside was reduced by half during the financial year.

The utilisation of this fund has a balancing entry under item 220 of the Statement of Income.



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

Opening balance	20,706
Minus:	
- utilisation	(11,595)
- other increases	(6,382)
Plus:	
- provision for current taxes for the year	1,699
- other increases	5,876
Balance as at 31 December 2004	10,303

The item “Other decreases” included €6,290,000 regarding the deconsolidation of IMI Bank Lux S.p.A.



7.4 Changes in “Deferred tax assets”

1. Opening balance	9,802
2. Increases	
2.1 Deferred tax assets arising in the year	18,993
2.2 Other increases	-
3. Decreases	
3.1 Deferred tax assets reversed in the year	(6,325)
3.2 Other decreases	(104)
4. Closing balance	22,366



The breakdown of deferred tax assets is provided in item 5.1 of this section.

The item “Deferred tax assets arising in the year” regarded tax losses carried forward of €15,660,000, non-deductible write-downs of securities holdings totalling €1,656,000, write-downs of receivables totalling €248,000 and temporarily non-deductible costs and provisions totalling €1,429,000.

The item “Deferred tax assets reversed in the year” regarded non-deductible losses on investment securities recorded in the prior year financial statements totalling €4,989,000, the utilisation of allocations to the provisions for risks and charges totalling €912,000, costs of €103,000 that became tax-deductible as cash during the year and write-downs of equity investments that were tax-deductible in instalments, amounting to €321,000.

The item “Other decreases” included €60,000 regarding the deconsolidation of IMI Bank Lux S.p.A.

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7.5 Changes in deferred tax liabilities

1. Opening balance	562
2. Increases	
2.1 Deferred tax liabilities arising in the year	5,605
2.2 Other increases	-
3. Decreases	
3.1 Deferred tax liabilities reversed in the year	-
3.2 Other decreases	(339)
4. Closing balance	5,828

The item “Deferred tax liabilities arising in the year” included €5,481,000 regarding the temporary deferment of share revaluations not yet completed.

The item “Other decreases” included €337,000 regarding the deconsolidation of IMI Bank Lux S.p.A.

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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 €489,714,000, while subordinated liabilities totalled €355,032,000, as follows:

	31/12/03	31/12/04
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	7,620	43,650
- Negative goodwill arising on consolidation (item 120)	206	14,035
- Reserve for general banking risks (item 100)	2,000	2,000
- Net income	64,806	82,769
Total Shareholders' Equity	421,892	489,714
Minority interests (item 140)	2	-
Subordinated liabilities	185,000	355,032

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

The item “Negative goodwill arising on consolidation” totalling €14,035,000 (€206,000 as at 31 December 2003) regarded the equity investment in IMI Investments S.A.

The €13,829,000 change in goodwill arising on consolidation compared to the previous financial year was due to the deconsolidation of IMI Bank (Lux) S.A.

Breakdown of item I 10 “Subordinated liabilities”

Subordinated liability	Currency	Amount (€)	Interest rate	Maturity	Advance repayment
Subordinated bond loan ⁽¹⁾ 1999-2009	EUR	32,000	Variable	10/12/09	From 10/12/04 ⁽³⁾⁽⁴⁾
Subordinated bond loan ⁽¹⁾ 2004-14	EUR	165,000,000	Variable	30/12/14	From 30/12/09 ⁽³⁾
Tier 3 subordinated bond loan 2004-07 ⁽¹⁾⁽²⁾	EUR	150,000,000	Variable	29/06/07	No
Tier 3 subordinated bond loan ⁽¹⁾⁽²⁾ 2002-05	EUR	40,000,000	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 the loans would cause the Issuing Bank's total capital reserves to fall below 100% of the total individual capital requirements.

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

⁽⁴⁾ On 14 December 2004, the Bank of Italy authorised the advance repayment of the full amount of the loan, which the Consolidating Bank had originally issued for €150m. On 30 December 2004, the Consolidating Bank reacquired a total par value of €149,968,000 of the loan concerned, which was repaid in advance on 21 January 2005. In accordance with the issue contract, the Bank will avail itself of the option of advance repayment by the next coupon date (10 June 2005). This loan was not therefore included in full in calculating the regulatory capital as at 31.12.04.

Section 9 - Other liabilities

9.1 Breakdown of item 50 "Other liabilities"

The item "Other liabilities" totalled €12,453,198,000 as follows:

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

	31/12/03	31/12/04
Technical short positions in securities	859,182	2,446,560
Due to tax authorities:		
withholding taxes	1,651	1,619
other	1,042	532
Off-balance-sheet transactions:		
interest rate contracts	4,304,672	7,823,116
foreign exchange contracts	421,148	431,087
other option contracts	745,132	838,944
credit derivatives	21,658	15,761
securities commitments	1,009	630
Options and similar instruments	596,991	793,977
Liabilities in process of settlement	94,137	38,525
Personnel expenses due	25,952	28,261
Other payables	27,015	34,186
Total	7,099,589	12,453,198

The increase in the balancing entries for the revaluation of off-balance-sheet transactions on interest rates was due to an increase in transactions and the related greater notional volumes outstanding at the end of the financial year.

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

Accrued expenses and deferred income amounted to €86,645,000 and €1,003,000 respectively, totalling €87,648,000.

The breakdown of accrued expenses was as follows:

	31/12/03	31/12/04
Accrued expenses for:		
- technical short positions in securities	9,542	31,827
- derivative contracts	129,628	5,405
- interest on securities issued	29,608	14,745
- interest on amounts due to banks	40,467	26,898
- interest on amounts due to customers	3,711	2,582
- personnel expenses and miscellaneous operating costs	283	-
- other accrued expenses	4,021	5,188
Total	217,260	86,645

Accrued expenses regarding interest on amounts due to banks and customers principally related to repurchase agreements in place at the end of the financial year.

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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"

	31/12/03	31/12/04
(a) Commercial guarantees	369	369
(b) Financial guarantees	-	-
(c) Assets lodged in guarantee	43,001	-



10.2 Breakdown of item 20 "Commitments"

	31/12/03	31/12/04
a) Commitments to grant finance (certain to be called on)	4,659,864	4,612,801
<i>including: - securities receivable for transactions to be settled</i>	3,062,041	2,368,076
- deposits and loans to be made	1,587,823	2,234,725
- margins on irrevocable lines of credit	10,000	10,000
b) Commitments to grant finance (not certain to be called on)	714,741	1,277,979
<i>including: - put options on securities</i>	714,729	1,240,406
- margins on revocable lines of credit	-	-
- commitments regarding membership of <i>EI.T.D.</i> <i>(Italian Interbank Deposit Protection Fund).</i>	12	12



Breakdown of item 30 "Credit derivatives"

This item comprised protection sold totalling €798,807,000 as at 31 December 2004. Protection sold as at 31 December 2003 totalled €318,161,000. 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

	31/12/03	31/12/04
a) Derivatives transactions	31,407	48,011
b) Securities lending transactions	18,188	-
c) Repurchase agreements	7,011,734	6,501,862
d) Clearing transactions	-	-
e) BI-REL (Bank of Italy real-time gross settlement system) transactions	582,388	704,991
Total	7,643,717	7,254,864

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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 Consolidating Bank as part of the Group's centralised liquidity management (unused lines of credit as at 31 December 2004: €1,526m).

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10.5 Forward transactions

	2003			2004		
	Hedging	Trading	Other transactions	Hedging	Trading	Other transactions
1. Purchase/sale of						
1.1 Securities						
- purchases	468,967	2,593,075	-	-	2,368,076	
- sales	15,240	2,032,174	-	-	2,401,621	
1.2 Currency						
- cross-currency	328	183,738	-	-	186,591	
- purchases against Euro	19,858	2,256,135	-	15,720	1,533,939	
- sales against Euro	16,346	2,839,348	-	121,922	1,639,918	
2. Deposits and loans						
- to be disbursed	-	-	1,587,823	-	-	2,234,725
- to be received	-	-	2,641,659	-	-	4,967,634
3. Derivative contracts						
3.1 With exchange of capital						
a) Securities						
- purchases	-	1,962,978	-	-	4,881,546	
- sales	-	2,002,936	-	418,500	2,326,719	
b) Currency						
- cross-currency	-	1,366,169	-	-	4,860,256	
- purchases against Euro	-	9,428,450	-	-	8,447,883	
- sales against Euro	-	7,179,224	-	-	8,500,743	
c) Other instruments						
- purchases	-	-	-	-	-	-
- sales	-	-	-	-	-	-
3.2 Without exchange of capital						
a) Currency						
- cross-currency	-	-	-	-	25,950	
- purchases against Euro	-	7,406	-	-	9,136	
- sales against euro	-	17,895	-	-	18,472	
b) Other instruments						
- purchases	8,780	204,819,110	326,937	426,166,267		247,421
- sales	418,500	244,358,158	3,889,769	449,666,012		3,872,675

The Consolidating 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 €4,120,096,000 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 2004. Each contract is recorded both at purchase and at sale.

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	3,832,120	4,065,544	4,065,544	3,832,120

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The notional values of the outstanding transactions as at 31 December 2003 were as follows:

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

The internal hedging transactions valued on the hedging units side had potential losses of €23,551,000 as at 31 December 2004, which were not recorded in the accounts (€75,583,000 as at 31 December 2003). 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.

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10.6 Credit derivatives

	31/12/03 Trading	31/12/03 Other transactions	31/12/04 Trading	31/12/04 Other transactions
1. Protection purchases				
1.1 With exchange of capital		-		
Type of contract:				
credit default swap	321,000		832,683	149,518
1.2 Without exchange of capital	-	-	-	-
2. Protection sales				
2.1 With exchange of capital				
Type of contract:				
credit default swap	318,161		798,807	
2.2 Without exchange of capital	-	-	-	-



Breakdown of transactions in credit derivatives

	31/12/03 Trading	31/12/03 Other transactions	31/12/04 Trading	31/12/04 Other transactions
Protection purchases				
- Banks	242,000	-	595,000	149,518
- Financial institutions	79,000	-	237,683	
Total	321,000	-	832,683	149,518
Protection sales				
- Banks	152,000	-	641,661	-
- Financial institutions	52,000	-	156,671	-
- Insurance Companies	114,161	-	475	-
Total	318,161	-	798,807	-

The protection purchases totalling €149,518,000 shown in the column “Other transactions” related to credit default swap transactions entered into by the bank to hedge the credit risk regarding special loans granted to a closed mutual fund.



Section II - Distribution of assets and liabilities

II.1 Significant exposures

The Consolidating Bank had 8 positions that exceeded 10% of the regulatory capital with a risk-weighted total of €737,444,000. None of these positions exceeded 40% of the regulatory capital and there was therefore no further capital requirement for concentration risk.

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II.2 Distribution of loans to customers by category of borrower

	31/12/03	31/12/04
a) governments	-	-
b) other public entities	-	-
c) non-financial companies	118	118
d) financial institutions	1,097,132	2,545,260
e) family businesses	-	-
f) other operators	235	-
Total	1,097,485	2,545,378

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II.3 Distribution of loans to Italian-resident non-financial and family businesses

	31/12/03	31/12/04
f) Other services	118	118

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II.4 Distribution of guarantees issued by main counterparty categories

	31/12/03	31/12/04
a) governments	-	-
b) other public entities	-	-
c) banks	369	369
d) non-financial companies	-	-
e) financial institutions	43,001	-
f) family businesses	-	-
g) other operators	-	-
Total	43,370	369

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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	1,531,103	5,223,109	756,129
1.2 Loans to customers	406,477	1,797,801	341,100
1.3 Securities	6,426,027	5,436,537	184,625
2. Liabilities			
2.1 Due to banks	6,046,637	5,855,728	75,717
2.2 Due to customers	2,119,974	1,423,887	761,331
2.3 Securities issued	3,264,646	-	-
2.4 Other accounts	315,032	40,000	-
3. Guarantees and commitments	4,298,603	2,302,431	88,922

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11.6 Maturities of assets and liabilities

SPECIFIED MATURITY

Item / Residual duration	on demand	up to 3 months	between 3 months and 12 months
ASSETS			
Treasury Securities eligible for refinancing	-	27,447	124,726
Due from banks	1,109,349	5,874,738	504,763
Loans to customers	323,050	1,916,086	6,939
Bonds and other debt securities	-	111,264	2,280,254
“Off-balance-sheet” transactions	2,574,484	274,572,445	228,986,312
Total assets	4,006,883	282,501,980	231,902,994
LIABILITIES			
Due to banks	3,055,470	5,421,250	3,502,367
Due to customers	1,052,048	3,253,142	2
Securities issued			
Bonds	-	-	706,417
Subordinated liabilities	-	40,000	-
“Off-balance-sheet” transactions	5,635,059	299,704,591	208,453,077
Total liabilities	9,742,577	308,417,978	212,661,863

■

**UNSPECIFIED
MATURITY**

	between 1 and 5 years		over 5 years		
	fixed rate	floating rate	fixed rate	floating rate	
	119,762	77,547	287,820	152,517	-
	-	-	-	-	21,491
	-	-	-	299,035	268
	4,239,230	745,110	905,175	676,048	82
	167,691,512	101,162,511	79,228,789	1,819,241	
	172,050,504	101,985,168	80,421,784	2,946,841	21,841
	-	-	-	-	-
	-	-	-	-	-
	2,057,094	11,820	385,315	104,000	-
	-	150,032	-	165,000	-
	164,600,062	97,475,702	79,124,987	1,041,816	-
	166,657,156	97,637,554	79,510,302	1,310,816	

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11.7 Assets and liabilities denominated in foreign currencies

	31/12/03	31/12/04		31/12/03	31/12/04
ASSETS			LIABILITIES		
1. Due from banks	874,988	1,019,459	1. Due to banks	65,076	265,893
2. Loans to customers	84,401	788,936	2. Due to customers	810,935	1,246,681
3. Securities	125,276	149,905	3. Securities issued	27,663	25,622
4. Equity investments	1,039	519	4. Other accounts	-	-
5. Other accounts	14	13			

The spot exchange rates as at 31 December 2004 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 31/12/03	Spot 31/12/04	% change
US dollar	1.2630	1.3621	+7.85%
Pound sterling	0.7048	0.70505	+0.04%
Swiss franc	1.5579	1.5429	-0.96%
Japanese yen	135.0500	139.65	+3.41%
Canadian dollar	1.6234	1.6416	+1.12%

11.8 Securitisation transactions. Securities held following securitisation of third parties.

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

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

	Performing/ Non-performing	Senior Notes	Mezzanine Notes	Junior Notes	Total
Mortgages	Performing	2,963			2,963
	Non-performing				
Commercial/industrial/ agricultural mortgages	Performing	1,016			1,016
	Non-performing				
Leasing	Performing	8,100			8,100
	Non-performing				
Public real estate	Performing	20,214		91	20,305
	Non-performing				
National insurance contributions	Performing	25,497			25,497
	Problem				
Other loans	Performing	2,763	9,900		12,663
	Non-performing				
Total		60,553	9,900	91	70,544

The risks and financial results connected with the positions in securities resulting from securitisation 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.

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:

	31/12/03	31/12/04
a) Purchases		
1) settled	112,299,069	112,847,954
2) not-settled	4,725	10,615
b) Sales		
1) settled	123,834,037	99,894,365
2) not-settled	2,093	12,355

■

12.2 Asset management

Activity discontinued during the financial year.

■

12.3 Custody and administration of securities

	31/12/03	31/12/04
(a) Third-party securities held on deposit	14,803,699	9,785,166
(b) Third-party securities deposited with third parties	14,803,699	9,785,166
(c) Securities deposited with third parties	9,046,352	9,903,353

■

Part C - Notes to the Consolidated Statement of Income

Section I - Interest

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

	2003	2004
(a) on amounts due from banks	171,898	111,422
<i>including: deposits with central banks</i>	1,020	826
(b) on loans to customers	50,233	87,002
<i>including: loans using third-party funds under administration</i>		
(c) on debt securities	275,504	427,074
(d) other interest income	450	1
(e) net differential on hedging transactions	-	-
Total	498,085	625,499

Interest income on amounts due from banks included interest on repurchase agreements totalling €94,646. Interest income on loans to customers included interest on repurchase agreements totalling €21,527,000.

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

	2003	2004
(a) on amounts due to banks	200,978	276,937
(b) on amounts due to customers	158,418	153,242
(c) on securities issued	91,421	72,313
<i>including: certificates of deposit</i>	22,892	
(d) on third-party funds under administration	-	-
(e) on subordinated liabilities	6,624	7,511
(f) net differential on hedging transactions	14,198	1,602
Total	471,639	511,605

Interest expense on amounts due to banks included interest on repurchase agreements totalling €236,822.

Interest expense on amounts due to customers included interest on repurchase agreements totalling €70,295.



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

a) on assets denominated in foreign currencies	22,036
--	--------



I.4 Breakdown of item 20 “Interest expenses and similar charges”

b) on liabilities denominated in foreign currencies	16,770
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Section 2 - Commission

2.2 Breakdown of item 40 “Commission income”

	2003	2004
a) Guarantees issued	-	
b) Credit derivatives		
c) Asset management, brokerage and advisory services:		
1. securities brokerage	40,955	40,416
2. currency brokerage	-	-
3. asset management		
3.1 individual	-	-
3.2 collective	1,559	
4. custody and administration of securities	3,540	1,111
5. depository bank	351	51
6. placement of securities	25,844	26,143
7. acceptance of instructions	5,749	4,135
8. advisory services	24,513	13,416
9. provision of third-party services		
9.1 asset management		
a) individual	-	-
b) collective	-	-
9.2 insurance products	-	-
9.3 other products	-	-
d) Collection and payment services	-	-
e) Securitisation servicing	-	-
f) Tax collection services	-	-
g) Other services	949	716
Total	103,460	85,988

The item “Advisory services” included €6,948,000 fees for advisory services regarding guaranteed/protected capital products issued by third parties (on a notional €2,147m).

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

	2003	2004
a) Own branches:		
1. asset management	1,559	-
2. placement of securities	25,844	26,143
3. third-party products and services	-	-
b) Other channels		
1. asset management	-	-
2. placement of securities	-	-
3. third-party products and services	-	-



2.4 Breakdown of item 50 “Commission expenses”

	2003	2004
a) Guarantees issued	-	-
b) Credit derivatives	-	-
c) Asset management, brokerage and advisory services		
1. securities brokerage	20,112	19,082
2. currency brokerage	149	409
3. asset management		
3.1 proprietary portfolio	-	-
3.2 third-party portfolio	8	-
4. custody and administration of securities	4,039	3,963
5. placement of securities	39,108	49,571
6. sales of securities, financial products and services through non-branch channels	-	-
d) Collection and payment services	1,253	2
e) Other services	7,668	3,688
Total	72,337	76,715



Section 3 - Trading profits and losses on financial transactions

3.1 Breakdown of item 60 "Profits and losses on financial transactions"

Item/Transactions	Securities transactions 2004	Currency transactions 2004	Other transactions 2004
A.1 Revaluations	157,365	XX	6,364,265
A.2 Write-downs	(119,607)	XX	(6,323,549)
B Other profits/losses	75,839	4,608	(164,108)
Total	113,597	4,608	(123,392)
1. Italian government bonds	22,935		
2. Other debt securities	47,924		
3. Equities	194,842		
4. Securities derivatives	(152,104)		

■

Item/Transactions	Securities transactions 2003	Currency transactions 2003	Other transactions 2003
A.1 Revaluations	130,085	XX	1,748,579
A.2 Write-downs	(144,787)	XX	(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)		

■

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Section 4 - Administrative and operating expenses

Administrative and operating expenses totalled €131,480,000 as follows.

	2003	2004
Payroll costs	74,464	73,491
<i>including: wages and salaries</i>	57,257	56,242
<i>social security contributions</i>	14,233	14,301
<i>provision for employee severance indemnities</i>	2,224	2,193
<i>supplementary pension fund</i>	750	755
Other administrative and operating expenses	62,799	57,989
<i>including: building rent and maintenance</i>	4,476	4,049
<i>equipment and hardware maintenance</i>	3,023	2,710
<i>software maintenance and upgrades</i>	8,721	9,976
<i>postage and telegraphic expenses</i>	1,042	1,052
<i>consultancy</i>	4,275	2,720
<i>processing by third parties and market access</i>	9,348	8,317
<i>security</i>	33	-
<i>power</i>	345	534
<i>advertising and entertainment</i>	2,999	2,503
<i>telephone</i>	2,213	1,582
<i>equipment rental</i>	485	528
<i>insurance premiums</i>	453	464
<i>legal advice and court fees</i>	1,772	1,515
<i>cleaning</i>	430	355
<i>office supplies</i>	336	255
<i>data bank access fees</i>	10,350	10,969
<i>couriers and transport</i>	157	54
<i>maintenance of own property</i>	1	-
<i>maintenance of rented property</i>	266	376
<i>trade union dues and trade/professional association membership fees</i>	873	827
<i>secondment</i>	344	515
<i>personnel training, travel, board and lodging expenses</i>	516	47
<i>Italian Interbank Deposit Protection Fund (I.I.T.D.) actions</i>	-	-
<i>other expenses</i>	9,577	7,675
<i>tax on stock market contracts</i>	189	230
<i>indirect taxes and levies</i>	575	736
Total administrative and operating expenses	137,263	131,480

4.1 Average number of employees

Average number of employees:	2003	2004
a) Directors	51	51
b) Senior Managers	306	313
c) Other employees	290	190
Total	647	554

■

Section 5 - Adjustments, write-backs and provisions

Item 90 “Adjustments to intangible and tangible fixed assets” totalled €10,540,000 as follows:

	2003	2004
Intangible fixed assets:	11,860	9,301
- amortisation of start-up and expansion costs	49	48
- amortisation of goodwill	362	362
- amortisation of software	10,626	8,204
- amortisation of other deferred costs	687	687
- permanent write-downs of other deferred costs	136	-
Tangible fixed assets:	2,810	1,239
- depreciation of property	180	-
- depreciation of furniture and equipment	2,630	1,239
Total	14,670	10,540

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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% and 33%*

* For investments from the 2001 financial year.

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



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

Adjustments to loans totalled €750,000 and related to cautious lower forecasts regarding the collection of receivables for services rendered as recorded under assets item 150. The adjustments were based on a cautious calculation of the probability of collecting the amounts due, taking into account a series of factors, including the request actions so far carried out and the date of the loan.



Breakdown of item 130 “Write-backs of loans”

None.



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

None.

■

Section 6 - Other statement of income items

Items 30, 70, 110, 150, 160, 190, 200 and 240 were as follows:

	2003	2004
Dividends and other revenue (item 30)	225,410	79,903
Other operating income (item 70)	2,624	1,921
Other operating expenses (item 110)	(534)	(22)
Adjustments to financial fixed assets (item 150)	(640)	-
Write-backs of financial fixed assets (item 160)	-	3
Extraordinary income (item 190)	5,275	20,624
Extraordinary expenses (item 200)	(5,715)	(2,529)
Utilisation of the consolidation reserve for future risks and charges (item 220)	-	903
Income taxes for the year (item 240)	(33,750)	5,323

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

	2003	2004
Shares, quotas and other equities:		
Dividends	144,788	78,234
Tax credit	77,730	-
Equity investments:		
Dividends		
Borsa Italiana S.p.A.	1,630	1,546
Monte Titoli S.p.A.	-	19
SIA S.p.A.	104	104
SanPaolo IMI Institutional Asset Management S.G.R.	216	-
Tax credit	942	-
Total	225,410	79,903

In accordance with the new tax provisions introduced by Italian Legislative Decree No. 344/03 which came into force on 1 January 2004, share dividends received in Italy are, from the financial year under consideration, excluded from the tax basis and do not therefore carry a tax credit. This is explained in greater detail in the Report of the Directors.



6.1 Breakdown of item 70 “Other operating income”

	2003	2004
Expenses recovered	813	1,022
Sums reimbursed for services to third parties	-	-
Rental income	-	-
Sundry income and revenue	1,811	899
Total	2,624	1,921

The total shown for expenses recovered comprised €645,000 that were principally incurred in the provision of advisory services, and €377,000 secondment expenses recovered.

■

6.2 Breakdown of item 110 “Other operating expenses”

	2003	2004
Miscellaneous other expenses	534	22
Total	534	22

■

Breakdown of item 160 “Write-backs of financial fixed assets”

The item related exclusively (€3,000) to the revaluation of the equity investment in the NASDAQ held by subsidiary Banca IMI Securities Corp.

■

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6.3 Breakdown of item 190 “Extraordinary income”

	2003	2004
Out-of-period income	3,256	6,753
Gains on disposal of furniture and equipment	39	6
Gains on sale of equity investments	52	12,635
Other extraordinary income	1,928	1,230
Total	5,275	20,624

Out-of-period income included a €2,173,000 tax rebate that the UK Inland Revenue paid our London branch, the settlement of a €1,775,000 claim regarding a securities transaction in 1999, the settlement of an €806,000 dividend claim regarding a stock lending transaction in the previous financial year, and €717,000 lower expenses settled.

The item “Gains on sale of equity investments” comprised the €9,656,000 sale of the equity investments in wholly-owned subsidiaries Obiettivo S.G.R. and IMI Bank (Lux) S.A. (see Part B, Section 3.1 of these Notes to the Financial Statements) and the €2,979,000 sale of Sanpaolo IMI Asset Management S.G.R. S.p.A.

Extraordinary income included a reduction in allocations to the provisions for risks and charges following the settlement of a number outstanding accounts totalling €580,000.



6.4 Breakdown of item 200 “Extraordinary expenses”

	2003	2004
Extraordinary expenses for restructuring	508	90
Out-of-period expenses	4,465	2,398
Losses on sale of equity investments	570	31
Losses on sale of furniture and equipment	43	10
Losses on sale of intangible fixed assets	129	-
Total	5,715	2,529

The item out-of-period expenses included the €455,000 settlement of prior year liabilities, €418,000 higher taxes paid, €351,000 lower revenue than estimated in prior years and €269,000 higher prior year costs than estimated.

■

6.5 Breakdown of item 240 “Income taxes for the year”

	2003	2004
1. Current taxes	12,312	1,699
2. Change in deferred tax assets	21,305	(12,624)
3. Change in deferred tax liabilities	133	5,603
4. Income taxes for the year	33,750	(5,323)

■

Section 7 - Other information on the consolidated statement of income

7.1 Geographical distribution of revenue

	Italy	Other EU countries	Other countries
Interest income and similar revenue	611,547	706	13,246
Dividends on shares and equity investments	79,903	-	-
Commission income	81,824	-	4,164
Profits and losses on financial transactions	(17,160)	12,094	(121)
Other operating income	1,669	78	174
Total	757,783	12,878	17,463

Part D - Other information

Section 1 - Directors and Statutory Auditors

1.1 Emoluments

	2003	2004
(a) Directors	2,663	2,343
(b) Statutory Auditors	188	177

■

1.1 Loans and guarantees issued

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

■

Section 2 - Parent company

The Consolidating Bank, 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

■

Schedule I

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

	Net profit/ (Loss)	Capital, reserves and reserve for general banking risks	Shareholders' equity
Bank's financial statement balance as at 31.12.2004	70,340	383,145	453,485
Effect of consolidation of subsidiaries:			
- On a line-by-line basis	10,039	505,170	515,209
- Using the equity method	1,433	-	1,433
Consolidation adjustments			
- Book value of equity investments	-	(477,735)	(477,735)
- Dividends	(7,562)	-	(7,562)
- Other	8,519	(3,635)	4,884
Minority interests	-	-	-
Consolidated financial statement balance as at 31.12.2004	82,769	406,945	489,714

■

Schedule 2

Statement of changes in consolidated shareholders' equity in 2004.

	Share Capital	Legal reserve	Additional paid-in in capital
Balance as at 31.12.2003	180,000	36,000	131,260
Allocation of profits for the year:			
reserves			
dividends			
Sale of equity investments			
Change in reserve for general banking risks			
Other increases/(decreases)			
Exchange rate differences			
Net income/(loss) 2004			
Balance as at 31.12.2004	180,000	36,000	131,260

■

Other reserves	Reserve for general banking risks	Negative goodwill on consolidation	Net income/ (loss)	Shareholders' equity
7,620	2,000	206	64,806	421,892
37,806			(37,806)	-
			(27,000)	(27,000)
		13,829		13,829
(131)				(131)
(1,645)				(1,645)
			82,769	82,769
43,650	2,000	14,035	82,769	489,714

REPORT OF THE INDEPENDENT AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholder of BANCA D'INTERMEDIAZIONE MOBILIARE IMI S.p.A.

1. We have audited the consolidated financial statements of Banca d'Intermediazione Mobiliare IMI S.p.A. and subsidiaries as of December 31, 2004. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in Italy. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes as required by law, reference should be made to the auditors' report issued by us on April 9, 2004 .

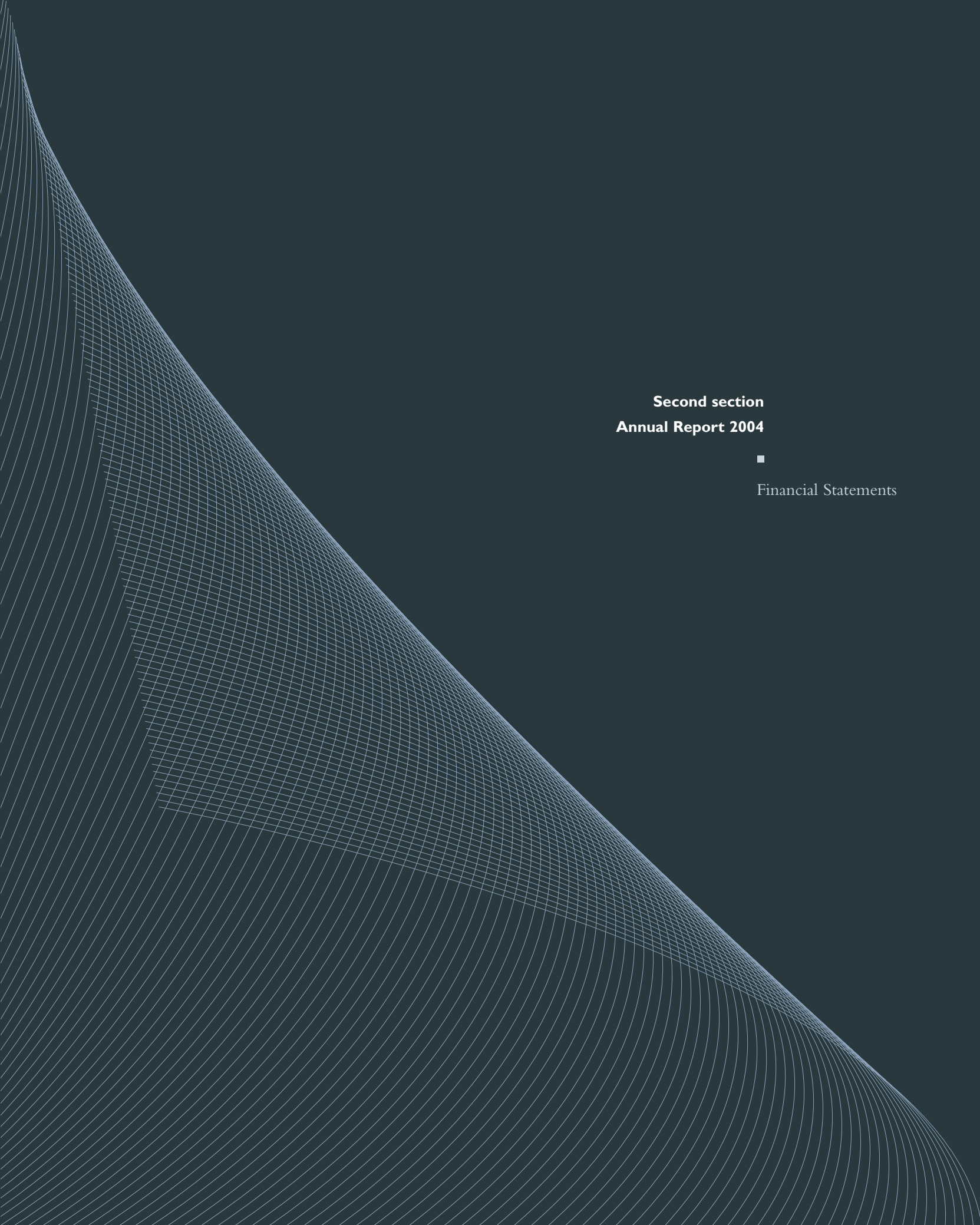
3. In our opinion, the consolidated financial statements present fairly the financial position of Banca d'Intermediazione Mobiliare IMI S.p.A. and subsidiaries as of December 31, 2004, and the results of their operations for the year then ended in accordance with the Italian law governing financial statements.

DELOITTE & TOUCHE S.p.A.

Signed by
Ezio Bonatto
Partner

Milan, Italy
April 6, 2005

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



Second section
Annual Report 2004



Financial Statements

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

Reclassified Balance Sheet

Assets (all figures in thousands of euros)	31.12.2003	31.12.2004
Cash and deposits with central banks	18	15
Loans	5,990,170	9,551,246
<i>including: - due from banks</i>	4,962,370	6,870,448
<i>- due from customers</i>	1,027,800	2,680,798
Dealing securities	10,738,878	11,743,455
<i>including: - government securities and bonds</i>	8,648,929	9,443,235
<i>- equities</i>	2,089,949	2,300,220
Fixed assets	417,026	298,854
<i>including: - equity investments</i>	404,496	291,352
<i>- tangible and intangible fixed assets</i>	12,530	7,502
Other assets	6,435,969	10,411,245
Total assets	23,582,061	32,004,815

Liabilities (all figures in thousands of euros)	31.12.2003	31.12.2004
Payables	15,784,069	18,603,026
<i>including: - due from banks</i>	8,220,297	11,731,586
<i>- due from customers</i>	3,897,970	3,606,794
<i>- securities issued</i>	3,665,802	3,264,646
Other liabilities	7,117,134	12,532,411
Provisions	24,504	19,652
<i>including: - provisions for employee severance indemnities</i>	6,860	7,457
<i>- provision for taxation</i>	11,181	7,178
<i>- provisions for risks and charges</i>	6,463	5,017
Allowance for possible loan losses	21,209	21,209
Subordinated liabilities	225,000	375,032
Reserve for general banking risks	2,000	2,000
Shareholders' equity	408,145	451,485
<i>including: - share capital</i>	180,000	180,000
<i>- reserves</i>	169,319	201,145
<i>- net profit (loss) for the year</i>	58,826	70,340
Total liabilities and shareholders' equity	23,582,061	32,004,815

Analysis

Due from banks

Current accounts	160,222
Repurchase transactions	5,694,879
Deposits/loans	465,184
Securities loaned	550,163
Total	6,870,448

Due from customers

Current accounts	28,238
Repurchase transactions	1,079,730
Deposits/loans	760,910
Securities loaned	811,652
Other loans	268
Total	2,680,798

Other assets

Due from tax authorities	88,961
Deferred tax assets	21,867
Valuations	8,873,488
Options	1,021,611
Accrued income and prepaid expenses	175,253
Other assets	230,065
Total	10,411,245

Due to banks

Current accounts	49,893
Repurchase transactions	8,126,954
Deposits/loans	3,004,576
Securities loaned	550,163
Total	11,731,586

Due to customers

Current accounts	105,958
Repurchase transactions	2,442,886
Deposits/loans	246,298
Securities loaned	811,652
Total	3,606,794

Other liabilities

Technical short positions in securities	2,446,560
Valuations of off balance sheet	9,105,286
Options	793,976
Accrued expenses and deferred income	87,956
Other liabilities	98,633
Total	12,532,411

Reclassified Statement of Income

(All figures in thousands of euros)	2003	2004
Net interest income	26,715	115,007
Net income from financial transactions and stock dividends	186,326	69,966
Net commission income	18,933	3,586
Other net operating income	2,344	1,772
Total net operating income	234,318	190,331
Administrative expenses	(122,927)	(125,079)
Operating profit/(loss)	111,391	65,252
Adjustments and provisions	(19,729)	(11,094)
Operating profit/(loss) before extraordinary items	91,662	54,158
Extraordinary items, net	(542)	11,009
Profit/(loss) before taxes	91,120	65,167
Income taxes	(32,294)	5,173
Net profit/(loss)	58,826	70,340



- **Report of the Directors**

Results

The 2004 financial year closed with net income of €70.3m (€58.8m in 2003), and a gross operating margin of €56.6m (€98.0m in 2003), comprising €180.6m net revenue (€221.6m in 2003) and €124.0m structural costs (€123.6m in 2003).

The main reclassified aggregate results are shown below.

All figures in thousands of euros	2003	2004
Risk Management	123,503	109,251
Sales	54,233	47,283
Corporate Finance	10,402	8,925
Capital Markets	33,456	15,142
Total revenue	221,594	180,601
Personnel expenses	(68,261)	(70,265)
Overhead costs	(41,853)	(43,390)
Depreciation and amortisation	(13,502)	(10,344)
Total costs	(123,616)	(123,999)
Gross operating margin	97,978	56,602
Provisions and adjustments of loans	(3,795)	(0,750)
Adjustments of equity investments	(0,432)	-
Reserve for general banking risks	(2,000)	-
Extraordinary income (expenses)	(0,632)	9,315
Income before taxes	91,120	65,167
Taxes for the year	(32,294)	5,172
Net profit for the year	58,826	70,340

The net operating result - gross operating margin net of provisions, adjustments and relevant tax items - was up on the previous financial year at €63.1m as at 31 December 2004 compared to €62.1m as at 31 December 2003.

Net revenue and the gross operating margin in 2004 were not fully comparable with the previous financial year as a result of the different tax treatment in 2004 of certain types of income from trading securities, which have been partially excluded from the basis of calculation of Italian corporate income tax (IRES) from 2004. At

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the same time, the tax rate for the period was lower as a result of a decrease in gross revenue and therefore a reduced operating margin, with taxes in 2003 having totalled €32.3m whereas taxes of €5.2m were recovered in 2004.

In order to enable a meaningful comparison of the figures for the two years, the 2004 operating results were recalculated to present them gross, including the revenue excluded from the tax basis so as to make it comparable with revenue in 2003, calculating a related notional tax rate.⁽¹⁾ The result of this recalculation is shown below.

(All figures in thousands of euros)	2003	2004	2004 Pro-forma
Risk Management	123,503	109,251	146,466
Sales	54,233	47,283	47,283
Corporate Finance	10,402	8,925	12,450
Capital Markets	33,456	15,142	15,142
Total revenue	221,594	180,601	221,341
Personnel expenses	(68,261)	(70,265)	(70,265)
Overhead costs	(41,853)	(43,390)	(43,390)
Depreciation and amortisation	(13,502)	(10,344)	(10,344)
Total costs	(123,616)	(123,999)	(123,999)
Gross operating margin	97,978	56,602	97,341
Provisions and adjustments of loans	(3,795)	(0,750)	(0,750)
Adjustments of equity investments	(0,432)	0,000	0,000
Reserve for general banking risks	(2,000)	0,000	0,000
Extraordinary income (expenses)	(0,632)	9,315	9,315
Income before taxes	91,120	65,167	105,907
Taxes for the year	(32,294)	5,173	(35,567)
Net profit for the year	58,826	70,340	70,340

⁽¹⁾ The restatement mainly refers to dividends and taxation (the 2004 items are restated on a consistent basis with the 2003 items) and includes a virtual tax credit in accordance with the imputation system provided for by Italian law in the previous year.

Extraordinary net income of €9.3m contributed to the result for the period, largely due to gains on the sale of shares to related parties and other non-recurring revenue and out-of-period income.

The adjustments to loans related to cautious lower forecasts regarding the collection of receivables for financial services rendered.

During the year the Bank's previous subsidiary IMI Solutions SpA merged with the Bank with legal effect from 3 November 2004, but with retroactive effect for accounting and tax purposes from 1 January 2004. At the date balance sheet information was last available (30 June 2004), IMI Solutions SpA had total assets of only €0.4m (€0.5m as at 31 December 2003) and a loss for the period of €0.3m (-€0.5m in 2003). Considering the negligible impact of the merger on the financial and income aggregate results, it was not considered necessary to provide further pro-forma information.

Risk Management & Sales activities

Net revenue from **risk management** (€109.3m in 2004 compared to €123.5m in 2003) was made up of the gross operating profit of the fixed income, credit trading and proprietary trading unit, totalling €86.2m (€72.8m in 2003), of equity trading totalling €41.9m (€65.3m in 2003) and the management of own funds/other assets of -€1.9m (€0.3m in 2003), with directly-attributable costs of €17.0m (€14.9m in 2003). When taking the tax effect of the revenue excluded from the tax basis into account (the gross presentation described above), the revenue from Risk Management activities for the 2004 financial year came to €146.5m as a result of increased pro-forma revenue from the equity sector, totalling €78.3m, and from own funds/other assets of -€1.1m.

Looking at the individual sectors of activity, in the global fixed income area, interest rate derivatives benefited from the strong performance of market making in structured interest rate derivatives, which were distributed both through independent sales channels and the Group's networks. In this area, it should be noted that the Group's networks launched our "Domus Block" capped variable-rate mortgages in the fourth quarter, a product that was designed in conjunction with Banca IMI, which arranges the hedging of the financial risk. Our Inflation-Linked Reflex EuroMTS certificate is another retail product worthy of note, which was launched towards the end of the year. A number of structured finance transactions also made an important contribution. Exchange rate activities likewise made a significant contribution thanks to a number of major currencies declining against the dollar. Towards the end of the year the unit also saw an increase in business volumes connected with the demand generated by the conversion of our customer's risk management procedures to procedures aligned with the new financial reporting standards.

Global credit trading in corporate bonds saw a fall in transactions in spread bonds

on the secondary market and decline in the total value of credit spreads. The financial result was mainly driven in the last part of the year by the continually narrowing spreads of certain high-yield bonds. Banca IMI was less active on the primary issue market, although it did act as lead manager for the first issue of a high-yield bond (IT Holding). A salient project where innovative credit instruments were concerned saw Banca IMI acting as Co-lead in a synthetic securitisation transaction for the distribution of “ABS CDO” 5-year securities in Italy in 4 tranches. In addition, the Bank continued to focus attention on the internal correlation of Global Credit Trading, with the creation of a credit derivatives desk. IMIDIRECT continued to make a positive contribution despite a fall in retail business.

The global equity trading sector put in much stronger performance than in the previous financial year, with revenue up 20% compared to the 2003 financial year after taking the adjustments for the gross presentation described above into account. In particular, while steadily falling volatility limited business in volatile products, which continued to show signs of weakness, the situation was decidedly more favourable where equity funding and lending products were concerned, confirming the strong trend that had emerged the previous year, with a significant increase in volumes following the acquisition of important mandates for stock lending activities from mutual fund managers.

Market making saw the Bank acting as principal market maker in the Italian Stock Exchange’s S&P/MIB futures and Eurex DJ Italy Titans futures, and confirmed its position as the principal Italian broker in the derivatives listed on the Eurex stock exchange. The certificates and ETF sector also achieved significant performance levels, with the results for guaranteed capital and structured products up on the previous financial year thanks to improved hedging strategies, even though customer business was stable.

Net revenue from **distribution activities** (€47.3m in 2004 compared to €54.2m in 2003) comprised gross operating profit from the fixed income sales sector (€25.5m) and equity & cash derivatives (listed and corporate) sector (€32.2m), with directly-attributable costs of €10.5m.

Focussing on individual sectors of activity, *fixed income sales* declined substantially on the corporate bonds market as a result of a fall in the need for debt refinancing and a net decrease in the portfolio turnover of institutional investors. Underlying these phenomena were the known vicissitudes of corporate Italy, which increased the risk aversion of banking and retail investors to all credit products, while the prospects for a reversal in the falling interest rate trend on the other hand generated a clear preference for low-duration, variable-rate liquid assets. The success of our reallocating the abundant liquid assets in all the various types of institutional portfolios should be seen within this context. The placement of new issues in the financial and corporate sectors benefited most from this.

Revenue from global brokerage activities (regulated cash markets for both stocks and bonds) remained largely stable, although its composition differed from the previous financial year, with a sharp increase in revenue from foreign stocks and domestic bonds, while the percentage of derivatives was stable and that of domestic stocks slightly down. Developments included the further consolidation of our direct presence on foreign stock markets, with the addition of the Euronext platform that includes the regulated markets of France, Belgium and Holland.

Banca IMI continued to attract strong demand for its structured bond products for retail customers, offered through the Group's networks; particularly for index-linked issues mainly linked to interest and exchange rates, Italian/European inflation and mutual funds. During the course of the year, the Bank took care of the issue of structured bonds issued by banks in the Group totalling approximately €2.0bn, plus a further €628m issued directly by Banca IMI.

Corporate derivatives sales declined - in line with our market competitors - where the volume of derivative instruments traded with large corporates was concerned. There were a number of different factors underlying this phenomenon, including the widely-reported financial scandals that eroded confidence in derivatives. This contraction in the large corporate sector was however more than offset by growth in the mid-corporate sector and banks in the network, with the beginning of new and consolidation of existing relationships.

Corporate Finance & Capital Market activities

The **equity capital markets** sector saw the international stock markets recover significantly during the year, taking the indices back to their Spring 2002 highs. In particular, the EuroStoxx rose by approximately 4.3% and the Mibtel around 18%. As part of this trend, there was a significant increase in the number and volume of transactions, with a particularly strong recovery in IPOs. The Italian market also showed signs of recovery with respect to the previous year, particularly due to the third tranche of ENEL shares (ENEL III), which taken as a whole formed the largest share placement for the year.

The Bank maintained its traditional market leadership within this scenario, participating as a member of the management group in the public offering of Terna shares (€1.7bn) and as a member of the management group in the public offering, and as Global Manager in the Enel III institutional offering (€7.6bn). We were also involved as Co-Global Coordinator and Joint Lead Manager in the public offering, and as Joint Bookrunner for the institutional offering forming part of the Geox IPO (€384m), which was highly successful in terms both of being heavily oversubscribed (approximately 10 times) and of the share's market performance.

The Bank in addition acted as Coordinator and Sole Underwriter of the Buzzi Unicem capital increase (€205.8m), and carried out a private placement of 5.6% of the share capital of Lottomatica, a transaction that attracted strong interest from Italian and international primary investors, while representing one of the biggest private placements in Italy in 2004, with a total value of €107.5m being placed in a single day. Another successful private placement was for 6.6% of the share capital of Isagro (€4.3m). We likewise completed a further four tranches of Mondo TV's capital increase (for a total of €14.8m) and two tranches of Buongiorno Vitaminic's capital increase (up to €8.1m).

At an international level, the Bank acted as Co-Manager in the institutional offering of General Electric ordinary shares (USD 3.8bn) and in the Genworth Financial

institutional offering (USD 2.9bn), two of the biggest transactions on the markets during the year.

The Bank's strong focus on providing support to listed companies in their relations with investors and the market also saw us acquire corporate broking mandates from Astaldi, Trevi and Esprinet, as well as a commission for specialist support on the New Market from I.Net, bringing the total number of current mandates to 13.

The market's difficulties nevertheless led to a decline in revenue in this sector, which fell from €17.2m in 2003 to €9.0m in 2004.

There was a significant reduction in **corporate finance advisory** and **structured finance** transactions on the domestic market compared to 2003, in terms both of their total number and total value, albeit with a partial recovery in the latter part of the year. The Bank was nevertheless able to continue performing well in this scenario, with revenue of €8.9m (€12.5m taking the adjustments for gross presentation described previously into account, compared to €10.4m in 2003).

The principal Corporate Finance Advisory transactions completed by the Bank in the Energy/Utilities sector included providing support to Edison regarding the sale of Edison T&S and its related high-pressure gas transport network to the Clessidra fund, as well as the ISE valuation. In addition, the Bank also provided support to AMGA and SMAT in Italgas' acquisition of the majority stake in Acque Potabili.

In the TMT (telecoms, media and technology) sector, the Bank assisted Finmeccanica in its sale of a stake of approximately 10% in ST Microelectronics to Cassa Depositi e Prestiti. We also provided advisory services to SIA regarding the formation of a joint venture with GL-Trade, to Ipse 2000 in the valuation of its assets, and in the banking sector provided support to CR Firenze in its acquisition of CR Spezia and to Banca Carige in its acquisition of CR Carrara. Also worthy of note were advisory services provided to ITHolding regarding the sale of its Romeo Gigli and Gentry di Portofino brands, as well as advisory services to Manuli on the reverse merger acquisition of FinM by Manuli.

In addition, we continued to provide advisory services to the FIAT Group in 2004, regarding both our global advisory mandate and specific projects (such as the sale of Worknet, a transaction that is nearing completion). We also continued providing advisory services to the Albanian Government on the privatisation of its telecoms (fixed telephony) and energy (oil and gas) activities.

Salient amongst our structured finance activities was the service provided to the Ministry of the Economy and Finance for the structuring and placement of the F.I.P. fund (*Fondo Immobili Pubblici* – Public Buildings Fund) as part of the process for privatising Italy's public real estate. As part of the phase for structuring this fund, which was completed at the end of the year, the Bank underwrote bridge financing for the fund itself and acquired a number of units in the FIP fund with a view to subsequently both selling the units and, following a planned securitisation transaction, placing the said financing.

Other structured finance transactions during the reference period included the advance repayment of the financing taken out by Wide Design and the sale of a block of Dyckerhoff shares held by the Bank, as well as the structuring of the hedging arrangements for IMI Investimenti's equity investments.

Where the Bank's **debt capital market** activities were concerned, the particularly difficult market situation in 2004 impacted on total revenue, which came to €6.2m compared to €16.3m in the previous financial year. Overall, the Bank acted as Lead Manager & Bookrunner in 39 bond issues with a total value of €17bn, playing a significant role in the transactions of foreign issuers.

Breaking this down by sector, in the government bonds sector, the Bank took part in the placement of inflation-linked treasury bonds (€1.1bn), continuing the business launched last year, and played the role of Sole Lead Manager & Bookrunner in a private placement by Greece with a total value of €1bn.

In the financial institutions sector, the Bank acted as Joint Lead Manager & Bookrunner for senior issues by Banca Antonveneta, AngloIrish Bank, C.R. Rimini, C.R. Forlì, Mediocredito del Trentino Alto Adige, Banca delle Marche, Veneto Banca and Landsbanki Islands, as well as for subordinated issues by Sanpaolo IMI and Unibanca. We also acted as Arranger for Cassa di Risparmio di Bolzano's Euro Medium Term Note Programme.

Corporate issues saw the Bank act as Lead Manager & Bookrunner for issues by ENEL (€1.5bn) and General Electric (€1.0bn), as Joint Lead Manager & Bookrunner for a high yield issue by IT Holding, and as Financial Advisor, Collection Coordinator and appointed Broker for the Public Purchase Offer launched by IT Holding for a bond on the market.

In the securitisation sector, the Bank helped guide the market debut of the securitisation of leasing payments by Sanpaolo Leasint (SPLIT 2, for a total €1.8bn) and the SCIC 2 transaction for a total of €1.3bn. Lastly, in the local authorities sector, the Bank acted in an advisory capacity regarding the ratings of Catania City Council, and was Joint Lead Manager & Bookrunner for the inaugural issue related to the same programme for Naples City Council, as well as for an issue by the Friuli Venezia Giulia Regional Council.

Operating costs

Operating costs totalled €124.0m (€123.6m as at 31 December 2003), and were split as follows:

- Personnel expenses came to €70.3m (including provisions for employees) compared to €68.3m as at 31 December 2003. Staff numbers averaged 523 during the year (530 in 2003) distributed as follows:
 - 517 at our Milan head office (517 in 2003);
 - 6 at our London branch (10 in 2003) ⁽²⁾.

⁽²⁾ Our Tokyo branch was also open in 2003, with an average staff of 3 in the year.

- Overhead costs were €43.4m compared to €41.9m in the previous year. The main items were Information Technology costs (including information system use and maintenance costs, information provider costs and telephone and data transmission costs) and general expenses (including building lease instalments for the Bank's head office and related management expenses, consultancy fees and advertising and event organisation expenses). The increase compared to the previous year was mainly in the item Information Technology and resulted from the expenses for the new outsourced data recovery and remote backup service (project launched in 2003), the expenses related to the implementation of our new trading systems for transactions on behalf of third parties and for the Bank itself, and the expenses connected with the revision of our post trading processes for OTC derivatives.
- Depreciation of €10.3m. The effect of the gradual completion of the depreciation process regarding the substantial hardware and software investments made in prior years and the careful selection of these investments led to a reduction in depreciation (€13.5m in 2003).

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 €11,743m as at 31 December 2004 compared to €10,739m as at 31 December 2003, comprising:

- €9,443m bonds (including €5,438m government securities €6,745m as at 31 December 2003 - and €2,622m EU public issuer securities - €781m as at 31 December 2003), and
- €2,300m shares and units in mutual funds (including €1,899m units in mutual funds) compared to €2,090m as at 31 December 2003.

Total technical short positions rose from €859m as at 31 December 2003 to €2,447m as at 31 December 2004.

As at 31 December 2004, the Bank's securities holdings included 1,166 shares in its parent company Sanpaolo IMI with a total par value of €3,300 and total value of €12,400, for which a reserve had been set aside in accordance with art. 2359 bis of the Italian Civil Code. Purchases and sales during the year came to a total of €44.7m (4,707,753 shares with a total par value of €13.2m) and €42.3m (4,311,012 shares with a total par value of €12.1m) respectively, and resulted from basket trading. As at 31 December 2003 the Bank had a short position in 395,575 shares in parent company Sanpaolo IMI SpA with a total value of €4.1m (total par value €1.1m). The most significant receivable items were repurchase transactions and securities lending, which totalled €8,136m (€5,078m as at 31 December 2003), including €6,245m due from banks (€4,450m as at 31 December 2003).

The most significant item under "Other assets" concerned the balancing entries for the revaluation of off-balance-sheet transactions, which totalled €8,873m (€5,184m as at 31 December 2003).

The largest liabilities items were as follows:

- Repurchase transactions and securities lending, amounting to €11,932m (€10,474m as at 31 December 2003),
- Deposits by other banks totalling €3,005m (€1,243m as at 31 December 2003)
- Bonds issued with a total value of €3,265m (€3,666m as at 31 December 2003)
- Other liabilities included the balancing entries for the revaluation of off-balance-sheet transactions totalling €9,105m (€5,467m as at 31 December 2003).

The decrease in liabilities regarding securities issued was mainly linked to the maturity of two issues with a term of two years. In addition, there was slower growth in structured savings instruments issued directly by the Bank than in the previous financial year.

There was a significant increase in operating volumes during the year, in particular regarding OTC derivatives, making it necessary to increase the regulatory capital by issuing tier 3 subordinated loans with a total value of €150m (total issued €210m as at 31 December 2004) and a tier 2 subordinated loan of €165m (compared to tier 2 subordinated liabilities of €185m at the end of the previous financial year that were repurchased/settled in advance during the year), all underwritten by our parent company. The qualitative change in the composition of our subordinated liabilities (partial switch from tier 2 liabilities to tier 3 liabilities) was firstly due to the increased tier 1 capital allowed by the allocation of part of the 2003 net income to the reserves, and secondly to the need to optimise the cost of subordinated notes taking into consideration that our capital requirements are currently determined using the so-called standard regulatory model, but will in the future see the introduction of a more sophisticated (internal) model.

The minimum regulatory requirements at period-end amounted to €640.0m (€523.8m as at 31 December 2003), including €564.2m related to market risks (€466.7m at the end of the previous financial year). Taking into consideration the hedging provided by the tier 3 subordinated loans, the “net” minimum regulatory requirements totalled €430.0m (€463.8m as at 31 December 2003) with regulatory capital - before net income for the year - of €543.3m (€523.6m as at 31 December 2003).

With regard to the new developments introduced by the reform of company law, in particular the repeal of the provisions that allowed banks to make “adjustments and provisions solely for tax purposes” (the “tax clean-up” (“disinquinamento fiscale”) introduced by article 7, subparagraph 1, letters b) and c) of Italian Legislative Decree No. 37/04, which repealed articles 15, subparagraphs 3 and 39, subparagraph 2 of Italian Legislative Decree No. 87/92), it should be noted that no consequential adjustments were required since no adjustments or provisions were previously made solely for tax purposes.

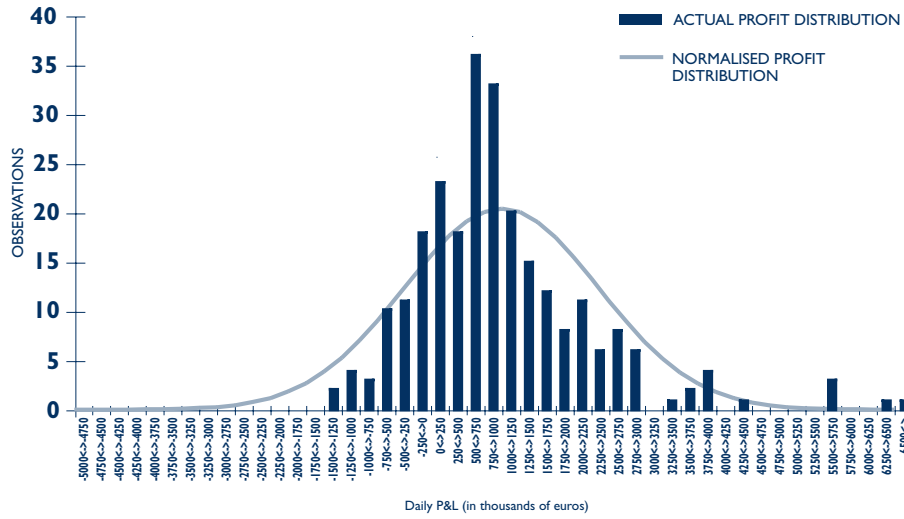
Risk control

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) and on a stop loss system. The Bank uses a stress-testing (worst-case scenario) model to determine maximum potential loss that is based on calculating the Maximum Probable Loss (*MPL*). The method employed assesses risk levels in relation to a series of scenarios obtained by applying significant market parameter shocks to the positions concerned.

In 2004, we launched a pilot project in conjunction with our parent company to integrate the MPP system with a probabilistic limit such as historical VaR. This model will, moreover, support the introduction of an internal model for measuring our regulatory capital requirements.

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.

Frequency of market risk related gains and losses in the 2004 financial year



The daily MPL is also shown below together with the related limit.

Daily MPP



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 in relation to the different types of transactions concerned.

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.

Business developments

The Bank's activities during 2004 were focused on rationalising our organisational structure and business initiatives on the one hand, and on aligning our business processes on the other.

Where our business development activities were concerned, and the upgrading of our investment banking activities in particular, we implemented new customer relationship management systems while at the same time extending the range of products and services offered to institutional investors, especially innovative instruments such as the further development of stock lending and the simultaneous implementation of advanced collateral management systems.

In parallel with this, we also rationalised the trading platforms used, introducing innovative new solutions while simultaneously decommissioning less technologically sophisticated applications.

The Bank is, moreover, committed to managing potential conflicts of interest that might arise between its different areas of activity in the most professional manner possible. To this end, the Bank has adopted procedures and mechanisms in its organisation, set out in its Code of Internal Conduct and related procedures for implementing confidentiality and separate management, including at an organisational level, as well as in its “Procedures for the Production and Distribution of Research and Sales Literature in Europe, the United Kingdom and United States”. The potential conflicts that can be identified and managed using these mechanisms and procedures include those between the recipients of Banca IMI Research and our corporate finance customers (in particular the issuers of financial instruments that are also covered by Banca IMI Research), as well as regarding investors (in particular the customers/counterparties of our dealing rooms), and all those activities arising in general from the Bank’s and Group companies’ Investment Banking activities, and from the personal interests of our employees.

Within this context and as part of the continuing development of the aforesaid procedures and review of the financial analysis activities launched in prior years, we introduced a policy in 2004 for the “Management of Banca IMI Conflicts of Interest regarding activities for the production of studies and analyses”, a document prepared in accordance with the Principles for Businesses published by the United Kingdom’s Regulatory Authority, the Financial Services Authority, and the Conduct of Business Rules 7.16.5.

In addition, an Advisory Council was set up during the year with the role of providing strategic guidelines and suggestions for investigation regarding sectors that are considered of prime importance for Research coverage by virtue of their importance for the Bank’s operating areas (Insurance, Automotive, Banks, Communications and Energy). The Bank aims to enhance its position as an authoritative expert partner in these sectors for institutional and corporate customers both through research activities and high-profile initiatives.

As part of our efforts to ensure correctness and transparency in our relations with end investors regarding our products, in March 2004, we also became members of the Italian Banking Association's "Patti Chiari" project, established to offer simple, modern instruments to help investors make better choices, ensuring clarity and ease of understanding, while facilitating comparison of the products offered. Indeed, the Bank joined the project as part of the initiative "Clear information on Structured and Subordinated Bank Bonds".

Against the backdrop of our work to increase the efficiency of our activities on the global markets and anticipating the requirements of the "Basel Accord II", the bank achieved an A+ rating from the S&P Agency in July 2004 (with outlook raised to positive in December 2004), an AA- from Fitch (with stable outlook in October 2004) in addition to the Aa3 rating we obtained from Moody's (with stable outlook) the previous year.

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As part of our initiatives for simplifying the products and services offered by the Group and improving our cost structure by rationalising our production units, we launched initiatives for reorganising our equity investments and embarked on a process for centralising our custody, administration and depository bank activities in our parent company, as well as stopping, from June, all our individual mutual fund management activities as per article 1, subparagraph 5, letter g) of Italian legislative decree No. 58/98, relinquishing the related authorisation to provide the service.

Developments regarding our equity investments saw us complete the planned sale to Sanpaolo IMI Wealth Management S.p.A. of our holding in subsidiary Obiettivo S.G.R. (for a total value of €4.2m) and of our stake in Sanpaolo IMI Institutional Asset Management S.G.R. S.p.A. (amounting to 15% of the share capital, including 3.28% held through subsidiary IMI Bank (Lux) S.A., for a total value of €7.0m). In particular, Obiettivo S.G.R., founded in 2001 and one of the first Italian pure speculative fund management companies, started and manages 3 funds.

During the year we also completed the organizational integration of wholly-owned subsidiary IMI Bank (Lux) and Sanpaolo Bank S.A., a Luxembourg company belonging to the Group whose activities in the investment management services sector overlapped those of IMI Bank (Lux) in certain areas although serving different target customers (private/retail rather than institutional customers). In the wake of this process, the financial activities previously carried out by IMI Bank (Lux) were centralised in Banca IMI, mutual fund management activities were transferred to the Group's specialist companies, and depository bank, global custodian and treasury activities were centralised in Sanpaolo Bank, while IMI Bank (Lux) itself merged with Sanpaolo Bank. Following this merger, which was completed on 1 September 2004, the Bank acquired a holding in Sanpaolo Bank equal to approximately 16.9% of its ordinary share capital. The financial values of Sanpaolo Bank and IMI Bank (Lux) for the purposes of determining the share swap ratio were estimated to be €491m and €100m respectively on the basis of an estimate prepared by an assessor appointed by the court of competent jurisdiction. The Bank sold its stake in Sanpaolo Bank to the parent company in September 2004 for said total value.

Likewise contributing to the objective of rationalising our internal production structure, Banca IMI merged with its previous subsidiary IMI Solutions S.p.A. - an ex-member of the Cardine Group - which, amongst other things, engaged in risk management advisory activities for corporate customers. This merger was approved by the respective Boards of Directors and Shareholders' Meetings of Banca IMI and IMI Solutions on 22 June and 23 July 2004 respectively, while the transaction was completed on 25 October, with legal effect as per article 2504 bis from 3 November 2004, and with effect for accounting and tax purposes from 1 January. The share capital was increased on two separate occasions during the 2004 financial year for a total of €426,000.

Company organisation and processes

The Bank engaged in a number of projects regarding its internal support processes, upgrading its structure in line with the compliance requirements of the law, continuing the process which was launched in the previous year of consolidating its production processes in line with the significant changes under way in the structure of the financial markets, while also systematically updating its applications and systems to avoid technological obsolescence.

These in particular included interventions regarding our anti-money-laundering procedures and the recognition of counterparties, as well as the formalisation of the *modus operandi* for the management of new products.

In addition, we also launched a dedicated strategic project to develop a system that consolidates every business event of accounting significance in a dedicated repository that represents the sole source of standardised, homogeneous, checked information for processing by our accounts and management systems.

In 2004, the Bank continued the process of implementing the systems and procedures launched in 2003 as part of the Group's policies on operating risks and regarding the introduction of the International Accounting Standards (IAS). Where operating risks are concerned, the Bank developed the architecture for its own operating risk model adopting *Advanced Measurement Approaches*.

Where the IAS are concerned with regard to the Bank's specific situation, the international standards differ from our current accounting standards in making more frequent use of fair value valuation criteria and in applying special hedge accounting rules.

Considering that the Bank's financial statements are characterised by substantial positions in financial instruments and current Italian accounting standards already make wide use of market value valuations, the International Accounting Standards and IAS 32/39 in particular will mainly impact on the following aspects:

- Securities holdings: All trading securities not listed on regulated markets in the

trading book or available for sale are valued at fair value, where they are currently valued at the lower of cost and market value.

- Derivatives portfolio: Fair value valuations in all cases, even for hedging transactions.
- Bond issued: Following the carve out provision on the use of the full fair-value option, which appeared more suited to the economic and financial nature of the transactions concerned, the new hedge accounting rules differ significantly from those currently adopted (not recognising internal deals permitted by the Italian accounting standards).

The Bank is currently carrying out preparatory analyses to evaluate the effects of the introduction of the international accounting standards in the Bank's accounting system, while - partly due to delays in the definition of the reference regulatory framework - the activities to implement them in the Bank's operating procedures are under way (management of securities and bonds issued as well as hedging relations).

The Bank took prompt action regarding the new Italian data protection provisions brought in by Legislative Decree No. 196/2003 and has 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 provided for by the law. With regard to the new developments introduced by Italian Legislative Decree No. 6 of 17 January 2003 reforming company law ("Riforma organica della disciplina delle società di capitali e società cooperative, in attuazione della legge 3 ottobre 2001, n. 366" - "Organic reform of the legislation governing joint-stock companies and cooperative societies, in implementation of law No. 366 of 3 October 2001"), as amended by Italian Legislative Decree No. 37 of 6 February 2004, the August Extraordinary Shareholders' Meeting approved the compulsory interventions to update the Articles of Association and to avail itself of the opportunities to amend various clauses in the Articles of Association as permitted by the new regulations with

a view to achieving the goal of simplification, including procedural simplification, that constituted the prime rationale of the reform as a whole.

In addition, the updated articles of association maintain the traditional system of governance (Shareholders' Meeting - Board of Directors - Board of Auditors), and do not - at least for the moment - adopt the alternative models proposed as options by the reform.

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Banca IMI has its registered office in Milan, a branch in the United Kingdom (London) and an office in Rome. It is also present in Luxembourg through two SO.PAR.FI (IMI Investments SA and IMI Finance) and in North America through Banca IMI Securities Corp. (under parent company IMI Capital Markets Corp.), a broker-dealer on the New York financial market.

Relationships with Group companies and other related parties

The Bank is under the management and coordination of Sanpaolo IMI S.p.A., the parent company of the Sanpaolo IMI Banking Group.

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. The previous section "Notes to the balance sheet" details the volume of transactions in the parent company's shares.

Where transactions with parties belonging to the same Group were concerned, a number of organisational/company restructuring operations were carried out during the financial year as explained in the previous section.

The mutual relations between the parent company and main parties in the Group formed part of the normal operations typical of a multifunctional banking organisation and principally consisted of the following:

- Dealing in cash financial instruments and derivatives on own behalf and on behalf of third parties, including instruments not listed on regulated markets, simple and “structured” instruments for Group companies (retail dealing, transactions hedging financial risks, and the structuring of financial products).
- Funding transactions using operating lines guaranteed by the parent company to finance the Bank’s financial brokerage and lending transactions, including as part of centralised treasury management operations.
- The organisation of funding transactions (including structured funding) on own behalf or on behalf of Group companies, placed through the Sanpaolo Networks.
- Support by the parent company with capitalisation requirements (during 2004, the parent company underwrote tier 3 security issues for an amount of €150m and a tier 2 subordinated security issued for an amount of €165m, the latter to replace securities previously issued that had been repaid in advance).
- Optimisation of the Group’s tax arrangements, with the Group availing itself of the new tax consolidation regime introduced by article 117 of the Italian Income Tax Consolidation Act (“T.U.I.R” - Italian Presidential Decree 917/86) and the sale of intra-group Corporate income tax (IRPEG) credits (€77m in 2004).

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 2004.

As a subsidiary of the listed company Sanpaolo IMI S.p.A, the Bank has implemented the dedicated Group organisational procedure for ensuring transparency and substantial and procedural correctness regarding the identification and treatment of transactions with related parties transactions.

Subsequent events and outlook

There have been no significant events subsequent to the closure of the financial year.

The outlook for 2005 is in line with the performance achieved in the previous financial year.

★ ★ ★

Dear Shareholders,

We hereby submit the financial statements for the year ended 31 December 2004, which show a net income of €70,340,121, to your approval.

In consideration of the fact that the Legal Reserve already amounts to 20% of the share capital, we propose that the net income be distributed as dividends to shareholders totalling €69,714,000 (equal to €0.3873 per share), with the remainder of €626,121 being allocated to the Extraordinary Reserve.

The Board of Directors

Milan, 11 March 2005



- **Balance Sheet and Statement of Income**

Balance sheet

Assets (all figures in euros)		31/12/2004	31/12/2003
10	Cash and deposits with central banks and post offices	14,945	17,976
20	Government bonds and similar instruments eligible for refinancing with central banks	789,818,836	909,909,800
30	Due from banks	6,870,447,820	4,962,370,241
	(a) on demand	488,790,197	441,109,546
	(b) other	6,381,657,623	4,521,260,695
40	Loans to customers	2,680,797,551	1,027,799,676
50	Bonds and other debt securities	8,653,416,001	7,739,019,119
	(a) public issuers	7,269,966,202	6,935,314,223
	(b) banks	1,029,639,031	580,959,674
	<i>including: own securities</i>	37,456,653	128,242,866
	(c) financial institutions	294,137,155	162,210,168
	(d) other issuers	59,673,613	60,535,054
60	Shares, quotas and other equity interest	2,300,220,507	2,089,948,592
70	Equity investments	31,216,484	31,215,969
80	Investments in group companies	260,136,250	373,279,767
90	Intangible fixed assets	6,456,604	11,245,561
	<i>including: - start-up costs</i>	48,735	97,470
	- goodwill	1,446,079	1,807,599
100	Tangible fixed assets	1,044,975	1,285,158
130	Other assets	10,235,991,905	6,277,169,187
140	Accrued income and prepaid expenses:	175,253,464	158,799,831
	(a) accrued income	174,285,732	157,845,549
	(b) prepaid expenses	967,732	954,282
	Total assets	32,004,815,342	23,582,060,877

Liabilities (all figures in euros)		31/12/2004	31/12/2003
10	Due to banks	11,731,585,678	8,220,297,146
	(a) on demand	3,054,468,179	1,486,959,502
	(b) time or notice	8,677,117,499	6,733,337,644
20	Due to customers	3,606,793,847	3,897,970,351
	(a) on demand	352,254,923	513,229,642
	(b) time or notice	3,254,538,924	3,384,740,709
30	Securities issued	3,264,646,193	3,665,801,716
	(a) bonds	3,264,646,193	3,665,801,716
50	Other liabilities	12,444,455,703	7,028,906,852
60	Accrued expenses and deferred income	87,955,866	88,226,839
	(a) accrued expenses	86,952,554	88,125,727
	(b) deferred income	1,003,312	101,112
70	Provision for employee severance indemnities	7,457,063	6,860,398
80	Provisions for risks and charges	12,194,647	17,643,351
	(a) pensions and similar obligations	-	-
	(b) taxation	7,177,647	11,180,899
	(c) other provisions	5,017,000	6,462,452
90	Allowance for possible loan losses	21,209,210	21,209,210
100	Reserve for general banking risks	2,000,000	2,000,000
110	Subordinated liabilities	375,032,000	225,000,000
120	Share capital	180,000,000	180,000,000
130	Additional paid-in capital	131,259,962	131,259,962
140	Reserves	69,885,052	38,058,713
	(a) legal reserve	36,000,000	36,000,000
	(c) statutory reserves	-	-
	(d) other reserves	33,885,052	2,058,713
170	Net profit (loss) for the year	70,340,121	58,826,339
Total liabilities		32,004,815,342	23,582,060,877

Guarantees and Commitments

10	Guarantees	369,267	43,370,706
20	Commitments	5,886,106,698	4,836,052,833
	<i>including: - sales with repurchase agreements</i>	<i>0</i>	<i>0</i>
30	Credit derivatives	798,807,230	318,160,936

Statement Of Income

(All figures in euros)		2004	2003
10	Interest income and similar revenue	614,573,379	459,364,568
	<i>including: - loans to customers</i>	82,413,579	47,863,316
	<i>- debt securities</i>	426,237,198	251,268,815
20	Interest expense and similar charges	(499,565,641)	(432,649,034)
	<i>including: - deposits from customers</i>	148,080,495	(147,925,252)
	<i>- securities issued</i>	(79,955,431)	(68,496,943)
30	Dividends and other revenue	87,435,391	227,828,833
	a) shares, quotas and other equities	78,233,887	222,499,032
	b) equity investments	1,668,569	2,617,318
	c) investments in group companies	7,532,935	2,712,483
40	Commission income	82,122,952	91,089,142
50	Commission expense	(78,537,395)	(72,155,974)
60	Profits (losses) on financial transactions	(17,468,844)	(41,503,107)
70	Other operating income	1,780,389	2,681,223
80	Administrative costs		
	a) payroll costs	(68,713,511)	(65,501,008)
	<i>including: - wages and salaries</i>	(52,167,684)	(49,575,647)
	<i>- social security contributions</i>	(13,794,968)	(13,215,999)
	<i>- provision for employee severance indemnities</i>	(2,192,758)	(2,181,329)
	<i>- pensions and similar obligations</i>	(558,101)	(528,033)
	b) other administrative and operating expenses	(56,365,761)	(57,426,352)
90	Adjustments to intangible and tangible fixed assets	(10,344,319)	(13,502,533)
100	Provisions for risks and charges	-	(1,212,609)
110	Other operating expenses	(8,586)	(336,691)
120	Adjustments to loans and provisions for guarantees and commitments	(750,000)	(2,581,962)
130	Write-backs of loans and provisions for guarantees and commitments	-	-
140	Provisions to the allowance for possible loan losses	-	-
150	Adjustments to financial fixed assets	-	(431,746)
170	Profit (loss) from ordinary activities	54,158,054	93,662,750
180	Extraordinary income	13,054,364	5,166,277
190	Extraordinary expenses	(2,045,170)	(5,708,753)
200	Net extraordinary income (loss)	11,009,194	(542,476)
210	Change in reserve for general banking risks	-	(2,000,000)
220	Income taxes	5,172,872	(32,293,935)
230	Net profit (loss) for the year	70,340,121	58,826,339

The financial statements have been translated into English from the original version in Italian. They 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.



- **Notes to the Financial Statements**

Notes to the Financial Statements

The financial statements as at 31 December 2004 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

Schedule - Core financial statement data of the managing and coordinating company

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 2004 were prepared adopting the same accounting policies as the financial statements as at 31 December 2003 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 under the item "Credit derivatives".

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 Trading 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 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 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 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".

The equity investment denominated in foreign currency was hedged against exchange rate fluctuations by internal deals up to the 2003 financial year (see section 7.2 below).

As of the 2004 financial year, the hedging relationship provides direct evidence of off-balance-sheet transactions with third-party economies. Said hedging transactions are valued at market value, with the effect recorded in the statement of income. Variations in the exchange rate of the equity investment are treated in the same way. This change did not have any effect on the statement of income.

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 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, 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 are included without offsetting in other assets or other liabilities as appropriate.

Transactions in derivatives linked to assets or liabilities on or off the balance sheet are valued adopting criteria in line with those used for the aforesaid assets or liabilities.

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.

Internal deals therefore enable our risk management systems to monitor and track exposures to the risk factors hedged and therefore the actual hedging of the risks on the market.

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 loans 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 (IRES) and regional tax on business activities (IRAP) is calculated on the basis of a cautious estimate of the Bank's current tax rate.

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 provision 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 expense, commission income and expense, 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

Not provided for by the regulations.

2.2 Provisions made solely for tax purposes

Not provided for by the regulations.



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 €9,551,261,000 net of adjustments as follows:

	31/12/03	31/12/04
Cash and deposits with central banks and post offices (item 10)	18	15
Due from banks (item 30)	4,962,370	6,870,448
Loans to customers (item 40)	1,027,800	2,680,798

■

I.1 Analysis of item 30 "Due from banks"

	31/12/03	31/12/04
a) Due from Central Banks	27,031	21,975
b) Bills eligible for refinancing with central banks	-	-
c) Repurchase agreements	4,259,335	5,694,879
d) Securities lending	190,694	550,163

■

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Breakdown of item 30 “Due from banks”

Amounts due from banks totalled €6,870,448,000 as follows:

	31/12/03	31/12/04
Due from Central Banks:		
- compulsory reserve	26,169	21,491
- other	862	484
Due from other banks:		
- repurchase agreements	4,259,335	5,694,879
- current accounts	112,125	138,247
- securities lending	190,694	550,163
- deposits and loans	373,185	465,184
Total	4,962,370	6,870,448

The item “Deposits and loans” included €461,814,000 deposits as collateral guaranteeing contracts on financial instruments.



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

	31/12/03	31/12/04
Loans for securities lending transactions	119,716	357,557
Repurchase agreements for securities lending transactions	70,978	192,606



1.2 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	6,870,448	-	6,870,448

■

1.5 Analysis of item 40 “Loans to customers”

	31/12/03	31/12/04
a) Bills eligible for refinancing with central banks	-	-
b) Repurchase agreements	461,864	1,079,730
c) Securities lending	166,379	811,652

■

Breakdown of item 40 “Loans to customers”

Loans to customers totalled €2,680,798,000 as follows:

	31/12/03	31/12/04
Current accounts	21,455	28,238
Interest-bearing cash deposits with clearing organisations	104,162	76,648
Repurchase agreements	461,864	1,079,730
Securities lending	166,379	811,652
Deposits and loans	273,672	684,262
Non-performing loans	268	268
Total	1,027,800	2,680,798

The item “Deposits and loans” included €47,565,000 deposits as collateral guaranteeing contracts on financial instruments.

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

	31/12/03	31/12/04
Loans for securities lending transactions	126,765	309,883
Repurchase agreements for securities lending transactions	39,614	501,769



I.6 Secured loans to customers

	31/12/03	31/12/04
a) Mortgages	-	-
b) Pledged assets:		
1. cash deposits	-	-
2. securities	42,000	-
3. other instruments	-	-
c) Guarantees given by:		
1. governments	-	-
2. other public entities	-	-
3. banks	14,945	-
4. others	8	149,526

Other secured loans included repurchase agreements totalling €1,079,730,000 and securities lending totalling €811,652,000.



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	2,680,530	-	2,680,530



1.8 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 31/12/2003	1,573	285	-	-	-
A.1. Including: Default Interest	-	-	-	-	-
B. Increases					
B.1. Transfers from performing loans	-	-	-	-	-
B.2. Default interest	-	-	-	-	-
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	-	-	-	-	-
C.4. Disposals	-	-	-	-	-
C.5. Transfers to other categories of doubtful loans	-	-	-	-	-
C.6. Other decreases	-	-	-	-	-
D. Gross value as at 31/12/2004	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 31/12/2003	1,305	285	-	-	-
A.1. Including: Default Interest	-	-	-	-	-
B. Increases					
B.1. Adjustments	-	-	-	-	-
B.1.1 Including: Default Interest	-	-	-	-	-
B.2. Utilisation of the allowance for possible 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 31/12/2004	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 trading securities below shows the book values and corresponding market values of the different financial instruments separately for listed securities and unlisted securities.

	31/12/03		31/12/04	
	Book value	Market value	Book value	Market value
1. Debt securities				
1.1 Government securities				
listed	6,745,234	6,745,234	5,438,341	5,438,341
unlisted	3,425	3,425		
1.2 Other securities				
listed	1,470,391	1,470,391	3,791,446	3,791,446
unlisted	433,304	438,500	213,448	214,093
2. Equities				
listed	1,886,915	1,886,915	2,004,101	2,004,101
unlisted	203,034	203,034	296,119	296,119
Total	10,738,878	10,744,074	11,743,455	11,744,100

■

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2.4 Changes in trading securities during the year

A. Opening balance	10,738,878
B. Increases	
B.1 purchases	
debt securities	
- government securities	192,888,446
- other securities	100,778,624
equities	15,715,102
B.2 write-backs and revaluations	100,238
B.3 transfers from investment portfolio	-
B.4 other increases	3,683,788
C. Decreases	
C.1 sales and redemptions	
debt securities	
- government securities	(195,221,447)
- other securities	(99,211,770)
equities	(15,790,165)
C.2 adjustments	(33,173)
C.3 transfers to investment portfolio	-
C.5 other decreases	(1,905,066)
D. Closing balance	11,743,455

The item “Other increases” comprised €2,446,560,000 year-end technical short positions in securities, €557,859,000 trading profits, €41,268,000 positive exchange rate differences, €55,000 coupon receivables on securities exposed to country risk, and €638,046,000 issue discounts accrued.

The item “Other decreases” comprised €859,182,000 beginning-of-year technical short positions in securities, €382,726,000 trading losses, €28,901,000 negative exchange rate differences and €634,257,000 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 31.12.03	9,879,696
- long positions	10,738,878
- short positions	(859,182)
Net closing balance as at 31.12.04	9,296,895
- long positions	11,743,455
- short positions	2,446,560

Section 3 - Equity investments

Equity investments, recorded in balance sheet assets items 70 and 80, totalled €291,353,000, including €266,345,000 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 Investments S.A. ¹	Luxembourg	261,915	7,914	99.99	260,123
B. Companies subject to significant influence					
AF Merlo S.p.A. ²	Milan	16,235	1,175	33.33	5,000
IW Bank S.p.A. ³	Milan	15,170	7,165	20.00	1,222

¹ The share capital is denominated in US dollars. The shareholders' equity as recorded in the financial statements as at 31.12.2004 totalled USD 356,754,000, and included an informal capital contribution of €150,000,000 (corresponding to USD 204,315,000), and retained profit for 2004 (equal to USD 520,000).

² The shareholders' equity as recorded in the financial statements as at 30.06.2004 included net income for the period.

³ The shareholders' equity as recorded in the financial statements as at 31.12.2004 did not include net income for the period.

The equity investment in the subsidiary regards a company in the banking group to which Banca IMI belongs.

The share capital of IMI Investments, comprising 150,000 shares with a par value of USD 1, is held entirely by the Bank with the exception of one share that is held by a subsidiary of IMI Investments itself.

3.2 Amounts due to and from Group companies (Sanpaolo IMI)

	31/12/03	31/12/04
ASSETS		
1. Due from banks	479,650	18,845
<i>including: subordinated</i>	-	-
2. Due from financial institutions	57,922	382,775
<i>including: subordinated</i>	-	-
3. Due from other customers	-	-
<i>including: subordinated</i>	-	-
4. Bonds and other debt securities	316,139	144,038
<i>including: subordinated</i>	24,828	8,924
LIABILITIES		
1. Due to banks	1,147,925	3,055,594
2. Due to financial institutions	25,919	14,538
3. Due to other customers	-	-
4. Securities issued	-	-
5. Subordinated liabilities	15,000	375,000
GUARANTEES AND COMMITMENTS		
1. Guarantees issued	-	-
2. Commitments	218,990	96,195

■

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

There were no amounts due to or from non-group companies.

■

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3.4 Breakdown of item 70 “Equity investments”

	31/12/03	31/12/04
(a) Investments in unlisted banks	1,222	1,222
(b) Investments in unlisted financial institutions	699	699
(c) Other unlisted investments	29,295	29,295

■

3.5 Breakdown of item 80 “Investments in Group companies”

	31/12/03	31/12/04
(a) Investments in unlisted banks	98,915	-
(b) Investments in unlisted financial institutions	274,258	260,123
(c) Other unlisted investments	107	13

■

3.6 Changes in equity investments

3.6.1 Investments in group companies (Sanpaolo IMI Group)

	31/12/03	31/12/04
A. Opening balance	252,877	373,280
B. Increases		
B1. Purchases	2,808	-
B2. Write-backs	-	-
B3. Revaluations	-	-
B4. Other increases	150,695	5,674
C. Decreases		
C1. Sales	(6,613)	(109,657)
C2. Adjustments <i>including: permanent write-downs</i>	(432)	-
C3. Other increases	(26,055)	(9,161)
D. Closing balance	373,280	260,136
E. Total revaluations	-	-
F. Total adjustments	432	-

■

The item “Sales” refers to the sale of the following equity investments:

- Obiettivo SGR (99.99% of the share capital), sold on 19 March 2004 to Sanpaolo Wealth Management SpA for a total value of €4,187,000.
- Sanpaolo IMI Institutional Asset Management SGR (11.7% of the share capital) sold on 1 April 2004 to the aforesaid Sanpaolo Wealth Management SpA for a total value of €5,470,000. A further stake of 3.2% was sold to the same purchaser by subsidiary IMI Bank (Lux) SA for a total value of €1,530,000.
- Sanpaolo Bank S.A. (16.9% of the share capital) sold to Sanpaolo IMI S.p.A on 29 September 2004 for a total value of €100m.

The latter equity investment was purchased on 1 September 2004 following the sale of IMI Bank (Lux) SA (99.99% stake) to Sanpaolo Bank S.A.

The item “Other increases” amongst other things included the effect of the sale of the equity investments in Obiettivo SGR (€1m), Sanpaolo IMI Institutional Asset Management SGR (€2,979,000) and Sanpaolo Bank S.A. of €1,085,000, as well as a €426,000 capital increase of wholly-owned subsidiary IMI Solutions SpA, which merged with Banca IMI on 3 November 2004 with effect for accounting and tax purposes from 1 January 2004.

The item “Other decreases” included €8,641,000 reflecting exchange rate variations affecting the equity investment in IMI Investments SA and €520,000 regarding IMI Solutions SpA’s merger with Banca IMI.

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3.6.2 Other equity investments

	31/12/03	31/12/04
A. Opening balance	23,579	31,216
B. Increases		
B1. Purchases	6,487	1
B2. Write-backs	-	-
B3. Revaluations	-	-
B4. Other increases	1,274	-
C. Decreases		
C1. Sales	(119)	-
C2. Adjustments <i>including: permanent write-downs</i>	-	-
C4. Other decreases	(5)	(1)
D. Closing balance	31,216	31,216
E. Total revaluations	-	-
F. Total adjustments	-	-

The item “Purchases” comprised €1,000 regarding the purchase of 1 share in the renewable source electricity distribution company Idroenergia Scarl, the Bank’s acquisition of which has gained it access to the energy free market.

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

	Book value
Borsa Italiana S.p.A.	21,463
AF Merlo S.p.A.	5,000
LCH Clearnet S.A.	1,940
IW Bank S.p.A.	1,222
SIA S.p.A.	887
MTS S.p.A.	699
Kiwi I Ventura Service S.A.	4
Idroenergia Scarl	1
Total	31,216

■

Section 4 - Tangible and intangible fixed assets

	31/12/03	31/12/04
Tangible fixed assets (item 100)	1,285	1,045
Intangible fixed assets (item 90)	11,246	6,457

■

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Breakdown of item 100 “Tangible fixed assets”

	31/12/03	31/12/04
Furniture and equipment		
Office furniture and equipment	128	46
Electronic equipment	1,107	856
General and specific equipment	50	143
Total	1,285	1,045



Breakdown of item 90 “Intangible fixed assets”

	31/12/03	31/12/04
Software	8,290	4,076
Start-up and expansion costs	97	49
Goodwill	1,807	1,446
Other deferred costs	1,052	886
Total	11,246	6,457

The item “Other deferred costs” included €577,000 expenses for leasehold improvements.



4.1 Changes in tangible fixed assets during the financial year

A. Opening balance	1,285
B. Increases	
B1. Purchases	925
B2. Write-backs	
B3. Revaluations	
B4. Other increases	32
C. Decreases	
C1. Sales	(11)
C2. Adjustments:	
(a) depreciation	(1,160)
(b) permanent write-downs	
C3. Other increases	(26)
D. Closing balance	1,045
E. Total revaluations	
F. Total adjustments	
(a) depreciation	48,036
(b) permanent write-downs	

The main investments in 2004 regarded the upgrading and consolidation of the Bank's hardware, networks, IT infrastructures (including our videoconferencing and voice recording systems) and safety systems.

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4.2 Changes in intangible fixed assets during the year

A. Opening balance	11,246
B. Increases	
B1. Purchases	4,372
B2. Write-backs	
B3. Revaluations	
B4. Other increases	36
C. Decreases	
C1. Sales	
C2. Adjustments:	
(a) amortisation	(9,184)
(b) permanent write-downs	
C3. Other increases	(13)
D. Closing balance	6,457
E. Total revaluations	
F. Total adjustments	
(a) amortisation	31,022
(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	97	1,807	8,290	1,052
B. Increases				
B1. Purchases			3,941	431
B4. Other increases				36
C. Decreases				
C1. Sales				(12)
C2. Adjustments:				
(a) amortisation	(48)	(362)	(8,144)	(630)
(b) permanent write-downs				
C3. Other increases			(10)	(3)
D. Closing balance	49	1,446	4,076	886
E. Total revaluations				
F. Total adjustments				
(a) amortisation	194	2,169	24,962	3,697
(b) permanent write-downs		5,668		

The following projects constituted the Bank's main investments in 2004:

- Market trends, Organised Trading Systems (OTS) and clearing and settlement systems, including the development of the Swapclear procedures, membership of new platforms for trading on own behalf and telematic access to new markets and OTSs for third parties.
- The development of automatic trading and execution tools and the development of the FastTrack system in particular.
- The development of a system for creating and publishing Research products on the web.
- The development of tools for collecting and historicising financial and personal information.
- Membership of new markets and development of products and services.
- The development of systems for trading on behalf of third parties and for the receipt, transmission and recording of instructions and instruction-executed notices.
- The development of an internal financial risk management model.
- The upgrading of the Bank's accounting and management control information system, including the development of automatic systems supporting Post Trading in OTC derivatives, and an event concentrator.

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Section 5 - Other assets

5.1 Breakdown of item 130 "Other assets"

The item "Other assets" totalled €10,235,992,000 as follows:

	31/12/03	31/12/04
Due from tax authorities:		
tax credits from prior years	93,052	85,505
tax credits on dividends	78,672	-
withholding taxes incurred	1,434	3,104
deferred tax assets	9,742	21,867
advance tax on severance indemnities (as per Italian law 662/96)	60	-
prepayments	-	-
other tax credits	456	352
Off-balance-sheet transactions:		
interest rate contracts	4,477,034	8,093,303
foreign exchange contracts	414,455	497,746
securities contracts	266,584	238,245
index contracts	3,544	7,067
credit derivatives	20,948	12,891
securities commitments	1,563	24,236
Options and similar instruments	861,248	1,021,611
Trans. to be settled securities on own behalf	11,558	145,126
Dividends approved by subsidiaries	13,653	21,085
Guarantee deposits	47	38
Advances to employees	7	7
Receivables from third parties	16,928	10,512
Coupon receivables exposed to country risk	55	-
Other loans	6,129	53,297
Total	6,277,169	10,235,992

The increase in the balancing entries for the revaluation of off-balance-sheet transactions on interest rates was due to an increase in transactions and the related greater notional volumes outstanding at the end of the financial year.

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

Adjustments to loans	548
Adjustments to equity investments	1,283
Adjustments to securities	1,657
Provisions for contingencies	1,273
Other costs temporarily not tax deductible	1,945
Tax losses carried forward	15,161
Total	21,867

The deferred tax assets relating to adjustments to equity investments concerned timing differences regarding tax deductions on i) the write-down of the equity investment in IW Bank SpA in the 2002 financial year, both for the part that was temporarily not tax deductible and for the “fifths” that had not yet been deducted pursuant to Italian Decree Law 209/2002, and ii) the write-down of the equity investment in IMI Solutions SpA in 2003, which was likewise tax deductible over five years in accordance with said provision.

The adjustments to securities concerned the write-downs of securities holdings (article 94, subparagraph 4 of the Italian Income Tax Consolidation Act - T.U.I.R.) and write-downs not considered significant for tax purposes of off-balance-sheet transactions hedging the risk of changes in the value of shares (article 112, subparagraph 1, of the T.U.I.R.).

The deferred tax assets on tax losses regarded the estimated IRES corporate income tax losses for the 2004 financial year, which it is considered will be absorbed by taxable income in the financial years for which carryforwards are permitted, also taking into account the Bank’s inclusion in the tax consolidation regime of the Sanpaolo IMI Group (as per article 114 et seq. of the Italian Income Tax Consolidation Act - T.U.I.R.), which the Bank joined with effect from the 2004 tax period.

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

Accrued income and prepaid expenses amounted to €174,285,000 and €968,000 respectively, totalling €175,253,000.

The breakdown of accrued income was as follows:

	31/12/03	31/12/04
Interest on securities	98,750	108,242
Interest on deposits	81	68
Interest on repurchase agreements	32,763	48,348
<i>including: due to customers</i>	<i>1,937</i>	<i>1,316</i>
<i> due to banks</i>	<i>30,826</i>	<i>47,032</i>
Income from hedging transactions	21,339	9,945
Other revenue	4,913	7,682
Total	157,846	174,285

Prepaid expenses totalled €968,000 (€954,000 in 2003) and regarded 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

	31/12/03	31/12/04
a) Due from banks	-	-
b) Loans to customers	-	-
c) Bonds and other debt securities	112,877	112,253

■

Section 6 - Payables

The Bank's total funding, as shown in liability items 10, 20 and 30 of the Balance Sheet, amounted to €18,603,026,000 as follows:

	31/12/03	31/12/04
Due to banks (item 10)	8,220,297	11,731,586
Due to customers (item 20)	3,897,970	3,606,794
Securities issued (item 30)	3,665,802	3,264,646

■

6.1 Analysis of item 10 "Due to banks"

	31/12/03	31/12/04
a) Repurchase agreements	6,732,121	8,126,954
b) Securities lending	190,694	550,163

■

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Breakdown of item 10 “Due to banks”

Amounts due to banks totalled €11,731,586,000 as follows:

	31/12/03	31/12/04
Due to central banks:		
- advances	-	24,354
- repurchase agreements	801,122	1,090
Due to other banks:		
- deposits	1,242,822	3,004,576
- repurchase agreements	5,930,999	8,125,864
- securities lending	190,694	550,163
- current accounts	54,660	25,539
Total	8,220,297	11,731,586

The item “Deposits” included €530,486,000 deposits as collateral guaranteeing contracts on financial instruments.



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

	31/12/03	31/12/04
Loans for securities lending transactions	70,978	192,606
Repurchase agreements for securities lending transactions	119,716	357,557



6.2 Analysis of item 20 “Due to customers”

	31/12/03	31/12/04
a) repurchase agreements	3,384,740	2,442,886
b) securities lending	166,379	811,652

■

Breakdown of item 20 “Due to customers”

Direct customer deposits, including amounts due to customers, amounts due under repurchase agreements and securities issued, totalled €3,606,794,000 as follows:

	31/12/03	31/12/04
Current accounts	140,764	105,958
Repurchase agreements	3,384,740	2,442,886
Securities lending	166,379	811,652
Other	206,087	246,298
Total	3,897,970	3,606,794

The item “Other” included €245,408,000 deposits as collateral guaranteeing contracts on financial instruments.

■

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

	31/12/03	31/12/04
Loans for securities lending transactions	39,614	501,769
Repurchase agreements for securities lending transactions	126,765	309,883

■

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Breakdown of item 30 "Securities issued"

Security	ISIN Code	Currency	Maturity	Par Value	Book Value
Banca IMI 2002/2005					
Doppia Sicurezza	IT0003372619	EUR	11-May-05	185,319	185,319
Banca IMI 2002/2005					
W Dynamic Basket	IT0003364194	EUR	30-Sep-05	281,378	281,378
Banca IMI 2002/2005					
2A Dynamic Fund	IT0003372700	EUR	30-Oct-05	239,720	239,720
Banca IMI 2003/2006					
Dynamic Fund Bond III	IT0003413637	EUR	30-Jan-06	179,607	179,607
Banca IMI 2003/2006					
Dynamic Fund Bond IV	IT0003441356	EUR	8-Apr-06	202,000	202,000
Banca IMI 2003/2006					
Dollar Based	IT0003500417	USD	5-Aug-06	18,800	13,802
Banca IMI 2003/2006					
Dynamic Fund Bond V	IT0003450308	EUR	6-Nov-06	159,192	159,192
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	127,500	127,500
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. Guaranteed	IT0003455182	EUR	5-May-07	16,983	16,983
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	53,500	53,500
Banca IMI 1998/2008					
Dual Rate in USD linked to 10 year Treasury C.M.	IT0001259800	USD	25-Sep-08	16,100	11,820

Security	ISIN Code	Currency	Maturity	Par Value	Book Value
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 2004/2009					
Dynamic Fund Bond IX	IT0003624431	EUR	27-Feb-09	110,670	110,670
Banca IMI 2004/2009					
Dynamic Fund Bond X	IT0003724827	EUR	11-Oct-09	300,000	300,000
Banca IMI 2004/2009					
Dynamic Fund Bond XI	IT0003743264	EUR	5-Nov-09	218,000	218,000
Banca IMI 2004/2011					
Step-Up Callable	IT0003724157	EUR	18-Oct-11	247,421	247,421
Banca IMI 1998/2018					
Step down	IT0001271003	EUR	4-Nov-18	137,894	137,894
Banca IMI 1999/2024					
Fixed & Zero	IT0001304341	EUR	1-Feb-24	94,000	94,000
Banca IMI 1994/2024					
CMS TV	IT0001349023	EUR	5-Jul-24	10,000	10,000
Total					3,264,646

Certain bonds issued (dynamic fund/basket series) provide a return that is linked to baskets of financial instruments that also include units in mutual funds, incorporating options with the purpose of ensuring that the capital will be reimbursed upon maturity together with (in some cases) a minimum guaranteed return.

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 €40,861,000 as follows:

	31/12/03	31/12/04
70 Provision for employee severance indemnities	6,860	7,457
80 Provisions for risks and charges		
b) taxation	11,181	7,178
c) other provisions	6,462	5,017
90 Allowance for possible loan losses	21,209	21,209



Changes in item 70 “Provision for employee severance indemnities”

Opening balance	6,860
minus:	
- severance indemnities paid	(439)
- authorised advances	(50)
- amounts transferred to the Pension Fund	(1,107)
- other decreases	
plus:	
- provision for the year	2,193
Closing balance	7,457



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

The allowance for possible loan losses totalled €21,209,000, all of which was tax-exempt and set aside to cover potential risks, including those related to derivative contracts. Since these risks are only potential, this provision is not deducted from assets.



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

A. Opening balance	21,209
B. Increases	
B1. Provisions	-
B2. Other increases	-
C. Decreases	
C1. Utilisation	-
C2. 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 included €3,700,000 set aside to cover potential liabilities and losses related to disputes with customers and €1,317,000 provisions for personnel expenses which therefore have a balancing entry in item 80.a of the statement of income.

■

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

Opening balance	6,462
Increases	
- provisions	1,317
Decreases	
- utilisation during the year	(2,182)
- other decreases	(580)
Closing balance	5,017

The utilisation of €2,182,000 regarded the settlement of disputes with customers regarding services rendered. The increased provisions set aside for said risks (€580,000) were recorded in the Statement of Income for the period.

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Where other potential liabilities are concerned, a demand for €730,000 compensation was received during the financial year regarding commitments under a contract for the sale of equity investments entered into in previous financial years. Considering the demand to be without foundation both substantially and with regard to the law, and considering moreover that any potential risks are also covered by the reserve for general banking risks, no specific provisions were set aside regarding said claim.



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

The provision comprised current taxes for the year (IRAP regional business tax) totalling €1,350,000 and deferred tax liabilities of €5,828,000.



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

Opening balance	11,181
minus:	
- utilisation for tax payments	(10,956)
- other decreases	(2)
plus:	
- provision for current taxes for the year	1,350
- other increases	5,605
Closing balance	7,178

No prepayments were made during the year.



7.4 Changes in “Deferred tax assets”

1. Opening balance	9,742
2. Increases	
2.1 Deferred tax assets arising in the year	18,494
2.2 Other increases	
3. Decreases	
3.1 Deferred tax assets reversed in the year	(6,325)
3.2 Other decreases	(44)
4. Closing balance	21,867

The deferred tax assets in the year regarded advance tax paid with regard to the following: tax losses carried forward (€15,161,000), non-deductible write-downs of securities holdings in 2004 (€1,656,000), adjustments to loans (€248,000) and to temporarily non-deductible costs and provisions (€1,429,000).

The item “Deferred tax assets reversed in the year” regarded timing differences reversed in the year concerning non-deductible losses on investment securities recorded in the prior year financial statements totalling €4,989,000, the utilisation of allocations to the provisions for risks and charges totalling €912,000, costs of €103,000 that became tax-deductible as cash during the year and write-downs of equity investments, one fifth of which were tax-deductible, amounting to €321,000.

The breakdown of deferred tax assets as at 31 December 2004 is recorded in Part B, Section 5, above.

7.5 Changes in deferred tax liabilities

1. Opening balance	225
2. Increases	
2.1 Deferred tax liabilities arising in the year	5,605
2.2 Other increases	-
3. Decreases	
3.1 Deferred tax liabilities reversed in the year	-
3.2 Other decreases	(2)
4. Closing balance	5,828

The item “Deferred tax liabilities arising in the year” comprised €124,000 recorded in the statement of income regarding the €7,533,000 dividend accrued from subsidiary IMI Investments S.A. and €5,481,000 relating to a temporary deferment of share revaluations not yet completed.



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 together with the fact that the Bank has opted to be included in the Group’s tax consolidation regime. Tax-deductible and taxable timing differences are shown in items 5.1 and 7.5.

The corporate income tax (IRES) rate used to calculate the deferred tax assets and liabilities recorded was 33%, while the regional business tax (IRAP) rate used to calculate deferred taxation, recorded cautiously and solely regarding the taxation effects of timing differences, was 5.25%.



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

Total shareholders' equity at year-end 2004, including the reserve for general banking risks, was €453,485,000, while subordinated liabilities totalled €375,032,000.

	31/12/03	31/12/04
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	33,885
- Reserve for general banking risks (item 100)	2,000	2,000
- Net income (to be distributed)	58,826	70,340
Total Shareholders' Equity	410,145	453,485
Subordinated liabilities	225,000	375,032

The fully-paid-up share capital totalled €180m 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 €2m. 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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The breakdown of the available and distributable reserves forming part of the shareholders' equity as at 31 December 2004 is shown in the table below.

Subordinated liability	Amount	Possible use/s¹	Available
Share capital	180,000		-
Capital reserves:			
- additional paid-in in capital	131,260	A, B, C	131,248 ⁽²⁾
Accumulated income:			
- legal reserve	36,000	B	-
- extraordinary reserve	33,885	A, B, C	33,885
Reserve for general banking risks	2,000	A, B, C	2,000
Total	383,145		167,133 ⁽³⁾
Non-distributable			935 ⁽⁴⁾
Remainder distributable			166,198
Net income	70,340		70,340 ⁽⁵⁾

Legend:

- 1: A = capital increase B = to cover losses C = distribution to shareholders.
- 2: net of the reserve that was unavailable as shares held in the parent company, which totalled €12,000 as at 31 December 2004.
- 3: includes the amount available, as at 31 December 2004, in the reserve for the purchase of shares in the parent company, which amounted to €164,988,000.
- 4: regards start-up costs and other deferred costs capitalised.
- 5: the amount set aside for the payment of dividends was €69,714,000.

There were no reserves subject to taxation as at 31 December 2004.

Breakdown of item I 10 “Subordinated liabilities”

Subordinated liability	Currency	Amount (€)	Interest rate	Maturity	Advance repayment
Subordinated bond loan ⁽¹⁾ 1999-09	EUR	32,000	Variable	10.12.09	From 10.12.04 ⁽³⁾⁽⁴⁾
Subordinated bond loan ⁽¹⁾ 2004-14	EUR	165,000,000	Variable	30.12.14	From 30.12.09 ⁽³⁾
Tier 3 subordinated bond loan 2004-07 ⁽¹⁾⁽²⁾	EUR	150,000,000	Variable	29.06.07	No
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.

(4) On 14 December 2004, the Bank of Italy authorised the advance repayment of the full amount of the loan, which was originally for €150m. On 30 December 2004, the Bank reacquired a total par value of €149,968,000 of the loan concerned, which had been repaid in advance on 21 January 2005. In accordance with the offering circular, the Bank will avail itself of the option of advance repayment by the next coupon date (10 June 2005). The full amount of this loan was not therefore taken into account in calculating the regulatory capital as at 31.12.04.

The 1999-2008 subordinated loan of €15m was also repaid in advance during 2004.

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Regulatory capital

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

	31/12/03	31/12/04
A. Regulatory capital		
A.1 Tier 1 capital	340,073	376,688
A.2 Tier 2 capital	184,779	185,374
A.3 Deductions	(1,221)	(18,719)
A.4 Regulatory capital	523,631	543,343
B. Minimum regulatory requirements		
B.1 Credit risks	56,332	75,066
B.2 Market risks	466,654	564,185
<i>including: - trading portfolio risks</i>	<i>455,701</i>	<i>558,639</i>
- <i>exchange-rate risk</i>	<i>9,526</i>	<i>5,546</i>
- <i>concentration risks</i>	<i>1,426</i>	<i>-</i>
B.2.1 Tier 3 subordinated loans	(60,000)	(210,000)
B.3 Other minimum requirements	794	699
B.4 Total minimum requirements	523,780	639,951
C. Risk-weighted assets		
C.1 Risk-weighted assets (1)	7,490,053	9,151,293
C.2 Tier 1 capital / Risk-weighted assets	4.54%	4.12%
C.3 Regulatory capital / Risk-weighted assets (2)	7.79%	8.23%

(1) Total minimum regulatory 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 €12,444,456,000 as follows:

	31/12/03	31/12/04
Technical short positions in securities	859,182	2,446,560
Due to tax authorities:		
withholding taxes	1,651	1,619
other	1,040	532
Off-balance-sheet transactions:		
interest rate contracts	4,335,535	7,837,174
foreign exchange contracts	418,394	409,450
securities contracts	690,936	839,883
credit derivatives	21,658	15,761
index contracts	273	2,388
securities commitments	550	630
Options and similar instruments	595,891	793,976
Securities transactions to be settled	29,139	32,569
Liabilities in process of settlement	759	1,043
Customer advances	-	-
Personnel expenses due	23,921	26,091
Due to third parties	1,517	4,980
Other payables	48,461	31,800
Total	7,028,907	12,444,456

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

The increase in the balancing entries for the revaluation of off-balance-sheet transactions on interest rates was due to an increase in transactions and the related greater notional volumes outstanding at the end of the financial year.

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

Accrued expenses and deferred income amounted to €86,953,000 and €1,003,000 respectively, totalling €87,956,000.

The breakdown of accrued expenses was as follows:

	31/12/03	31/12/04
Technical short positions in securities	9,542	31,827
Interest on deposits	1	-
Interest on repurchase agreements	43,782	29,384
<i>including: - due to customers</i>	3,708	3,225
<i>- due to banks</i>	40,074	26,159
Interest on issues	28,451	14,745
Derivative contracts	3,086	5,405
Other accrued expenses	3,264	5,592
Total	88,126	86,953

Section 10 - Guarantees and commitments

10.1 Breakdown of item 10 “Guarantees issued”

	31/12/03	31/12/04
(a) Commercial guarantees	369	369
(b) Financial guarantees	-	-
(c) Assets lodged in guarantee	43,001	-

■

10.2 Breakdown of item 20 “Commitments”

	31/12/03	31/12/04
a) Commitments to grant finance (certain to be called on)	3,897,882	4,608,128
<i>including: - securities receivable for transactions to be settled</i>	2,327,627	2,363,403
- deposits and loans to be made	1,587,823	2,234,725
- margins on irrevocable lines of credit	10,000	10,000
b) Commitments to grant finance (not certain to be called on)	938,171	1,277,979
<i>including: - put options on securities</i>	729,449	1,240,406
- margins on revocable lines of credit	181,142	-
- commitments regarding membership of F.I.T.D. (Italian Interbank Deposit Protection Fund).	12	12

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Breakdown of item 30 “Credit derivatives”

This item comprised protection sold totalling €798,807,000 as at 31 December 2004. Protection sold as at 31 December 2003 totalled €318,161,000. See Table 10.6 for further information.



10.3 Assets lodged to guarantee the Bank's liabilities

	31/12/03	31/12/04
a) Derivatives transactions	31,407	48,011
b) Securities lending transactions	18,188	-
c) Repurchase agreements	6,259,562	6,501,862
d) Clearing transactions	-	-
e) BI-REL (Bank of Italy real-time gross settlement system) transactions	582,388	704,991
Total	6,891,545	7,254,864



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 2004: €1,526m).



10.5 Forward transactions

	31/12/03			31/12/04		
	Hedging	Trading	Other transactions	Hedging	Trading	Other transactions
1. Purchases/sales of						
1.1 Securities						
- purchases	-	2,327,627		-	2,363,405	
- sales	-	1,999,180		-	2,398,396	
1.2 Currency						
- cross-currency	-	183,738		-	186,591	
- purchases against euro	-	2,256,135		-	1,533,939	
- sales against euro	-	2,839,348		121,922	1,639,918	
2. Deposits and loans						
- to be disbursed	-		1,587,823	-		2,234,725
- to be received	-		2,641,659	-		4,967,634
3. Derivative contracts						
3.1 With exchange of capital						
a) securities						
- purchases	-	1,992,418		-	4,881,546	
- sales	-	2,002,936		-	2,326,719	
b) currency						
- cross-currency	-	1,366,169		-	4,860,256	
- purchases against euro	-	9,278,450		-	8,447,883	
- sales against euro	-	7,029,224		-	8,500,743	
c) other instruments						
- purchases	-	-	-			
- sales	-	-	-			
3.2 Without exchange of capital						
a) currency						
- cross-currency	-			-	25,950	
- purchases against euro	-	7,406		-	9,136	
- sales against euro	-	17,895		-	18,472	
b) other instruments						
- purchases		229,274,809	326,937		426,052,958	247,421
- sales	-	269,233,644	3,889,769	-	449,666,012	3,872,675

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Basis swaps totalled €23,063,564,000 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 €4,497,284,000 as at 31 December 2004, including structured financial instruments issued by Banca IMI with a total value of €4,120,096 recorded in the column “Other transactions”.

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 €2,425,273,000 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 2004. Each contract is recorded both at purchase and at sale.

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	3,832,120	4,065,544	4,065,544	3,832,120
Total				

The notional values of the transactions entered into as at 31 December 2003 were as follows:

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 €23,551,000 as at 31 December 2004 which were not recorded in the accounts (€75,583,000 as at 31 December 2003). 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

	31/12/03 Trading	31/12/03 Other transaction	31/12/04 Trading	31/12/04 Other transaction
1. Protection purchases				
1.1 With exchange of capital		-		-
Type of contract:				
credit default swap	321,000		832,683	149,518
1.2 Without exchange of capital	-	-	-	-
2. Protection sales				
2.1 With exchange of capital		-		-
Type of contract:				
credit default swap	318,161		798,807	
2.2 Without exchange of capital	-	-	-	-

Breakdown of transactions in credit derivatives

	31/12/03 Trading	31/12/03 Other transaction	31/12/04 Trading	31/12/04 Other transaction
Protection purchases				
- Banks	242,000	-	595,000	149,518
- Financial institutions	79,000	-	237,683	
Total	321,000	-	832,683	149,518
Protection sales				
- Banks	152,000	-	641,661	-
- Financial institutions	52,000	-	156,671	-
- Insurance Companies	114,161	-	475	-
Total	318,161	-	798,807	-

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The protection purchases totalling €149,518,000 shown in the column Other transactions related to credit default swap transactions entered into by the Bank to hedge the credit risk regarding special loans granted to a closed mutual fund.



Section II - Distribution of assets and liabilities

II.1 Significant exposures

The Bank had 8 positions that exceeded 10% of the regulatory capital, amounting to a risk-weighted total of €737,444,000. None of these positions exceeded 40% of the regulatory capital and there was therefore no further capital requirement for concentration risk.



II.2 Distribution of loans to customers by category of borrower

	31/12/03	31/12/04
a) Governments		
b) Other public entities		
c) Non-financial companies	118	118
d) Financial institutions	1,027,681	2,680,679
e) Family businesses		
f) Other operators		
Total	1,027,799	2,680,798



II.3 Distribution of loans to Italian-resident non-financial and family businesses

	31/12/03	31/12/04
a) Other services	118	118



11.4 Distribution of guarantees issued by main counterparty categories

	31/12/03	31/12/04
a) Governments	-	
b) Other public entities	-	
c) Banks	369	369
d) Non-financial companies		
e) Financial institutions	43,001	-
f) Family businesses	-	
g) Other operators	-	
Total	43,370	369

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11.5 Geographical distribution of assets and liabilities

Item/Country	Italy	Other EU	Other countries
1. Assets			
1.1 Due from banks	1,531,104	5,201,467	137,877
1.2 Loans to customers	406,477	2,047,030	227,291
1.3 Securities	6,426,039	5,180,542	136,874
2. Liabilities			
2.1 Due to banks	6,046,637	5,609,228	75,721
2.2 Due to customers	2,120,117	1,423,746	62,931
2.3 Securities issued	3,264,646		-
2.4 Other accounts	315,032	40,000	20,000
3. Guarantees and commitments	4,298,601	2,302,431	84,251

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11.6 Maturities of assets and liabilities

Item / Residual duration	SPECIFIED MATURITY		
	on demand	up to 3 months	between 3 months and 12 months
ASSETS			
Treasury Securities eligible for refinancing		27,447	124,726
Due from banks	488,790	5,748,256	611,911
Loans to customers	240,880	1,884,444	6,939
Bonds and other debt securities	0	100,986	2,275,908
“Off-balance-sheet” transactions	2,574,484	274,572,445	228,996,312
LIABILITIES			
Due to banks	3,054,468	5,174,750	3,502,368
Due to customers	352,255	3,254,539	
Securities issued			
Bonds			706,417
Subordinated liabilities		60,000	
“Off-balance-sheet” transactions	5,635,059	299,704,591	208,463,077

between 1 and 5 years		over 5 years		UNSPECIFIED MATURITY
fixed rate	floating rate	fixed rate	floating rate	
119,762	77,547	287,820	152,517	
				21,491
249,232			299,035	268
4,239,230	705,218	905,175	426,817	82
167,691,512	101,162,511	79,228,789	1,819,241	
2,057,094	11,820	385,315	104,000	
	150,032		165,000	
164,600,062	97,475,702	79,124,987	1,041,816	

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11.7 Assets and liabilities denominated in foreign currencies

	31/12/03	31/12/04		31/12/03	31/12/04
ASSETS			LIABILITIES		
1. Due from banks	85,202	387,457	1. Due to banks	26,263	265,893
2. Loans to customers	64,701	675,126	2. Due to customers	29,618	548,282
3. Securities	59,568	95,389	3. Securities issued	27,633	25,622
4. Equity investments	269,217	110,576	4. Other accounts	-	-
5. Other accounts	14	8			

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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.

The spot exchange rates as at 31 December 2004 of the main currencies used to calculate the counter values of the Bank's assets and liabilities are shown below.

Currency	Spot 31.12.03	Spot 31.12.04	Change %
US dollar	1.2630	1.3621	+7.85%
Pound sterling	0.7048	0.70505	+0.04%
Swiss franc	1.5579	1.5429	-0.96%
Japanese yen	135.0500	139.65	+3.41%
Canadian dollar	1.6234	1.6416	+1.12%



11.8 Securitisation transactions.

Securities held following securitisation of third parties.

The Bank operates in the securitisation sector as an arranger and holds securities in its trading portfolio that result from securitisation 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	2,963			2,963
	Non-performing				
Commercial/industrial/ agricultural mortgages	Performing	1,016			1,016
	Non-performing				
Leasing	Performing	8,100			8,100
	Non-performing				
Public real estate	Performing	20,214		91	20,305
	Non-performing				
National insurance contributions	Performing	25,497			25,497
	Problem loans				
Other loans	Performing	2,763	9,900		12,663
	Non-performing				
TOTAL		60,553	9,900	91	70,544

The adjustments made to securitised positions were negligible.

In 2004 the Bank acted as arranger and joint lead-manager for the ABS issues of the following securitisation transactions:

- SCIP 2 (€1,279m), securitisation of concessionary loans granted by the Ministry of Education, Universities and Research (Ministero dell'Istruzione, Università e Ricerca - MIUR) and Ministry of Production Activities (Ministero delle Attività Produttive - MAP) to enterprises in Italy for research.
- SPLIT 2 (€1,805m), securitisation of leasing payments originated by the Sanpaolo Group company Leasint.

The Bank also continued to act as master purchaser and assignee regarding a platform issuing asset-backed commercial paper as part of the rolling securitisation of loans originated by the Tacchini Group (€30.6m), regarding which it also acted as the co-guarantor of a liquidity line in favour of the issuing platform for the notes.

The risks and financial results connected with the positions resulting from the securitisation transactions are monitored in relation to an array of information, including 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 securitisation 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:

	31/12/03	31/12/04
a) Purchases		
1) settled	109,333,907	112,400,783
2) not settled	4,725	10,293
b) Sales		
1) settled	121,274,260	99,531,946
2) not settled	2,093	12,099

Purchases (item a.1) included €32,524,136,000 trading in derivatives on regulated markets on behalf of third parties. Sales (item b.1) included €19,550,417,000 regarding the same activity.



12.2 Asset management

The breakdown of assets under management was as follows:

	31/12/03	31/12/04
Securities issued by the Bank that prepares the financial statements	-	-
Other	1,170	-

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This activity was discontinued during the year as explained in the Report of the Directors.

12.3 Custody and administration of securities

	31/12/03	31/12/04
(a) Third-party securities held on deposit	13,484,183	9,725,404
(b) Third-party securities deposited with third parties	13,484,183	9,725,404
(c) Securities deposited with third parties	8,663,001	9,645,688

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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"

	2003	2004
(a) On amounts due from banks	160,161	105,923
<i>including: deposits with central banks</i>	747	826
(b) On loans to customers	47,863	82,413
<i>including: loans using third-party funds under management</i>		
(c) On debt securities	251,269	426,237
(d) Other interest income	72	-
(e) Net differential on hedging transactions	-	-
Total	459,365	614,573

Interest income on amounts due from banks included interest on repurchase agreements totalling €87,894,000. Interest income on loans to customers included interest on repurchase agreements totalling €12,107,000.

1.2 Breakdown of item 20 “Interest expense and similar charges”

	2003	2004
(a) On amounts due to banks	201,128	269,483
(b) On amounts due to customers	147,925	148,080
(c) On securities issued	68,497	72,313
<i>including: certificates of deposit</i>	-	
(d) On third-party funds under management	-	
(e) On subordinated liabilities	6,646	8,088
(f) Net differential on hedging transactions	8,453	1,602
Total	432,649	499,566

Interest expense on amounts due to banks included interest on repurchase agreements totalling €233,494,000. Interest expense on amounts due to customers included interest on repurchase agreements totalling €62,886,000.

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1.3 Analysis of item 10 “Interest income and similar revenue”

a) On assets denominated in foreign currencies	10,873
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1.4 Analysis of item 20 “Interest expense and similar charges”

a) On liabilities denominated in foreign currencies	9,122
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Section 2 - Commission income and expense

2.1 Breakdown of item 40 “Commission income”

	2003	2004
a) Guarantees issued	-	-
b) Credit derivatives	-	-
c) Asset management, brokerage and advisory services		
1. securities brokerage	32,989	36,551
2. currency brokerage	-	-
3. asset management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. custody and administration of securities	1,304	1,111
5. depository bank	102	51
6. placement of securities	25,844	26,143
7. acceptance of instructions	5,749	4,135
8. advisory services	24,432	13,416
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	669	716
Total	91,089	82,123

Securities brokerage commissions included €7,113,000 from brokerage on regulated derivatives markets on behalf of third parties.

The item “Advisory services” included €6,948,000 fees for advisory services regarding guaranteed/protected capital products issued by third parties (on a notional €2,147m).

2.2 Breakdown of item 40 “Commission income”: Distribution channels for products and services

	2003	2004
a) Own branches:		
1. asset management	-	-
2. placement of securities	25,844	26,143
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”

	2003	2004
a) Guarantees received	-	-
b) Credit derivatives	-	-
c) Asset management and brokerage services		
1. securities brokerage	22,114	18,665
2. currency brokerage	149	409
3. asset management		
3.1 proprietary portfolio	-	-
3.2 third-party portfolio	-	-
4. custody and administration of securities	2,612	3,534
5. placement of securities	39,969	50,268
6. sales of securities, financial products and services through non-branch channels	-	-
d) Collection and payment services	-	2
e) Other services	7,312	5,659
Total	72,156	78,537

Securities brokerage commissions included €3,779,000 from derivatives transactions, including €1,382,000 on behalf of third parties.

Commission expense on the placement of securities included €32,644,000 for the distribution of bonds issued by the Bank.

Commission expense on other services included €2,070,000 expenses paid to subsidiary Banca IMI Securities Corp. for administrative services and €2,411,000 bank charges.



Section 3 - Trading profits and losses on financial transactions

3.1 Breakdown of item 60 "Trading profits and losses on financial transactions"

Item/Transactions	Securities transactions 2004	Currency transactions 2004	Other transactions 2004
A.1 Revaluations	157,328	XXX	6,364,265
A.2 Write-downs	(119,329)	XXX	(6,323,550)
B Other profits/losses	75,702	(3,020)	(168,865)
Total	113,701	(3,020)	(128,150)
1. Government securities	22,935		
2. Other debt securities	47,931		
3. Equities	194,940		
4. Securities derivatives	-152,105		

Item/Transactions	Securities transactions 2003	Currency transactions 2003	Other transactions 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)		

As explained previously, the Bank issued bonds linked to baskets of financial instruments with embedded options with the aim of ensuring repayment of the capital and any minimum return, characterised by the application of a quantitative/mathematical risk management model. During 2004 the Bank refined the methodology and procedures for calculating and hedging the financial risks involved in these transactions, and also refined the pricing model (with a net positive effect on the Statement of Income of approximately €3.7m).

Section 4 - Administrative and operating expenses

Administrative and operating expenses totalled €125,080,000 as follows:

	2003	2004
Payroll costs	65,501	68,714
<i>including: - wages and salaries</i>	49,576	52,168
<i>- social security contributions</i>	13,216	13,795
<i>- provision for employee severance indemnities</i>	2,181	2,193
<i>- supplementary pension fund</i>	528	558
Other administrative and operating expenses	57,426	56,366
<i>including: - building rent and maintenance</i>	4,608	3,470
<i>- equipment and hardware maintenance</i>	2,951	2,626
<i>- software maintenance and upgrades</i>	2,911	3,560
<i>- postage and telegraphic expenses</i>	28	29
<i>- consultancy</i>	7,485	8,725
<i>- data transmission</i>	983	1,012
<i>- power</i>	254	507
<i>- advertising and entertainment</i>	2,744	2,206
<i>- telephone</i>	1,838	1,386
<i>- equipment rental</i>	461	501
<i>- insurance premiums</i>	309	460
<i>- legal services</i>	1,756	1,453
<i>- cleaning</i>	362	355
<i>- office supplies</i>	248	208
<i>- processing by third parties and market access</i>	9,374	8,095
<i>- data bank access fees</i>	9,460	10,299
<i>- couriers and transport</i>	157	54
<i>- maintenance of rented property</i>	145	347
<i>- trade union dues and trade/professional association membership fees</i>	631	638
<i>- secondment</i>	344	414
<i>- emoluments of directors and statutory auditors</i>	2,815	2,520
<i>- services by subsidiaries</i>	2,340	2,435
<i>- travel</i>	1,819	1,384
<i>- other personnel expenses</i>	1,344	1,581
<i>- books and periodicals</i>	224	203
<i>- assets valued at less than €516</i>	159	218
<i>- other expenses</i>	1,017	794
<i>- tax on stock market contracts</i>	189	230
<i>- indirect taxes and levies</i>	470	656
Total administrative and operating expenses	122,927	125,080

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4.1 Average number of employees

	2003	2004
Average number of employees:		
a) Executive personnel	48	50
b) Managers	289	296
c) Other personnel	190	174
Total	527	520



Section 5 - Adjustments, write-backs and provisions

Item 90 “Adjustments to intangible and tangible fixed assets” totalled €10,344,000 as follows:

	2003	2004
Intangible fixed assets	11,428	9,184
- amortisation of start-up and expansion costs	49	48
- amortisation of goodwill	362	362
- amortisation of software	10,406	8,144
- amortisation of other deferred costs	611	630
Tangible fixed assets	2,075	1,160
- depreciation of furniture and equipment	2,075	1,160
Total	13,503	10,344



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 (*)	33%

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

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

■

Breakdown of item 100 “Provisions for risks and charges”

None.

■

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

Adjustments to loans totalled €750,000 and related to cautious lower forecasts regarding the collection of receivables for services rendered as recorded under assets item 130. The adjustments were based on a cautious calculation of the probability of collecting the amounts due, taking into account a series of factors, including the request actions so far carried out and the date of the loan.

■

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Breakdown of item 130 "Write-backs to loans"

None.



Breakdown of item 140 "Provisions to the allowance for possible loan losses"

None.



Section 6 - Other statement of income items

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

	2003	2004
Dividends and other revenue (item 30)	227,829	87,435
Other operating income (item 70)	2,681	1,780
Other operating expenses (item 110)	(337)	(9)
Adjustments to financial fixed assets (item 150)	(432)	-
Extraordinary income (item 180)	5,166	13,054
Extraordinary expenses (item 190)	(5,709)	(2,045)
Income taxes for the year (item 220)	(32,294)	5,173



Breakdown of item 30 “Dividends and other revenue”

	2003	2004
Shares, quotas and other equities:		
dividends	144,769	78,233
tax credit	77,730	-
Equity investments:		
dividends		
Borsa Italiana SpA	1,546	1,546
Cedel International	-	-
Monte Titoli SpA	-	19
SIA SpA	104	104
IMI Investments SA	2,528	7,533
Sanpaolo IMI Institutional Asset Management Sgr SpA	210	-
tax credit	942	-
Total	227,829	87,435

The tax regime regarding profits from shareholdings changed from 1 January 2004, when the new tax provisions introduced by Italian Legislative Decree No. 344/03 came into force, moving from an imputation system - which provides for a mechanism that allocates a tax credit to the receiver in order to avoid double taxation - to an exemption system - more specifically the exclusion of up to 95% of the income from the tax basis. This is explained in greater detail in the Report of the Directors.

■

6.1 Breakdown of item 70 “Other operating income”

	2003	2004
Expenses recovered	2,369	1,042
Sums reimbursed for services to third parties		-
Sundry income and revenue	312	738
Total	2,681	1,780

The total shown for expenses recovered comprised €645,000, which were principally incurred in the provision of advisory services, and €397,000 secondment expenses recovered.

■

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6.2 Breakdown of item 110 “Other operating expenses”

	2003	2004
Miscellaneous other expenses	337	9
Total	337	9



Breakdown of item 150 “Adjustments to financial fixed assets”

	2003	2004
Adjustments to equity investments	432	-
Total	432	-

The total amount shown above regarded the write-down of the equity investment in IMI Solutions, carried out to bring the book value of the company into line with the value of the shareholders' equity as at 31 December 2003.



6.3 Breakdown of item 180 “Extraordinary income”

	2003	2004
Out-of-period income	3,147	6,753
Gains on sale of equity investments	52	5,064
Gains on disposal of furniture and equipment	39	6
Other extraordinary income	1,928	1,230
Total	5,166	13,053

Out-of-period income included a €2,173,000 tax rebate that the UK Inland Revenue paid our London branch, the settlement of a €1,775,000 claim regarding a securities transaction in 1999, the settlement of an €806,000 dividend claim regarding a stock lending transaction in the previous financial year; €717,000 lower charges settled and €450,000 credit notes received regarding costs recorded in prior years.

Gains on sale of equity investments regarded sales to related parties of equity investments in subsidiaries (Obiettivo SGR) or other Group companies (Sanpaolo IMI Asset



Management SGR S.p.A. and Sanpaolo Bank S.A., which had in its turn acquired IMI Bank (Lux). See section 3.6.1 in Part B of the Notes to the Financial Statements.

The item “Other extraordinary income” included a reduction in allocations to the provisions for risks and charges following the settlement of a number of outstanding accounts totalling €580,000 and a deferred component (subject to a suspensive condition during the year) of the €415,000 purchase price of IMIWeb UK (sold to the English group Halifax Share Dealing Ltd in 2003).

6.4 Breakdown of item 190 “Extraordinary expenses”

	2003	2004
Out-of-period expenses	2,282	1,993
Other extraordinary expenses for restructuring	510	-
Losses on sale of furniture and equipment	40	10
Losses on sale of intangible fixed assets	129	-
Losses on sale of equity investments	564	-
Other extraordinary expenses	2,184	42
Total	5,709	2,045

The item out-of-period expenses included the €455,000 settlement of prior year liabilities, €418,000 higher taxes paid, €351,000 lower revenues than estimated in prior years and €269,000 higher prior year costs than estimated.

■

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

	2003	2004
1. Current taxes	10,955	1,350
2. Change in deferred tax assets	21,305	(12,126)
3. Change in deferred tax liabilities	(34)	5,603
4. Income taxes for the year	32,294	(5,173)

■

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 revenues do not differ significantly from one another in view of the distinctive nature of the Bank's business.



Intra-group income and expenses (Sanpaolo IMI Group)

	2003	2004
Income:		
interest income and similar revenue	35,595	9,846
dividends and other income	2,738	7,533
commission income	11,944	15,418
income on financial transactions	2,931,603	2,101,536
other operating income	571	1,079
extraordinary income	-	-
Total income	2,982,451	2,135,412
Expenses:		
interest expense and similar charges	65,987	47,668
commission expense	40,049	49,234
charges on financial transactions	2,427,241	3,263,773
administrative costs	2,776	3,827
Extraordinary expenses	-	-
Total expenses	2,536,053	3,361,064



Part D - Other Information

Section 1 - Directors and statutory auditors

1.1 Emoluments

	2003	2004
(a) Directors	2,647	2,343
(b) Statutory Auditors	168	177

■

1.2 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 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

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.

The Bank is not required to prepare consolidated financial statements in accordance with article 27 of Italian Legislative Decree No. 87/92.

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Schedules

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 for the financial years 2002-2004

2004 financial year

	Share Capital	Legal reserve	Extraordinary reserve
Balance as at 31.12.2003	180,000	36,000	2,059
Allocation of profits for the year:			
Reserves			31,826
Dividends			
Net income 2004			
Prov. to Reserve for Gen. Banking Risks			
Balance as at 31.12.2004	180,000	36,000	33,885

2003 financial year

	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

2002 financial year

	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	Negative goodwill on merges	Reserve for banking risks	Net profit/ (loss)	Shareholders' equity
131,260	-	2,000	58,826	410,145
			(31,826)	
			(27,000)	(27,000)
		70,340	70,340	
131,260	-	2,000	70,340	453,485

Additional paid-in capital	Negative goodwill on merges	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	Negative goodwill on merges	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

Core financial statement data of the managing and coordinating company (Sanpaolo IMI SpA)

Key indicators of the Sanpaolo IMI Group

	2003	2002 pro-forma ⁽¹⁾	Change 2003/2002 pro-forma (%)	2002
Consolidated statement of income (€/m)				
Net interest income	3,716	3,653	+1.7	3,773
Net commissions and other net dealing revenues	3,036	2,795	+8.6	2,809
Administrative costs	-4,610	-4,578	+0.7	-4,648
Operating income	2,717	2,334	+16.4	2,360
Provisions and net adjustments to loans and financial fixed assets	-859	-1,412	-39.2	-1,426
Income before extraordinary items	1,700	704	+141.5	722
Net income of the Group	972	901	+7.9	889
Consolidated balance sheet (€/m)				
Total assets	202,580	199,645	+1.5	203,773
Loans to customers (excluding NPLs and SGA loans)	122,415	121,676	+0.6	124,115
Securities	25,292	21,406	+18.2	22,591
Equity investments	4,572	4,172	+9.6	4,064
Subordinated liabilities	6,414	6,605	-2.9	6,613
Shareholders' equity of the Group	10,995	10,702	+2.7	10,537
Customer financial assets (€/m)				
Customer financial assets	368,042	352,411	+4.4	356,281
- Direct deposits	131,721	133,236	-1.1	137,049
- Indirect deposits	236,321	219,175	+7.8	219,232
- Asset management	143,711	132,931	+8.1	131,515
- Asset administration	92,610	86,244	+7.4	87,717

Financial Highlights

	2003	2002 pro-forma ⁽¹⁾	Change 2003/2002 pro-forma (%)	2002
Profitability ratios (%)				
ROE ⁽²⁾	9.0	8.3		8.3
Cost/Income ratio ⁽³⁾	61.9	65.1		65.1
Net commissions/Administrative costs	65.9	61.1		60.4
Credit risk ratios (%)				
Net non-performing loans/Net loans to customers	0.9	1.0		1.1
Net problem loans and loans in restructuring/Net loans to customers	1.1	1.2		1.1
Solvency ratios (%) ⁽⁴⁾				
Core tier 1 ratio	6.6	6.6		6.6
Tier 1 ratio	7.4	7.3		7.3
Total ratio	10.5	10.7		10.7
Shares ⁽⁴⁾				
Number of shares (millions)	1,837	1,837	-	1,837
Quoted price per share (€)				
- average	8,158	9,439	-13.6	9,439
- low	5,796	5,231	+10.8	5,231
- high	11,346	13,702	-17.2	13,702
Earnings/Average number of shares in circulations (€)	0.53	0.48	+10.4	0.48
Dividend per share (€)	0.39	0.30	+30.0	0.30
Dividend per share/Average annual price (%)	4.78	3.18		3.18
Book value per share (€) ⁽⁵⁾	6.00	5.74	+4.5	5.74
Operating structure				
Employee	43,465	45,217	-3.9	45,650
Domestic branches	3,168	3,115	+1.7	3,069
Foreign branches and representative offices	122	114	+7.0	153
Financial planners	4,675	4,951	-5.6	4,955

(1) The pro forma figures, which are unaudited, were prepared taking into consideration the changes in the consolidation area, according to the criteria detailed in the Explanatory Notes. In particular, from 1/1/2002, the line by line consolidation of Eptaconsors and Inter-Europa Bank, the proportional consolidation of Cassa dei Risparmi di Forlì and the exclusion of Banque Sanpaolo, Finconsumo Banca and IW Bank from the consolidation area, have been assumed; in the pro forma figures the latter have been carried at equity.

(2) Net income / Average net shareholders' equity (calculated as the arithmetical average of the values at year end).

(3) Administrative costs (excluding indirect duties and taxes) and amortization (excluding adjustments to goodwill and merger and consolidation differences) / Net interest and other banking income (including other net income).

(4) The comparative figures for 2002 are not pro forma.

(5) Net shareholders' equity / Number of shares in circulation.

Reclassified Consolidated Balance Sheet (Sanpaolo IMI)

	31.12.2003 (€/m)	31.12.2002 pro-forma ⁽¹⁾ (€/m)	Change 31.12.2003/ 31.12.2002 pro-forma (%)	31.12.2002 (€/m)
Assets				
Cash and deposits with central banks and post office	1,474	1,499	-1.7	1,406
Loans	146,877	145,921	+0.7	148,701
- due from banks	22,278	21,744	+2.5	22,000
- loans to customers	124,599	124,177	+0.3	126,701
Dealing securities	22,357	19,015	+17.6	19,694
Fixed assets	9,822	9,103	+7.9	9,596
- investments securities	2,935	2,391	+22.8	2,897
- equity investments	4,572	4,172	+9.6	4,064
- intangible fixed assets	343	398	-13.8	406
- tangible fixed assets	1,972	2,142	-7.9	2,229
Difference arising on consolidation and on application of the equity method	959	1,080	-11.2	1,030
Other assets	21,091	23,027	-8.4	23,346
Total assets	202,580	199,645	+1.5	203,773
Liabilities				
Payables	160,255	157,369	+1.8	161,505
- due from banks	28,534	24,133	+18.2	24,456
- due to customers	131,721	133,236	-1.1	137,049
Provisions	4,019	3,889	+3.3	3,813
- for taxation	732	742	-1.3	670
- for termination indemnities	946	967	-2.2	961
- for risks and charges	2,037	1,832	+11.2	1,839
- for pensions and similar	304	348	-12.6	343
Other liabilities	20,626	20,738	-0.5	20,971
Subordinated liabilities	6,414	6,605	-2.9	6,613
Minority interests	271	342	-20.8	334
Shareholders' equity	10,995	10,702	+2.7	10,537
Total liabilities	202,580	199,645	+1.5	203,773
Guarantees and commitments				
Guarantees given	19,912	20,060	-0.7	20,483
Commitments	25,839	27,287	-5.3	27,574

(1) The pro forma figures as of 31 December 2002, which are unaudited, were prepared to enable consistent comparison with the figures as of 31 December 2003. The pro forma schedules reflect the line by line consolidation of the Inter-Europa Bank and Eptaconsors and the proportional consolidation of Cassa dei Risparmi di Forlì commencing from 1 January 2002, as well as the exclusion of Banque Sanpaolo and IW Bank from the line by line consolidation area and of Finconsumo Banca from the proportional consolidation area as of the same date.

Reclassified Consolidated Statement of Income (Sanpaolo IMI)

	31.12.2003 (€/m)	31.12.2002 pro-forma ⁽¹⁾ (€/m)	Change 31.12.2003/ 31.12.2002 pro-forma (%)	31.12.2002 (€/m)
Net interests income	3,716	3,653	+1.7	3,773
Net commissions and other net dealing revenues	3,036	2,795	+8.6	2,809
Profits and losses from financial transactions and dividends on shares	447	304	+47.0	286
Profits from companies carried at equity and dividends from shareholdings	283	314	-9.9	292
Net interests and other banking income	7,482	7,066	+5.9	7,160
Administrative costs	-4,610	-4,578	+0.7	-4,648
- <i>personnel</i>	-2,841	-2,814	+1.0	-2,856
- <i>other administrative costs</i>	-1,512	-1,508	+0.3	-1,528
- <i>indirect duties and taxes</i>	-257	-256	+0.4	-264
Other operating income, net	329	354	-7.1	358
Adjustments to tangible and intangible fixed assets	-484	-508	-4.7	-510
Operating income	2,717	2,334	+16.4	2,360
Adjustments to goodwill and merger and consolidation differences	-158	-218	-27.5	-212
Provisions and net adjustments to loans and financial fixed assets	-859	-1,412	-39.2	-1,426
- <i>provisions for risks and charges</i>	-195	-261	-25.3	-261
- <i>net adjustments to loans and provisions for guarantees and commitments</i>	-724	-590	+22.7	-604
- <i>net adjustments to financial fixed assets</i>	60	-561	n.s.	-561
Income before extraordinary items	1,700	704	+141.5	722
Net extraordinary income/expense	-32	320	n.s.	296
Income before taxes	1,668	1,024	+62.9	1,018
Income taxes for the period	-657	-443	+48.3	-450
Change in reserve for general banking risks	9	363	-97.5	364
Income attributable to minority interests	-48	-43	+11.6	-43
Net income	972	901	+7.9	889

(1) The pro forma figures for 2002, which are unaudited, were prepared to enable consistent comparison with the figures for 2003. The pro forma schedules reflect the line by line consolidation of the Inter-Europa Bank and Eptaconsors and the proportional consolidation of Cassa dei Risparmi di Forlì commencing from 1 January 2002, as well as the exclusion of Banque Sanpaolo and IW Bank from the line by line consolidation area and of Finconsumo Banca from the proportional consolidation area as of the same date.

Individual Balance Sheet (Sanpaolo IMI S.p.A)

	31.12.2003	31.12.2002 pro-forma	31.12.2002
(All figures in euros)			
Assets			
10. Cash and deposits with central banks and post offices	741,061,563	985,719,740	985,719,740
20. Treasury bills and similar bills eligible for refinancing with central banks	2,191,213,836	1,553,698,471	1,553,698,471
30. Due from banks	27,384,886,332	21,031,579,984	20,951,323,060
40. Loans to customers	63,982,919,330	76,806,767,958	76,158,636,358
50. Bonds and other debt securities	9,047,597,319	12,165,781,481	12,813,913,081
60. Shares, quotas and other equities	807,678	329,736,031	329,736,031
70. Equity investments	2,013,834,465	1,669,779,042	1,619,592,372
80. Investments in Group companies	8,277,025,695	6,416,892,969	6,693,119,740
90. Intangible fixed assets	796,715,430	1,645,991,252	1,612,606,208
100. Tangible fixed assets	1,273,642,861	1,484,169,967	1,416,269,773
120. Own shares or quotas	33,539,430	7	7
130. Other assets	7,460,680,759	9,002,121,539	9,044,329,784
140. Accrued income and prepaid expenses	1,776,121,286	1,828,095,749	1,828,037,680
Total assets	124,980,045,984	134,920,334,190	135,006,982,305

The pro forma balance sheet as of 31/12/2002, unaudited, has been prepared in order to enable comparability with the balance sheet as of 31/12/2003.

	31.12.2003	31.12.2002 pro-forma	31.12.2002
(All figures in euros)			
Liabilities			
10. Due to banks	37,799,877,102	31,020,049,520	31,020,049,520
20. Due to customers	40,499,322,667	55,690,036,510	55,741,833,510
30. Securities issued	19,131,734,612	19,375,280,452	19,375,280,452
40. Public funds administered	32,150,975	90,528,461	90,528,461
50. Other liabilities	7,538,892,559	8,336,621,202	8,279,336,152
60. Accrued expenses and deferred income	1,254,881,271	1,338,243,873	1,338,243,873
70. Provisions for employee termination indemnities	529,121,440	687,423,706	686,918,780
80. Provisions for risks and charges	1,960,464,126	2,180,723,365	2,427,868,887
100. Reserve for general banking risks	-	-	-
110. Subordinated liabilities	5,887,492,939	6,090,475,262	6,090,475,262
120. Capital	5,144,064,800	5,144,064,800	5,144,064,800
130. Additional paid-in capital	707,767,359	707,767,359	707,767,359
140. Reserves	3,669,966,295	3,301,641,905	3,340,535,833
170. Income for the period	824,309,839	918,597,775	764,079,416
Total liabilities and shareholders' equity	124,980,045,984	134,920,334,190	135,006,982,305
Guarantees and commitments			
10. Guaranties given	29,298,297,442	30,142,155,929	30,142,155,929
20. Commitments	14,056,523,002	14,180,937,609	14,180,832,609

Individual Statement of Income

	31.12.2003	31.12.2002 pro-forma	31.12.2002
(All figures in euros)			
Assets			
10. Interest income and similar revenues	4,158,712,007	5,364,650,288	5,363,502,175
20. Interest expense and similar charges	-2,309,876,098	-3,260,654,484	-3,260,552,884
30. Dividends and other revenues	832,552,209	638,071,007	709,742,039
40. Commission income	1,569,038,623	1,629,967,463	1,629,952,170
50. Commission expense	-102,281,598	-118,485,513	-117,600,220
60. Profits (losses) on financial transactions	89,413,766	43,917,660	43,917,660
70. Other operating income	385,088,588	319,319,041	257,529,983
80. Administrative costs	-2,723,238,361	-2,958,984,731	-2,866,395,942
90. Adjustments to tangible and intangible fixed assets	-453,381,249	-555,674,041	-534,010,971
100. Provisions for risks and charges	-117,465,213	-152,227,607	-151,077,607
110. Other operating expense	-9,687,915	-5,935,063	-5,934,964
120. Adjustments to loans and provisions for guarantees and commitments	-590,568,066	-424,571,182	-424,571,182
130. Writebacks of adjustments to loans and provisions for guarantees and commitments	189,611,407	173,210,939	173,210,939
140. Provisions to the reserves for probable loan losses	-	-	-
150. Adjustments to financial fixed assets	-145,432,134	-339,376,737	-338,475,902
160. Writebacks of adjustments to financial fixed assets	84,264,640	861,243	861,243
170. Income from ordinary activities	856,750,606	354,088,284	480,096,538
180. Extraordinary income	636,391,869	608,595,985	496,084,660
190. Extraordinary expense	-403,332,366	-160,425,467	-160,241,059
200. Extraordinary net income	233,059,503	448,170,519	335,843,602
210. Change in reserve for general banking risks	-	358,369,442	358,369,442
220. Income taxes for the period	-265,500,270	-242,030,471	-410,230,167
230. Income for the period	824,309,839	918,597,775	764,079,416


Adjustments for alignment with aggregate income for 2002
(SANPAOLO IMI + Cardine Finanziaria)

38,880,000

Aggregate net income for 2002 (SANPAOLO IMI + Cardine Finanziaria)

957,477,775

The pro forma balance sheet as of 31/12/2002, unaudited, has been prepared in order to enable comparability with the balance sheet as of 31/12/2003.



- **Report and Resolutions**

Report of the Board of Statutory 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 inform you of the auditing activities we have carried out and the most important decisions resulting therefrom, declaring that during the financial year ended 31 December 2004 we carried out the auditing activities provided for by Italian law, acting in conjunction with the Independent Auditors and in accordance with the code of conduct recommended for Boards of Auditors by the professional body of the accounting profession 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 adequacy of the company's organisational structure and its respect for proper management principles within the bounds of our remit, through direct observation, obtaining information from senior 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 keeping each other mutually informed, notified 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 auditing procedures. The Independent Auditors' report, issued on 14 March 2005, does not contain any related qualifications or other reservations.

During the auditing activities described above, no significant issues came to our attention requiring notification to the Supervisory Authorities or mention in this report.

In consideration of the above, within the bounds of our remit, the Board of Statutory Auditors cannot see any reason to oppose approving the financial statements as at 31 December 2004 and the motions of the Board of Directors.

Milan, 18 March 2005

The 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 Sole Shareholder of
BANCA D'INTERMEDIAZIONE MOBILIARE IMI S.p.A.**

1. We have audited the financial statements of Banca d'Intermediazione Mobiliare IMI S.p.A. as of December 31, 2004. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior year, which are presented for comparative purposes as required by law, reference should be made to the auditors' report issued by us on March 18, 2004.

3. In our opinion, the financial statements present fairly the financial position of Banca d'Intermediazione Mobiliare IMI S.p.A. as of December 31, 2004, and the results of its operations for the year then ended in accordance with the Italian law governing financial statements.
4. As required by law, the Bank has reported in the notes to the financial statements the key data of the most recent financial statements of the managing and coordinating company. Our opinion on the financial statements of Banca d'Intermediazione Mobiliare IMI S.p.A. does not cover such data.

DELOITTE & TOUCHE S.p.A.

Signed by
Ezio Bonatto
Partner

Milan, Italy
March 14, 2005

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

Minutes of the ordinary general meeting of 05.04.2005

At 11.30 hrs on 5 April 2005, BANCA D'INTERMEDIAZIONE MOBILIARE IMI S.p.A's shareholders met for the Ordinary General Meeting, in first call, to discuss and deliberate the following:

1. Approval of the 2004 financial statements

DELIBERATE OMISSION

The Chairman, with the agreement of those present, [*deliberate omission*] declared that the meeting was legally constituted to deliberate the items on the agenda.

1. Approval of the 2004 financial statements and consequent resolutions

The shareholders' meeting was required to examine and approve the Bank's financial statements for 2004, which show that Banca IMI ended the financial year with net income of €70,340,121, and the proposal by the Board of Directors to pay a dividend of €0.3873 for each share issued, thereby allocating €69,714,000 for this purpose, as well as allocating the remaining €626,121 to the extraordinary reserve. The financial statements as at 31 December 2004, the report of the Board of Directors and the report of the Board of Auditors were taken as read with the unanimous agreement of those present.

The meeting, having examined the Statutory Auditors Report and the External Auditors Report of Independent Auditors issued by Deloitte & Touche S.p.A., approved the Report of the Directors and the financial statements as at 31 December 2004 and related notes, and likewise approved the allocation of €69,714,000 of the net income to dividends and €626,121 to the extraordinary reserve.

The Chairman reported with regard to the recent notice No. DME/5015175 of 10 March 2005 from the Italian National Commission for Listed Companies and the Stock Exchange (CONSOB), concerning the procedures for transition to the

International Accounting Standards/International Financial Reporting Standards (IAS/IFRS), that the Bank had completed the activities for identifying and evaluating the impact that the introduction of the new standards will have on its accounting and organisational processes. Specifically, and partly as a result of delays in the definition of the reference regulatory framework regarding financial assets and liabilities (IAS 32/39), the Bank was in the process of implementing the related operating procedures (management of securities and bonds issued as well as hedging relationships), which are planned to be in operation by the time of the half-year reporting deadlines. The impact of the implementation of the remaining standards (for which, unlike the former, a comparison with the results of the 2004 financial year is required) was not at that date estimated to be significant (approximately +€1.7m on shareholders' equity as at 31 December 2004). It was moreover stated that the work of the independent auditors on the results of the transition would be commencing shortly. The Meeting took due note.

DELIBERATE OMISSION

Secretary
(Signed LUCIANO CASIROLI)

Chairman
(Signed PIETRO MODIANO)



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