# SANPAOLO IMI


# ANNUAL REPORT 2004

SANPAOLO IMI GROUP

# 2004 Annual Report

SANPAOLO IMI S.p.A.

COMPANY REGISTERED IN THE REGISTER OF BANKS

PARENT BANK OF THE SANPAOLO IMI BANKING GROUP

REGISTERED IN THE REGISTER OF BANKING GROUPS

REGISTERED OFFICE: PIAZZA SAN CARLO 156, TURIN, ITALY

SECONDARY OFFICES:

- VIALE DELL'ARTE 25, ROME, ITALY

- VIA FARINI 22, BOLOGNA, ITALY

SHARE CAPITAL EURO 5,217,679,140.80 FULLY PAID

FISCAL CODE, VAT NUMBER AND REGISTRATION NUMBER

TURIN REGISTER OF COMPANIES: 06210280019

ABI CODE 1025-6

MEMBER OF THE INTERBANK DEPOSIT GUARANTEE FUND

| | |
|---|---|
| Luigi Arcuti | *Honorary Chairman* |

## Board of Directors

| | |
|---|---|
| Enrico Salza (*) | *Chairman* |
| Maurizio Barracco | *Director* |
| Pio Bussolotto (*) | *Director* |
| Giuseppe Fontana | *Director* |
| Ettore Gotti Tedeschi (*) | *Director* |
| Alfonso Iozzo (*) | *Managing Director* |
| Virgilio Marrone | *Director* |
| Iti Mihalich | *Director* |
| Anthony Orsatelli | *Director* |
| Emilio Ottolenghi (*) | *Director* |
| Orazio Rossi (*) | *Deputy Chairman* |
| Gian Guido Sacchi Morsiani (*) | *Director* |
| Alfredo Saenz Abad | *Director* |
| Mario Sarcinelli | *Director* |
| Leone Sibani | *Director* |
| Alberto Tazzetti | *Director* |
| Josè Manuel Varela (*) | *Director* |

*(*) Members of the Executive Committee*

## Board of Statutory Auditors

| | |
|---|---|
| Mario Paolillo | Chairman |
| Aureliano Benedetti | *Auditor* |
| Maurizio Dallocchio | *Auditor* |
| Paolo Mazzi | *Auditor* |
| Enrico Vitali | *Auditor* |
| Stefania Bortoletti | *Supplementary Auditor* |
| Gian Luca Galletti | *Supplementary Auditor* |

## Chief Executive Officer

Pietro Modiano

## Independent Auditors

PricewaterhouseCoopers S.p.A.

# Contents

# Agenda of the Shareholders' Meeting

TURIN

1st calling for the ordinary meeting: 28 April 2005
2nd calling for the ordinary meeting: 29 April 2005

1. Financial statements as of 31 December 2004, reports of the Board of Directors and the Board of Statutory Auditors; allocation of net income; consolidated Group financial statements as of 31 December 2004

2. Authorization for the purchase and sale of own shares

3. Nomination of the Board of Statutory Auditors for the financial years 2005/2006/2007 (pursuant to Art. 20 of the Articles of Association)

4. Determination of the remuneration payable to the Members of the Board of Statutory Auditors

5. Decisions in respect of the remuneration payable to the Directors

# Letter to the Shareholders

Shareholders,

I am delighted to be addressing you as Chairman of the company for the first time and to present the results for 2004. Once again, the performance of SANPAOLO IMI has been more than positive, in - it must be emphasized - far from favorable external conditions. The Italian economy continued to be weak in 2004 and featured increasing problems concerning its competitiveness on international markets. In this context, the increase of 43.3% in net profit and 15.8% in ordinary profit can be attributed to the combined action in revenue growth and cost containment. I really must draw attention to the fact that these objectives were achieved thanks to the considerable contribution of the quality of service offered to our customers and, most importantly, the commitment of the entire workforce, and I would like to take this opportunity to thank them.

Apart from the income results, 2004 closed positively also from other points of view, as solid foundations were laid for achieving ambitious but sustainable growth targets. The governance system has improved at every level and this is an essential condition to defining strategic targets and ensuring prompt and efficient operating and commercial decisions.

The renewal of the company boards coincided with a series of other important initiatives.

The agreement among some of the main shareholders was renewed: the important subscribing international companies are, in addition to the conferring banking foundations of Turin, Padua and Bologna, Santander Central Hispano and Caisse Nationale des Caisses d'Epargne, allowing Group management to count on considerable support for strategic medium- and long-term decisions. I believe that the composition of this agreement and, more in general, our whole shareholder structure, is an element of strength for the Group. At a time of debate on the openness of the Italian banking system to foreign investors, your bank is, and has been for a considerable time, one of those most open and willing to create synergies offering considerable scope to international partners.

But what is most important is the interpretation of the role of your bank in this setting: this is not a one-way opening, but is balanced by important shares held in the same foreign shareholders, as well as a significant direct presence of the Group on the major international financial marketplaces and foreign markets of strategic interest to our customers. It should be noted that SANPAOLO IMI is directly present in 33 countries and has the widest geographical network of all the Italian banks, confirming a traditional tendency for openness towards other markets. The internationalization of the shareholder structure, the geographical extension of the network and operations, as well as the availability of an international management, mean that our targets and our ambition are aimed at achieving an adequate international level too. We are ready to do this by targeting a strategic commitment on opportunities which can maximize and enhance the strengths of your bank, increasing its value.

The heated debate on the prospects of consolidating the Italian banking system on a European scale demands a slight digression. As I said, Italy continues to face a problem of international competitiveness, structurally attributable to a considerable imbalance of comparative advantages in favor of the traditional sectors in which the growth of foreign commerce is more modest and the pressures of competition from developing countries are stronger. In order to relaunch competitiveness it is vital to favor the movement of human, technological and financial resources from sectors in difficulty towards those under expansion.

As the main source of financial resources to companies, the Italian banking system performs a crucial role, supporting the process to reposition the production system at a globally competitive level. To restore the balance of the country's system of competitive advantages, adequately sized financial institutions are needed to sustain the financial risks, as well as the operating and management complexity, associated with this repositioning process. The dimensional problem of the production system, frequently underlined by the Governor of the Bank of Italy, comes up again with regard to that part of the banking system, to which SANPAOLO IMI belongs, which aims to be an instrument for the development, growth and internationalization of companies.

Any opportunities for aggregation and consolidation which might arise in the future will not distract the attention of the management from the needs for greater integration and efficiency among the Group's multiple components, and for further refinement of the governance and company control structure.

The renewal of the corporate boards provided an opportunity to simplify the Group management structure, with the centralization of operating powers in the Chief Executive Officer and the new Managing Director, who took up office at the end of November. This simplification of the operating executive structure was made possible thanks to the IT, organizational and commercial integration of all the Group banks in 2004, which accompanied the aggregation process begun in 1998 with the merger between San Paolo and IMI, the subsequent aggregation of Banco di Napoli and, lastly, the merger with the Cardine Group. On this subject, I think that the Group and its shareholders should offer their thanks for the complex task completed to all the Chief Executive Officers who have succeeded one another. Today the Group has a business model which protects the specific territorial characteristics and the experiences and professional skills acquired over the years but, at the same time, is capable of guaranteeing a univocal presence in the country. This model enables unitary governance of all the commercial banking activities, with obvious advantages in terms of cost, commercial effectiveness, product specialization and staff training.

During 2004, the governance optimization program also involved the main specialized companies - the so-called product factories - through a process of corporate rationalization and industrial strengthening. I am referring particularly to the insurance and asset management sectors. Remember that 2004 saw the birth of a new company, Assicurazioni Internazionali di Previdenza - A.I.P. -, which has concentrated all the Group's insurance activities, creating the second most important Italian pole in the life insurance sector. The foundations were laid for operating and commercial growth which, starting from the consolidated domestic leadership of the "bancassurance" sector, should lead this company to develop also in new insurance sectors such as pensions and personal and property insurance. The top management of Fideuram was redefined and all the Group activities specialized in managing funds were concentrated into Sanpaolo Asset Management, in order to offer to customers products which are increasingly tailored to their needs and especially to the different risk/return profiles. Also considering the extraordinary growth registered in Italy over recent years, both sectors have to face extremely fierce international competition: in order to be capable of sustaining this competitive pressure, I believe it is vital to reflect on the situation in terms of economies of scale at European level.

Shareholders, 2004 was a year of change in many areas, not least in accounting. The financial statements submitted are the last to be prepared in accordance with Italian accounting standards: in 2005 the International Accounting Standard (IAS) will be applied, leading to significant changes. The new criteria will obviously be explained in detail in the next financial statements but, in short, I can anticipate that they will represent a transition towards methods more consistent with market values, with, in some cases, not insignificant impacts, especially in the evaluation of equity accounts. Your Group arrives at this deadline more than ready - also thanks to the fact that the Company has been listed on the New York Stock Exchange for some time, with criteria already in line with international accounting best practices - able to count not only on its traditionally solid capital structure but, most importantly, on a quality of assets and a mix of revenues of absolute excellence in the Italian banking scenario. SANPAOLO IMI can only benefit from the innovations of the accounting regulations introduced and from the ensuing improved comparability with the financial statements of the leading international banks.

In the light of the positive profitability results achieved in the year, comforted by the simulations of the impact on equity of the IAS and the rules of Basel 2, the Board of Directors has decided to propose to shareholders the payment of a dividend of 0.47 euro per share, which represents a 21% increase compared with last year and a payout of 63%. On the basis of the average share price in 2004, the dividend proposed represents a dividend yield of 4.78%, which I think can be classed as a good financial return for shareholders, who naturally have the final say.

I think these considerations represent encouraging elements thanks to which the forecast challenges can be faced with security and determination. This is why I am able to guarantee the commitment of the whole Group, at every level of managerial responsibility, safe in the knowledge that the team will pull together with a new level of enthusiasm. I believe that the intensity, speed, direction and quality of the changes to be imprinted in order to do business, increase value and express full potential, are not independent of an act of willingness and intelligence. Your company can count on plenty of intelligent individuals and there is the willingness to put this intelligence to the test in order to give whole-hearted support to the relaunch of the country's economic fabric.

There is a general feeling that this country needs an effort and commitment which are not simply ordinary, but truly extraordinary, to obtain stable and consistent growth rates. And this is an extraordinary effort which, in order to succeed, must be carried forward by all those involved, without exclusion: by the political world, institutions, entrepreneurs, trade unions and the banking industry. However, I am proud to say that your company is ready to do everything, absolutely everything, it can, as I, together with all those around me, am fully aware that corporate responsibility, and most especially that of the banking industry, consists in practical terms in a truly collective responsibility. Within this responsibility the economic contents combine - and in this context more than ever - with an imperative which - without pretension but also with some pride - I have no hesitation in describing as ethical.

Turin, 22 March 2005

The Chairman

# Key figures

| | 2004 | 2003 (1) | Change 2004 / 2003 (%) |
|---|---|---|---|
| **CONSOLIDATED STATEMENT OF INCOME (€/mil)** | | | |
| Net interest income | 3,569 | 3,716 | -4.0 |
| Net commissions and other net dealing revenues | 3,240 | 3,036 | +6.7 |
| Administrative costs | -4,565 | -4,610 | -1.0 |
| Operating income | 2,890 | 2,704 | +6.9 |
| Provisions and net adjustments to loans and financial fixed assets | -738 | -859 | -14.1 |
| Income before extraordinary items | 1,953 | 1,687 | +15.8 |
| Net income | 1,393 | 972 | +43.3 |
| **CONSOLIDATED BALANCE SHEET (€/mil)** | | | |
| Total assets | 211,157 | 202,580 | +4.2 |
| Loans to customers (excluding NPLs and loans to SGA) | 119,932 | 122,415 | -2.0 |
| Securities | 29,344 | 25,292 | +16.0 |
| Equity investments | 4,503 | 4,572 | -1.5 |
| Subordinated liabilities | 6,955 | 6,414 | +8.4 |
| Shareholders' equity | 11,804 | 10,995 | +7.4 |
| **CUSTOMER FINANCIAL ASSETS (€/mil)** | | | |
| Customer financial assets | 377,444 | 368,042 | +2.6 |
| - Direct deposits | 135,202 | 131,721 | +2.6 |
| - Indirect deposits | 242,242 | 236,321 | +2.5 |
| - Asset management | 144,485 | 143,711 | +0.5 |
| - Asset administration | 97,757 | 92,610 | +5.6 |
| **PROFITABILITY RATIOS (%)** | | | |
| RoE (2) | 12.2 | 9.0 | |
| Cost / Income ratio (3) | 63.5 | 65.3 | |
| Net commissions / Administrative costs | 71.0 | 65.9 | |
| **CREDIT RISK RATIOS (%)** | | | |
| Net non-performing loans / Net loans to customers | 1.0 | 0.9 | |
| Net problem loans and loans in restructuring / Net loans to customers | 1.1 | 1.1 | |
| **EQUITY SOLVENCY RATIOS (%)** | | | |
| Core tier 1 ratio | 7.4 | 6.6 | |
| Tier 1 ratio | 8.1 | 7.4 | |
| Total risk ratio | 12.0 | 10.5 | |
| **SHARES** | | | |
| Number of shares (thousands) | 1,863,457 | 1,837,166 | +1.4 |
| Quoted price per share (€) | | | |
| - average | 9.826 | 8.158 | +20.4 |
| - low | 8.799 | 5.796 | +51.8 |
| - high | 11.072 | 11.346 | -2.4 |
| Earnings / Average number of shares in circulation (€) | 0.76 | 0.53 | +43.4 |
| Dividend per share (€) | 0.47 | 0.39 | +20.5 |
| Dividend per share / Average annual quoted price (%) | 4.78 | 4.78 | |
| Book value per share (€) (4) | 6.35 | 6.00 | +5.8 |
| **OPERATING STRUCTURE** | | | |
| Employees | 42,738 | 43,465 | -1.7 |
| Domestic branches | 3,205 | 3,168 | +1.2 |
| Foreign branches and representative offices | 131 | 122 | +7.4 |
| Financial planners | 4,317 | 4,675 | -7.7 |

*(1) For a better comparison with the figures for 2003, tax credit on dividends from shareholdings previously booked under "Profits from companies carried at equity and dividends from shareholdings" has been reclassified among "Income taxes for the period".*
*(2) Net income / Average net shareholders' equity (calculated as the average of the values at year end).*
*(3) Administrative costs and amortization (excluding adjustments to goodwill and merger and consolidation differences) / Net interest and other banking income (including other operating income, net).*
*(4) Net shareholders' equity / Number of shares in circulation.*

# Group structure

### Central Functions

- **Strategic direction, governance and control functions**
  Parent Bank
- **Shareholdings**
  Parent Bank
  Santander Central Hispano *(Spain; 2.2%)*
  Ixis Asset Management Group *(France; 12%)*
  Ixis Corporate & Investment Bank *(France; 2.5%)*
  Banque Sanpaolo *(France; 40%)*
  Cassa di Risparmio di Firenze *(18.7%)*
  Cassa dei Risparmi di Forlì *(29.8%)*
  Banca delle Marche *(7%)*
  Other shareholdings
- **GEST Line**
- **Finance**
  Parent Bank
  Sanpaolo IMI US Financial *(United States)*
  Sanpaolo IMI Bank International *(Madeira, Portugal)*
- **Macchina Operativa Integrata (Integrated Operating Vehicle)**
  Parent Bank

### Commercial Banking

- **Sanpaolo**
  Parent Bank
  Sanpaolo IMI Bank Ireland *(Ireland)*
  Sanpaolo IMI Internazionale
  Sanpaolo Leasint
  Finemiro Banca *(96.8%)*
  Farbanca *(21.9%)* (1)
  Sanpaolo Fiduciaria
  Sanpaolo Bank *(Luxembourg)*
- **Cassa di Risparmio di Padova e Rovigo**
- **Cassa di Risparmio in Bologna**
- **Cassa di Risparmio di Venezia**
- **Friulcassa**
- **Banca Popolare dell'Adriatico**
- **Sanpaolo Banco di Napoli**

### Asset Management

- **Sanpaolo IMI Asset Management**
  Sanpaolo IMI Asset Management *(Luxembourg)*
  Sanpaolo IMI Institutional Asset Management
  Sanpaolo IMI Alternative Investments

### Investment Banking

- **Banca IMI**
  IMI Investments *(Luxembourg)*
  IMI Capital Markets USA *(United States)*
  Banca IMI Securities *(United States)*
- **Sanpaolo IMI Private Equity**
  LDV Holding *(Netherlands)*
- **IMI Investimenti**
- **Structured Finance**
  Parent Bank

### Personal Financial Services

- **Banca Fideuram** *(73.4%)*
  Sanpaolo Invest SIM
  Banque Privée Fideuram Wargny *(France)*
  Fideuram Investimenti
  Fideuram Bank *(Luxembourg)*
  Fideuram Fiduciaria
  Fideuram Bank Suisse *(Switzerland)*
  Fideuram Gestions *(Luxembourg)*
  Fideuram Asset Management *(Ireland)*
  Sanpaolo Invest Ireland *(Ireland)*

### Insurance

- **Assicurazioni Internazionali di Previdenza** (A.I.P.)
  Fideuram Assicurazioni
  Sanpaolo Life *(Ireland)*
  Egida *(50%)*
  Universo Servizi

### Public Authorities and Entities

- **Banca OPI**
- **Public Authorities and Entities**
  Parent Bank

*(1) On 24 January 2005 the share rose from 21.9% to 22.7%.*

# Consolidated financial statements and reports

# Reclassified consolidated financial statements

# Reclassified consolidated statement of income

| | 2004 (€/mil) | 2003 (1) (€/mil) | Change 2004 / 2003 (%) |
|---|---|---|---|
| **NET INTEREST INCOME** | **3,569** | **3,716** | **-4.0** |
| Net commissions and other net dealing revenues | 3,240 | 3,036 | +6.7 |
| Profits and losses from financial transactions and dividends on shares | 432 | 447 | -3.4 |
| Profits from companies carried at equity and dividends from shareholdings | 351 | 270 | +30.0 |
| **NET INTEREST AND OTHER BANKING INCOME** | **7,592** | **7,469** | **+1.6** |
| Administrative costs | -4,565 | -4,610 | -1.0 |
| *- personnel* | *-2,803* | *-2,841* | *-1.3* |
| *- other administrative costs* | *-1,510* | *-1,512* | *-0.1* |
| *- indirect duties and taxes* | *-252* | *-257* | *-1.9* |
| Other operating income, net | 320 | 329 | -2.7 |
| Adjustments to tangible and intangible fixed assets | -457 | -484 | -5.6 |
| **OPERATING INCOME** | **2,890** | **2,704** | **+6.9** |
| Adjustments to goodwill and merger and consolidation differences | -199 | -158 | +25.9 |
| Provisions and net adjustments to loans and financial fixed assets | -738 | -859 | -14.1 |
| *- provisions for risks and charges* | *-231* | *-195* | *+18.5* |
| *- net adjustments to loans and provisions for guarantees and commitments* | *-525* | *-724* | *-27.5* |
| *- net adjustments to financial fixed assets* | *18* | *60* | *-70.0* |
| **INCOME BEFORE EXTRAORDINARY ITEMS** | **1,953** | **1,687** | **+15.8** |
| Net extraordinary income/expense | 148 | -32 | n.s. |
| **INCOME BEFORE TAXES** | **2,101** | **1,655** | **+26.9** |
| Income taxes for the period | -658 | -644 | +2.2 |
| Change in reserve for general banking risks | -2 | 9 | n.s. |
| Income attributable to minority interests | -48 | -48 | - |
| **NET INCOME** | **1,393** | **972** | **+43.3** |

*(1) For a better comparison with the figures for 2003, tax credit on dividends from shareholdings previously booked under "Profits from companies carried at equity and dividends from shareholdings" has been reclassified among "Income taxes for the period".*

# Quarterly analysis of the reclassified consolidated statement of income

| | 2004 | | | | | 2003 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fourth quarter (€/mil) | Third quarter (€/mil) | Second quarter (€/mil) | First quarter (€/mil) | Quarterly average (€/mil) | Fourth quarter (€/mil) | Third quarter pro forma (1) (€/mil) | Second quarter pro forma (1) (€/mil) | First quarter pro forma (1) (€/mil) | Quarterly average (€/mil) |
| **NET INTEREST INCOME** | **867** | **891** | **907** | **904** | **892** | **921** | **939** | **932** | **924** | **929** |
| Net commissions and other net dealing revenues | 844 | 794 | 817 | 785 | 810 | 855 | 786 | 713 | 682 | 759 |
| Profits and losses from financial transactions and dividends on shares | 175 | 62 | 114 | 81 | 108 | 108 | 76 | 178 | 85 | 112 |
| Profits from companies carried at equity and dividends from shareholdings | 76 | 84 | 102 | 89 | 88 | 61 | 63 | 90 | 56 | 68 |
| **NET INTEREST AND OTHER BANKING INCOME** | **1,962** | **1,831** | **1,940** | **1,859** | **1,898** | **1,945** | **1,864** | **1,913** | **1,747** | **1,868** |
| Administrative costs | -1,192 | -1,115 | -1,143 | -1,115 | -1,141 | -1,214 | -1,128 | -1,152 | -1,116 | -1,153 |
| *- personnel* | *-729* | *-686* | *-695* | *-693* | *-701* | *-735* | *-696* | *-713* | *-697* | *-710* |
| *- other administrative costs* | *-409* | *-363* | *-380* | *-358* | *-378* | *-422* | *-365* | *-372* | *-353* | *-378* |
| *- indirect duties and taxes* | *-54* | *-66* | *-68* | *-64* | *-63* | *-57* | *-67* | *-67* | *-66* | *-64* |
| Other operating income, net | 89 | 72 | 83 | 76 | 80 | 85 | 82 | 81 | 81 | 82 |
| Adjustments to tangible and intangible fixed assets | -138 | -112 | -107 | -100 | -114 | -148 | -113 | -116 | -107 | -121 |
| **OPERATING INCOME** | **721** | **676** | **773** | **720** | **723** | **668** | **705** | **726** | **605** | **676** |
| Adjustments to goodwill and merger and consolidation differences | -91 | -36 | -37 | -35 | -50 | -43 | -35 | -46 | -34 | -40 |
| Provisions and net adjustments to loans and financial fixed assets | -195 | -178 | -215 | -150 | -185 | -474 | -71 | -180 | -134 | -215 |
| *- provisions for risks and charges* | *-122* | *-31* | *-51* | *-27* | *-58* | *-88* | *-44* | *-36* | *-27* | *-49* |
| *- net adjustments to loans and provisions for guarantees and commitments* | *-155* | *-103* | *-137* | *-130* | *-131* | *-432* | *-122* | *-102* | *-68* | *-181* |
| *- net adjustments to financial fixed assets* | *82* | *-44* | *-27* | *7* | *5* | *46* | *95* | *-42* | *-39* | *15* |
| **INCOME BEFORE EXTRAORDINARY ITEMS** | **435** | **462** | **521** | **535** | **488** | **151** | **599** | **500** | **437** | **421** |
| Net extraordinary income/expense | 76 | - | 13 | 59 | 37 | 179 | -38 | -215 | 42 | -8 |
| **INCOME BEFORE TAXES** | **511** | **462** | **534** | **594** | **525** | **330** | **561** | **285** | **479** | **413** |
| Income taxes for the period | -75 | -181 | -212 | -190 | -165 | -133 | -209 | -113 | -189 | -161 |
| Change in reserve for general banking risks | -2 | - | - | - | -1 | 3 | 6 | - | - | 2 |
| Income attributable to minority interests | 2 | -15 | -17 | -18 | -12 | -14 | -13 | -12 | -9 | -12 |
| **NET INCOME** | **436** | **266** | **305** | **386** | **347** | **186** | **345** | **160** | **281** | **242** |

*(1) The pro forma figures of the first three quarters of 2003 were prepared to enable consistent comparison. The pro forma schedules reflect the line by line consolidation of Inter-Europa Bank and the proportional consolidation of Cassa dei Risparmi di Forlì commencing from 1/1/2003, as well as the exclusion of Banque Sanpaolo from the line by line consolidation area and of Finconsumo Banca from the proportional consolidation area as of the same date. For the second and third quarters of 2003 only, tax credits on dividends from shareholdings previously booked under "Profits from companies carried at equity and dividends from shareholdings" have been reclassified among "Income taxes for the period".*

# Reclassified consolidated balance sheet

| | 31/12/2004 (€/mil) | 31/12/2003 (€/mil) | Change 31/12/04-31/12/03 (%) |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and deposits with central banks and post offices | 1,348 | 1,474 | -8.5 |
| Loans | 145,684 | 146,877 | -0.8 |
| *- due from banks* | *23,777* | *22,278* | *+6.7* |
| *- loans to customers* | *121,907* | *124,599* | *-2.2* |
| Dealing securities | 26,125 | 22,357 | +16.9 |
| Fixed assets | 9,815 | 9,822 | -0.1 |
| *- investment securities* | *3,219* | *2,935* | *+9.7* |
| *- equity investments* | *4,503* | *4,572* | *-1.5* |
| *- intangible fixed assets* | *289* | *343* | *-15.7* |
| *- tangible fixed assets* | *1,804* | *1,972* | *-8.5* |
| Differences arising on consolidation and on application of the equity method | 769 | 959 | -19.8 |
| Other assets | 27,416 | 21,091 | +30.0 |
| **Total assets** | **211,157** | **202,580** | **+4.2** |
| **LIABILITIES** | | | |
| Payables | 163,400 | 160,255 | +2.0 |
| *- due to banks* | *28,198* | *28,534* | *-1.2* |
| *- due to customers and securities issued* | *135,202* | *131,721* | *+2.6* |
| Provisions | 4,013 | 4,019 | -0.1 |
| *- for taxation* | *989* | *732* | *+35.1* |
| *- for termination indemnities* | *886* | *946* | *-6.3* |
| *- for risks and charges* | *1,940* | *2,037* | *-4.8* |
| *- for pensions and similar* | *198* | *304* | *-34.9* |
| Other liabilities | 24,809 | 20,626 | +20.3 |
| Subordinated liabilities | 6,955 | 6,414 | +8.4 |
| Minority interests | 176 | 271 | -35.1 |
| Shareholders' equity | 11,804 | 10,995 | +7.4 |
| **Total liabilities** | **211,157** | **202,580** | **+4.2** |
| **GUARANTEES AND COMMITMENTS** | | | |
| Guarantees given | 17,299 | 19,912 | -13.1 |
| Commitments | 29,815 | 25,839 | +15.4 |

# Quarterly analysis of the reclassified consolidated balance sheet

| | 2004 | | | | 2003 | | | |
|---|---|---|---|---|---|---|---|---|
| | 31/12 (€/mil) | 30/9 (€/mil) | 30/6 (€/mil) | 31/3 (€/mil) | 31/12 (€/mil) | 30/9 pro forma (1) (€/mil) | 30/6 pro forma (1) (€/mil) | 31/3 pro forma (1) (€/mil) |
| **ASSETS** | | | | | | | | |
| Cash and deposits with central banks and post offices | 1,348 | 984 | 1,037 | 914 | 1,474 | 963 | 974 | 967 |
| Loans | 145,684 | 143,153 | 146,924 | 144,342 | 146,877 | 139,679 | 146,381 | 148,267 |
| *- due from banks* | *23,777* | *20,906* | *22,147* | *21,527* | *22,278* | *17,607* | *20,050* | *22,741* |
| *- loans to customers* | *121,907* | *122,247* | *124,777* | *122,815* | *124,599* | *122,072* | *126,331* | *125,526* |
| Dealing securities | 26,125 | 32,348 | 31,772 | 28,557 | 22,357 | 23,642 | 24,580 | 20,489 |
| Fixed assets | 9,815 | 9,787 | 9,682 | 9,755 | 9,822 | 9,690 | 9,586 | 9,866 |
| *- investment securities* | *3,219* | *2,967* | *2,917* | *2,913* | *2,935* | *2,864* | *2,895* | *2,950* |
| *- equity investments* | *4,503* | *4,603* | *4,559* | *4,586* | *4,572* | *4,424* | *4,253* | *4,453* |
| *- intangible fixed assets* | *289* | *290* | *305* | *327* | *343* | *334* | *339* | *370* |
| *- tangible fixed assets* | *1,804* | *1,927* | *1,901* | *1,929* | *1,972* | *2,068* | *2,099* | *2,093* |
| Differences arising on consolidation and on application of the equity method | 769 | 860 | 896 | 933 | 959 | 992 | 1,027 | 1,055 |
| Other assets | 27,416 | 24,464 | 22,614 | 22,496 | 21,091 | 22,893 | 26,460 | 22,131 |
| **Total assets** | **211,157** | **211,596** | **212,925** | **206,997** | **202,580** | **197,859** | **209,008** | **202,775** |
| **LIABILITIES** | | | | | | | | |
| Payables | 163,400 | 167,034 | 168,149 | 164,476 | 160,255 | 155,736 | 160,518 | 162,154 |
| *- due to banks* | *28,198* | *33,169* | *32,570* | *29,613* | *28,534* | *26,638* | *28,087* | *27,896* |
| *- due to customers and securities issued* | *135,202* | *133,865* | *135,579* | *134,863* | *131,721* | *129,098* | *132,431* | *134,258* |
| Provisions | 4,013 | 4,192 | 4,001 | 4,304 | 4,019 | 4,026 | 3,680 | 3,908 |
| *- for taxation* | *989* | *1,031* | *795* | *1,000* | *732* | *725* | *436* | *838* |
| *- for termination indemnities* | *886* | *924* | *929* | *946* | *946* | *985* | *971* | *971* |
| *- for risks and charges* | *1,940* | *1,935* | *1,973* | *2,055* | *2,037* | *2,007* | *1,925* | *1,751* |
| *- for pensions and similar* | *198* | *302* | *304* | *303* | *304* | *309* | *348* | *348* |
| Other liabilities | 24,809 | 22,089 | 22,683 | 19,878 | 20,626 | 20,555 | 27,311 | 19,010 |
| Subordinated liabilities | 6,955 | 6,705 | 6,801 | 6,666 | 6,414 | 6,484 | 6,784 | 6,533 |
| Minority interests | 176 | 331 | 318 | 290 | 271 | 298 | 292 | 354 |
| Shareholders' equity | 11,804 | 11,245 | 10,973 | 11,383 | 10,995 | 10,760 | 10,423 | 10,816 |
| **Total liabilities** | **211,157** | **211,596** | **212,925** | **206,997** | **202,580** | **197,859** | **209,008** | **202,775** |

*(1) The pro forma figures for the first three quarters of 2003 were prepared to enable consistent comparison with the figures as of 30/9/2004. The pro forma schedules reflect the line by line consolidation of Inter-Europa Bank and the proportional consolidation of Cassa dei Risparmi di Forlì as of 1/1/2003, as well as the exclusion of Banque Sanpaolo from the line by line consolidation area and of Finconsumo Banca from the proportional consolidation as of the same date.*

# Report on Group Operations

# Economic background

## The international context

In 2004, the global economy has grown at a particularly fast rate, higher than expected. According to the most recent estimates, world output grew at a pace well above 4%, over one percentage point more than 2003. The recovery was led by the United States, China and India, whose economies gave a strong impulse to international business, with an expansion of 10%. Emerging countries showed the highest development rates of the last twenty years; countries in transition maintained sustained growth rates; even mature economies - despite considerable cyclic differences seen at the end of the year - on the whole registered stronger economic activity than in 2003.

Considering the numerous adverse shocks - the high rise in the price of raw materials, mainly oil, the fall in value of the dollar and the considerable geopolitical instability in the Middle East - the global economy has shown a surprising capacity for absorption, albeit with certain geographical differences. While the cyclic recovery has improved in the United States, production in other developed countries has been negatively influenced by the increase in oil prices and appreciation of their respective currencies against the dollar.

At the end of the year, the United States reported a sustained economic growth. GDP (+4.4%) benefited from the powerful impulse of fiscal and monetary policies, which have been particularly extensive for the past three years.

Despite the dramatic rise in the prices of raw materials and imported goods, inflation remained under control in the United States. Consumer price trends have registered relatively contained increases on the whole, although there has been some pressure towards a rise at the end of the year. The rate of inflation rose to 3.3% in December, from 1.9% at the end of 2003.

During the year the Federal Reserve changed the orientation of the monetary policy, implementing, in June, a series of increases which took policy rates from 1% to 2.25% in December, a level which continues to be historically low. Despite the recovery in money market rates, long-term rates, following the dramatic rise of the first half, showed a downward trend in the second half of the year.

In a context characterized by a reduction of the degree of risk aversion by international operators, after the sudden increase at the beginning of the year, corporate debt and sovereign security spreads began to fall again.

The critical factors of the economic scenario in the United States, represented by the instability of public finance balances and foreign accounts, have worsened. In 2004 the public deficit reached 412 billion dollars. At the same time the commercial deficit continued to climb, exceeding 617 billion dollars.

The release of figures on the growing deficit, as well as rumors of possible changes in the composition of the reserves by some of the major Central Banks, have weakened the dollar against most of the free-floating currencies. At the end of December the euro and the yen climbed respectively by 7.9% and 4.9% against the dollar and the Chinese yuan, still related to the American currency at a fixed exchange rate.

In Japan, GDP grew by 2.6% in the year, due to exceptionally lively dynamics in the first quarter (+5.8%). In subsequent months the economy fell back into a new recession, due to a lack of positive contribution to growth by inventories and foreign demand. The consumer price trend remained consistent with the expectations of recovery from the lengthy phase of deflation.

In relation to the evolution of emerging areas, the economic recovery in Latin America benefited from a series of favorable factors, including the lively trend in international trade, the rise in the prices of some commodities and, occasionally, the resilience of domestic demand.

In Eastern Europe, in 2004 the ten new members of the European Union have, on the whole, enjoyed the progressive stabilization of their respective economies. In this scenario, the currencies of Estonia, Slovenia and Lithuania have already been able to enter the EMS II. On the contrary, the currencies of Poland and Hungary have suffered a relative deterioration of the domestic taxation policies and the uncertainty of the domestic political climate.

2004 saw a consolidation of the growth performance in Asia (+7%) and a strengthening of the foreign financial position, thanks to the huge accumulation of international reserves triggered by extensive commercial surplus. At regional level, growth has however been uneven from country to country.

During 2004, thanks to the sustained demand for oil, the Middle East countries have shown strong growth rates, averaging around 5%. The area remained the focus of international attention owing to the persistence of strong geopolitical tension.

## The euro-zone and Italy

In 2004 the euro-zone grew at a rate of 1.8%, 0.5% faster than the previous year, but clearly slower than expected and lower in respect of the performance of other major international areas. In the first part of the year the dynamics of international commerce favored exports, offsetting the dull trend in domestic demand. However in the second half year the lower contribution of exports, partly linked to the rise of the euro against the dollar and the yuan, led to a fall in manufacturing.

Among EMU members, Germany and Italy registered the lowest growth rate: 1% and 1.1% respectively over the whole year, with a contraction of economic activity in the last quarter. The growth performance of the two countries was largely influenced by the weakness of domestic demand. France and Spain showed more lively trends with rates of 2.3% and 2.6% respectively, thanks to the positive dynamics of household consumption, sustained by the strong increase of real estate prices.

The public balances worsened, despite the improvement of the market situation compared with 2003, approaching 3% in the whole area. Among the countries in the European Monetary Union, net debt reached 3.9% in Germany and 3.7% in France.

Inflation in 2004 was 2.1%, largely in line with 2003, but with a more volatile pattern owing to the extensive swings in oil prices. Policy rates were kept at 2% for the whole of 2004.

The modest growth of the Italian GDP in 2004 was largely due to the stagnation which has characterized the manufacturing industry for several years. During 2004 firms were negatively influenced by the weak domestic demand, while they benefited from the positive dynamics of foreign demand, which however grew at a lower rate compared with international trade. The reduction of the Italian share of international commerce is related, on the one hand, to the erosion of competitiveness and, on the other, to the lower international growth of the demand for typical Italian products.

At sectorial level, there was a significant drop in the fashion sector and in products Made in Italy in general, whereas international competition has become particularly decisive. The mechanical sector also showed a downtrend due to weak investments and expenditure for durable consumer goods, especially in the second half of the year. On the other hand the construction sector, in expansion since 1999, showed a positive trend, as did the agricultural sector, recovering after the considerable slowdown of previous years.

At territorial level, on the basis of preliminary data, there seems to have been no marked imbalance in the growth of the local areas. For the regions of the North East and the Adriatic, estimates indicate a growth at rates slightly higher than the national average, thanks primarily to the recovery of the sectors linked with export, while for the North West regions, suffering the considerable recession of the industrial sector and large companies in particular, the trend is below the national average. For the Southern and Central regions, growth rates are estimated largely in line with the national average.

Lower income from one-off taxes compared with 2003 weighed on the situation of Italian public finance. The net debt of Public Administration worsened in 2004, at 3% of GDP (from 2.9% in 2003). The ratio between public debt and GDP continued to fall gradually (105.8% in 2004 from 106.3% in 2003).

The rate of inflation was 2.2% in 2004. The trend in consumer prices slowed considerably towards the end of the year, falling below the euro-zone average.

## Banking industry

In 2004 the weak market situation contained the dynamics of banking loans in Italy, which were however still higher than the nominal GDP.

Loans registered a 5.5% increase (compared with 6.3% of the previous year), with differences at sectorial level. The global trend was sustained by the acceleration of household loans (+13.4%). Mortgages, still in considerable expansion (+19.8%), were encouraged, on the one hand, by the substantial increases of prices and exchanges on the real estate markets and, on the other, by the persistence of particularly favorable financing conditions. Consumer credit, while continuing to account for a small part of the total household debts, lower than the average of the main

European countries, showed a sustained rhythm (+15.4%), despite low expenditure. The other categories of household loans, mainly financing linked to economic activities, grew at a lower rate, equal to 4.4%.

Loans to non-financial companies showed, on the whole, a contained trend (+4.7%), paying heavily for the stagnation of manufacturing activity and the probable postponement of investment decisions by companies. Among the various business sectors, loans to services connected with transport were the most heavily penalized (-15.3%). On the contrary, and in line with the positive dynamics of the economic sector of reference, loans to other services for sale, including real estate services, registered the most significant growth (+16.6% in December). After years of reduction, in 2004 loans to Public Administration began to grow again (+1.7%). Long-term credit among companies grew at considerably higher rates (+8.1%) compared with short-term credit (+0.4%), indicating the continuation of the recomposition of the financial structure of companies towards longer term funding.

On a territorial basis, the figures for September 2004 indicate a sizeable increase of loans in the South (+10.7%), the Islands (+8.4%) and the North East (+7.5%). Also in the Adriatic regions total growth (+7.7%) was higher than the national average (+5.5%). The same figures however show a lower than average trend in the North West (+4.5%) and the Center (+2.7%).

In December 2004 non-performing loans registered an annual reduction (-2%). The main risk ratios (including the net non-performing loans/net loans ratio) however showed a slight improvement of the credit quality.

The climate of uncertainty which characterized 2004 favored a significant increase in the preference for liquidity and prudent financial investment by households. In this setting, the expansion of banking deposits registered an acceleration (+6.9%) thanks to the contribution of total deposits (+4.8%), led by current accounts (+6%), and bonds, which continued to expand considerably (+10.3%).

In a substantially stable situation in the monetary market reference rates, the rates of banking interest on liabilities in 2004 remained at the levels of the end of 2003. On the contrary, interest rates continued to fall, with particular intensity for the household sector. At the end of the year, the short-term banking spread on household and non-financial companies loan rates showed a decrease of 10 basis points.

### Securities brokerage

The main international share indexes showed an alternating trend in the first nine months of the year, closing with an increase at the end of 2004. The S&P500 gained 9%, Nikkei 7.6%, DJ Euro Stoxx 9.9% and Mibtel 18.1%. The difference in the performance of the stock exchanges was partly influenced by the different sectorial composition of the indexes.

The global evolution of the stock exchanges benefited largely from two factors, the positive trend of company earnings, on the one hand, generated not only through the reduction of company costs but also - especially in the United States - by the increase in operating revenues, and the particularly low level of nominal and real interest rates on the other.

Owing to the recovery of prices, the stock market capitalization of Italian companies listed in the domestic market rose to 581 billion euro, enjoying a strong increase also in relation to GDP (43.1%), compared with the 487 billion registered in 2003 (37.6% of GDP). Eight new companies were quoted (4 in 2003). The flow of investments into the Italian market, as channeled through Public Offers, amounted to 12 billion euro (2.8 billion in 2003), through 18 transactions (compared with six transactions that were completed during 2003). The funds obtained by the listed companies through capital increases, on the other hand, fell to 3.3 billion euro (compared with 9.8 billion in 2003), associated with 23 transactions (28 in 2003). The average daily value of shares exchanged was 2.9 billion euro (compared with 2.7 billion in 2003).

### Asset management

In a scenario characterized by an uncertain evolution of real economy, a considerable increase of real estate values and a prudent attitude by Italian households towards the choice of lower risk financial investments, the asset management industry, despite its expansion in comparison with 2003, showed a rather slow growth.

In December, the amounts of investment funds managed by Italian brokers reached 515.4 billion euro, up 1.3% compared with 2003. The growth of the amounts benefited from a positive revaluation of share and bond prices, following the simultaneous rise in the relative market indexes, but was negatively influenced by consistent disinvestment flows. Net deposits during the year showed an outflow of funds, especially in the second half, totaling 10.5 billion. The reversal concerned all categories of funds, apart from flexible funds. The deficit was particularly extensive for liquidity funds (-6.5 billion euro).

On the basis of preliminary data, a positive contribution to the dynamics of asset management, both in terms of revaluation of portfolios and the flows of new capital, is forecast by portfolio management and by the insurance-pensions sector.

# Action points and initiatives in the year

The actions taken by the SANPAOLO IMI Group in 2004 were concentrated on three main areas, aimed at strengthening the Group's operative development:
- finalization of the IT and commercial integration of the banking distribution networks;
- concentration of insurance activities in a single structure;
- simplification of the model of governance.

The first initiative was aimed at improving the capacity for distribution of the branch network, combining the single nature of strategic and commercial management with the strengthening of customer relations, generated by the strong territorial roots of the various historical brands that are now part of the Group. Thanks to the integration of the IT platform, completed in October 2004, the business model of the Sanpaolo network, divided into light central structures which uniformly and completely supervise the respective territory and coordinate branches specialized by market segment, will gradually be extended to all the Group's banking activities.

The concentration of the companies of the Group operating in life and property and casualty insurance in a single structure will increase revenue through innovation in such sectors as welfare and personal insurance, as well as increasing efficiency through cost synergies and economies of scale.

With regard to the third area, on 29 April 2004 the Board of Directors defined the Group's new organizational model, effective from 1 May. The new model has simplified corporate governance and strengthened the specialization in customer segments of the distribution networks, extending the commercial coordination for markets to all the bank networks. As a result of the reorganization of the model, the Group is now divided into the following Business Sectors:
- Commercial Banking
- Asset Management
- Investment Banking
- Personal Financial Services
- Insurance
- Public Authorities and Entities
- Central Functions.

The main initiatives within each Sector are explained hereafter.

## Commercial Banking

During the year, initiatives were taken to rationalize and develop the Group, in Italy and abroad, aimed at strengthening its presence in certain market sectors and geographical areas with a marked growth potential.

### Plan to develop and rationalize the distribution networks

Having completed the integration of the branches of the former Banco di Napoli, in 2004 the process was also finalized for the banks in the Triveneto and Emilia areas and for Banca Popolare dell'Adriatico. The integration process involved the gradual adoption of the Sanpaolo network organizational and commercial model and the migration of the IT systems to those of the Parent Bank. The latter process began in March with Cassa di Risparmio di Venezia and concluded in October with Banca Popolare dell'Adriatico.

The reorganization process also envisages that branches within a reference territory of a specific historical brand should belong to the bank holding that brand, with the aim of taking advantage of the potential generated locally by the brand. In this respect, the plan to rationalize the distribution network, approved by the Board of Directors on 27 July 2004, was executed through the transfer to the four bank networks of the North East of the 113 Sanpaolo operating points located within the Triveneto and Emilia areas and the transfer to Sanpaolo of the 30 Cassa di Risparmio di Padova e Rovigo and Cassa di Risparmio in Bologna operating points located outside of their respective territories. The process was begun in November 2004 and concluded in January 2005.

### Other initiatives in Italy

On 20 January 2004, SANPAOLO IMI exercised a put option for the remaining share of Finconsumo Banca (30%), implementing the agreements subscribed with Santander Central Hispano (SCH) for the sale to the latter of the whole share held in the bank. The transaction, which is part of the rationalization of activities in consumer credit in which the Group operates with Finemiro Banca, was completed at a price of 80 million euro, determining a gross capital gain of 55 million.

The cooperation between SANPAOLO IMI, Cassa di Risparmio di Firenze and Cassa dei Risparmi di Forlì resulted, at the end of March 2004, in a transaction to favor the development of activity in the small- and medium-sized company segment (SME). The banks promoting the initiative approved a 500 million euro plafond of loans to SMEs in Northern Italy, Tuscany and Emilia Romagna, with the cooperation of the leading Loans Consortia in the regions, intervening to guarantee the loans and also in view of a subsequent securitization of the portfolio generated. The transaction is aimed at creating a "system product" with uniform characteristics and conditions throughout the whole territory considered, which will offer a prompt and streamlined operating response to financial needs linked with the development of the companies receiving the loans.

Confirming the strategic importance of the SMEs, at the beginning of July another initiative aimed at favoring activities in the sector was begun with the setting-up of a plafond of 250 million euro destined to medium-term loans for applied research projects. In addition to financial support, there is also the offer of an advisory service for technological and industrial projects, made possible by the Group's know-how gained over the years through the management of research and development benefits on behalf of Public Administration.

In the context of the Turin 2006 Olympic Winter Games, SANPAOLO IMI has undertaken numerous commercial initiatives aimed at taking advantage of the Group's role of Principal Sponsor. The combination of these initiatives intends to strengthen the customer relationship, with improved customer retention and cross selling, and to increase the customer base thanks to high quality and value services. Furthermore, by making available to Turin 2006 its network of some 3,200 branches, Commercial Banking will make its own contribution to making the forthcoming Olympic Winter Games a major international event.

### Initiatives in foreign markets

On 1 April 2004 Inter-Europa Ertekesitesi commenced operations; the company is wholly owned by the Hungarian Inter-Europa Bank which is, in turn, a subsidiary of the Group which holds 85.9% through Sanpaolo IMI Internazionale. The activities of the new company consist of promotions and the placement of financial products on commission, operating in particular as an agent of Inter-Europa Bank for the exclusive placement of traditional bank products with private and small entrepreneurs not yet customers of the bank. Furthermore, it will, on commission, place third party financial and insurance products, providing significant opportunities for cross selling.

As part of the initiatives to strengthen the Group's presence in the Mediterranean area, two commercial cooperation agreements were signed with leading banks in Morocco and Tunisia. They are aimed at encouraging the internationalization of Italian companies and at promoting the development of import-export flows between Italy and its commercial partners, offering a complete range of products and services to retail and corporate customers operating in Italy and the two North African countries. The first agreement was signed on 14 April 2004 for commercial cooperation with Banque Marocaine du Commerce Extérieur (BMCE), a leading bank in Morocco with 219 branches. The second was signed on 14 September 2004 with Banque Internationale Arabe de Tunisie (BIAT), a leading private Tunisian bank with a network of some 100 branches, in which the Group has a shareholding of 5.6% through Sanpaolo IMI Internazionale.

Other foreign rationalization initiatives included:

- the merger by incorporation of IMI Bank (Luxembourg) into Sanpaolo Bank (Luxembourg), completed on 1 September 2004. The integration of the two companies and the rationalization of the structures, with consequent cost synergies, was deemed necessary considering the convergence of the Group's supply systems and services;
- on 25 October 2004, cession of Sanpaolo Bank (Austria) to the Austrian insurance company Grazer Wechselseitiger. The transaction aimed to optimize the Group's presence on the Austrian market, considering the coexistence of a foreign branch of the Parent Bank.

## Asset Management

During the year, Asset Management underwent major reorganization in line with the Group business model characterized by specialization of the commercial units and product companies. On 19 November, the split was completed of the total shareholding of Sanpaolo IMI Wealth Management in Sanpaolo Vita in favor of Assicurazioni Internazionali di Previdenza (A.I.P.). The transaction was instrumental in the creation of the Insurance sector and took legal effect as of 30 November 2004 and accounting effect as of 1 January 2004. On 29 November, the total split was approved of the Sanpaolo IMI Wealth Management holding company in favor of Sanpaolo IMI Asset Management, for the activities of asset management, and to the Parent Bank for the remaining activities. Therefore, as of 29 December 2004, the date of completion and legal effectiveness of the transaction, the holding company ceased to exist. The reorganization maintains Asset Management as a direct extension of the Parent Bank and also rationalizes the investment structure and streamlines the staff organization with consequent cost synergies.

On 16 February 2004 the Group took over 50% of Allfunds Bank. The company, wholly owned, through Banco Banif, by SCH, has a platform offering access to third party mutual funds available to institutional customers. The purchase of the shareholding falls within the context of the cooperation agreements for the development of a pan-European project in the wholesale distribution of third party mutual funds, through the formation of a joint venture. With these agreements, SANPAOLO IMI and SCH intend to consolidate their leadership in the sector and identify potential strategic partners in the main European markets.

The initiatives undertaken during the year have been instrumental in pursuing the strategic aim of building customer confidence in the Group's asset management and exploiting its role in portfolio management.

### Investment Banking

During the year, this sector witnessed rationalization initiatives such as the above-mentioned merger by incorporation of IMI Bank (Luxembourg) into Sanpaolo Bank (Luxembourg) and the split from Banca IMI in favor of Sanpaolo IMI Asset Management of 100% of Obiettivo SGR, the company operating in the market of pure hedge funds, and later merged into the subsidiary Sanpaolo IMI Alternative Investments.

The transactions have contributed to pursuing the sector's objectives to recover profitability in the management of own capital and the strengthening of revenue, focusing activities on more profitable customer products/segments in synergy with the Group networks.

The presence of the Group in the area of private equity was strengthened by the promotion of two new multi-regional closed funds dedicated to investment in small- and medium-sized businesses.

In relation to the agreements between SANPAOLO IMI, together with Banca Intesa, Unicredito and Capitalia, on the one side, and the FIAT group on the other, and under the Framework Agreement of May 2002, during the preceding years all the foreseen operations were completed, including, in particular, the granting of a convertible facility for a total of 3 billion euro in July 2002 (of which 400 million by SANPAOLO IMI), and the take over by FIAT of 14% of the capital of Italenergia Bis (IEB) by Banca Intesa, Capitalia and SANPAOLO IMI, which purchased a 4.66% share through IMI Investimenti over and above the original share of 7.82%.

IMI Investimenti also holds a 25% share in Synesis Finanziaria, the vehicle through which in 2003 the four banks participating in the Framework Agreement purchased from FIAT Auto 51% of Fidis Retail Italia, the company for consumer credit activities for vehicle marketing of the Turin automobile group. In January 2005, the call option conceded at the time to FIAT by the purchasing banks was extended for another two years.

On the basis on the contractual commitment implicit in the FIAT convertible facility, in 2004 SANPAOLO IMI arranged coverage by the provision of 14 million euro. At the end of 2004, the total adjustment was 167 million euro. The resolution on 13 February 2005 of the agreement between FIAT and General Motors, with the cancellation of the put option and consequent recovery of 1.55 billion euro, should allow the Turin group to meet the financial debt limits of the convertible facility. The dissolution of the joint ventures relative to above-mentioned agreement will allow FIAT to concentrate on the industrial strategies necessary to finalize the plan to reorganize the group.

In relation to the portfolio investments in IEB and Edison, at the end of 2004, and with the aim of impugning the various put and call contracts stipulated with other IEB partners to be activated in 2005, the partner EDF - Electricité de France commenced the legal proceedings foreseen by the respective contracts. IMI Investimenti has filed for legal proceedings, together with the other two participating banks: on the basis of legal investigations, it is deemed that EDF's objections are unfounded. In this respect, on 2 February 2005, EDF was informed of the exercise of sales options held by the banking partners. The

FIAT group was also requested to exercise its put option for EDF linked to the banks' rights of co-sale of investments in IEB acquired by FIAT in 2003.

## Personal Financial Services

On 30 June 2004, the Meeting of the Shareholders of SANPAOLO IMI approved the spin off of the stake held by Banca Fideuram in Fideuram Vita in favor of SANPAOLO IMI, which was completed on 19 November 2004 with effect from 30 November 2004. The beneficiary assigned the minority shareholders in Banca Fideuram shares at a ratio of 0.07470 SANPAOLO IMI ordinary shares for each Banca Fideuram share.

The transaction was instrumental in the reorganization of the insurance activities of SANPAOLO IMI, as described in the following paragraph, and strengthened Banca Fideuram's role in financial consultancy services, asset management and private banking. In particular, a strategic objective was identified in the growth of volumes in the reference customer segments, confirming the maintenance of the bank's profitability at the current levels of excellence.

## Insurance

During the year work continued to reorganize the insurance activities of the SANPAOLO IMI Group through the creation of a single pole into which the different companies operating in the life and property and casualty sectors have been brought together. The company vehicle identified for this purpose is Assicurazioni Internazionali di Previdenza S.p.A. (previously called Noricum Vita), of which the Group has held total control since the end of 2003.

The reorganization project, the guidelines of which were approved by the Board of Directors on 13 February 2004, aims to:

- rationalize the presence in the market, achieving a critical volume capable of encouraging increased efficiency through cost synergies and economies of scale;
- increase the focus on the insurance business, encouraging product innovation in sectors such as welfare and personal insurance;
- exploit the complementary nature of insurance and financial needs.

The main phases in making A.I.P. operative as of 1 December 2004 were:

- spin off in favor of SANPAOLO IMI of the stake held by Banca Fideuram in Fideuram Vita;
- spin off in favor of A.I.P. of the total stake held by Sanpaolo IMI Wealth Management in Sanpaolo Vita;
- merger by incorporation of Sanpaolo Vita and Fideuram Vita into A.I.P..

The reorganization also intends to create the conditions for further possibilities of growth, also by way of subsequent aggregations.

## Public Authorities and Entities

In the light of development in the market of public authorities and entities, characterized by widespread administrative and financial decentralization and growing competition in profit margins, a new business model has been defined aimed at increasing origination capabilities. In this context, at the end of 2004 a commercial agreement was stipulated between Banca OPI and the banking networks of the Group aimed at maximizing cross selling between the various structures in the relative areas of competence (medium-/long-term loans and bridging loans for medium-/long-term transactions for Banca OPI and short-term loans for the Group banking networks). Commercial offices are foreseen to be created dedicated to public authorities and entities and with the task of directly initiating origination actions and supporting the operating points in their promotional function so as to increase commercial effectiveness in the reference market.

## Central Functions

### Shareholdings

In the context of the strategic cooperation with Caisse Nationale des Caisses d'Epargne (CNCE), on 9 December 2004 the exchange took place of the Group's 3.45% shareholding in CDC Ixis with shareholdings in the two operating sub-holdings of the French group, Ixis Asset Management Group (12%) and Ixis Corporate & Investment Bank (2.45%), deemed strategic to pursue opportunities for cooperation. The transaction is the result of the complex reorganization of the Caisse d'Epargne group (GCE) during the year, which also led to the incorporation into CNCE of CDC Ixis and the reorganization of the French group's market activities into three poles: asset management, investment banking and custody. The reorganization makes GCE an important universal banking group, with a similar structure and position to SANPAOLO IMI, creating further prospects for the evolution of the partnership.

In November 2004, SANPAOLO IMI held preliminary contacts with Dexia S.A., a Franco-Belgian financial institution, in relation to possible forms of aggregation. On 28 and 29 November 2004, the Boards of Directors of Dexia and SANPAOLO IMI deliberated that the conditions to continue the study were lacking.

### Real estate portfolio

On 18 November 2004, a project was completed for the valorization of the non-operating real estate portfolio of SANPAOLO IMI through the transfer to the Carlyle group of 100% of CSP Investimenti - the subsidiary to which SANPAOLO IMI assigned the real estate branch, including 105 properties, as of 31 December 2003 - and of a further 126 properties belonging to various companies of the Group. The transaction was aimed at rationalizing the management of the real estate assets on the basis of organizational requirements and income opportunities. It was defined on the basis of a sale price of some 320 million euro, allowing a gross capital gain of almost 100 million euro. About one third of the capital gain was booked to the equity of the proprietary banking networks as of 31 December 2003 for revaluation according to law 350/2003, and the remaining part was recorded in the financial statements for 2004.

### Corporate bond risk and the protection of savers

The serious repercussions of the recent national and international corporate bond defaults, which have affected savers' portfolios, have led the Group to take several precautions to protect its customers. In the belief that it behaved with maximum correctness in its investment services, SANPAOLO IMI has adopted an approach aimed at examining those areas in which customers complain of specific shortcomings in the relationship with the reference branch. The aim is to verify the adequacy and formal and substantive consistency of the investment to the risk profile attributable to the customer and, consequently, where conditions avail, to resolve any controversy amicably. At the end of 2004, some 6,000 claims had been made on Argentine, Cirio and Parmalat bonds; in 4% of cases, the investment transaction was judged to be inadequate and conciliatory measures were taken. Out of a total of claims amounting to over 8 million euro, at present agreements have been made for an overall outlay of some 4 million.

In relation to Argentine bonds, Public Exchange Offers were held in parallel in Argentina, the United States, Japan and some European countries, including Italy, between 14 January and 25 February 2005, offered by the Argentine government to all categories of investors in bonds issued by that government. The nominal value of the shares theoretically on exchange was around 82 billion US dollars at the exchange rate of 31/12/2003. The number of Italian savers involved was estimated at over 400,000. The market was informed that global, international adhesion was over 76%. As far as the SANPAOLO IMI Group is concerned, during the period of offer, just over half the private clients holding Argentine bonds ceded the old Argentine bonds by selling them on the secondary market or adhering to the Public Exchange Offer. On the invitation of the sector association, the Bank has expressed its willingness to meet all the expenses deriving from legal and/or arbitration actions that may be taken against Argentina for the bondholding customers who did not adhere to the Public Offer, as part of the initiatives promoted by Task Force Argentina (TFA).

The Parmalat group, a multinational company operating in the food and beverages sector, was declared insolvent in December 2003. The group had issued a total of 26 bond loans, mostly on the European market, corresponding to around 7 billion euro. The initiatives taken by the SANPAOLO IMI Group for its retail customers who acquired the above-mentioned bonds have found form in the agreement with the "Committee to defend SANPAOLO IMI Group Parmalat bondholders" founded on 2 February 2004, on the initiative of several Group customers, with the aim of taking all actions necessary for the admission of their credits into the extraordinary administration procedures and instigating any collective legal proceedings against individuals who, for positions held or functions executed in companies of the Parmalat group, seem responsible for the damage caused to all the customers represented by the said Committee. Under the agreement with the Committee, SANPAOLO IMI has undertaken to provide organizational and financial support to the pursuit of its statutory ends, guaranteeing, at the same time, complete autonomy of management and decision-taking. As part of the legal actions already undertaken, the

Committee obtained, on the terms it itself requested, full recognition of the credit terms claimed by its members and their registration in the definitive lists of creditors of the various insolvent companies. Furthermore, members of the Committee, who have adhered en masse to the project, appear as plaintiffs in the criminal proceedings pending in Milan and Parma in order to obtain redress for the financial and moral damage incurred as bondholders as a result of the crimes committed by all those who will be held responsible for the default of the issuing companies.

During 2004, the SANPAOLO IMI Group took part in the "PattiChiari" (Clear Deal) inter-bank initiative, which is articulated in eight initiatives aimed at improving relations between bank and customers. Four initiatives concern services, providing customers with simple and concrete instruments to facilitate the understanding, use and comparison of products on offer, from current accounts to cash machines and from checks to basic services. Two initiatives concern credit in relation to general valuation criteria and average reply times in order to favor the dialogue between businesses and bank and make the criteria for evaluating loan suitability clear and comprehensible. The last two initiatives, in the area of savings, provide investors with new instruments to evaluate bond risks and make available clear comparative prospectuses and information on structured securities. The projects promoted under the plan have been received in their entirety by the Group and virtually all the banking networks have subscribed to all the initiatives during the year. The other companies in the Group affected by the project have made preparations to obtain certification coherent with their operations. In order to verify complete respect of the established inter-bank protocols of quality, the Group underwent a first inspection by an independent certifying body in July 2004. The positive outcome has given the banking networks the right to use the "PattiChiari" quality marks in external communications as a distinctive element of their offers. A second inspection was begun in January 2005 in accordance with normal certification procedures that envisage the periodic repeating of the exercise in order to guarantee maintenance of the requested service levels.

### Transition to IAS/IFRS international accounting policies

To implement the IAS Regulation, in December 2002 the SANPAOLO IMI Group launched a project with the aim of planning and realizing the operations necessary to cope adequately with the transition to the new regulatory framework.

During 2004, the study of the new international accounting policies and the problems caused by their introduction in the Group was completed, leading to the production of an IAS compliant version of the "Group Accounting Policies Handbook". Wide-ranging and complex action was also taken, and is still on-going, for IT procedures, while the organizational operations regarding administration, valuation and accounting processes have been defined. The activity was accompanied by an intense training program aimed at spreading knowledge of the new regulatory framework to the Parent Bank and the subsidiaries.

The Board of Directors has decided to adopt the new international policies in drawing up the financial statements of the Parent Bank for 2005, and, with some exceptions, also for the subsidiaries in order to ensure uniformity of statements within the Group. With regard to the consolidated interim reports, transition to IAS/IFRS is foreseen for the Half Year Report.

A first valuation of the impact of the introduction of the international accounting policies on the Group's statement of income and balance sheet has been positive and the main points are dealt with hereafter in a dedicated section of this Report (Supplementary information - Transition to IAS/IFRS international accounting policies).

### Initiatives for financial and administrative governance

The attention of national and international Regulators on the correctness, completeness and transparency of company information of an administrative and financial nature concerning quoted issuers has particularly intensified following defaults in recent years by some companies which have had serious repercussions on savers' portfolios. Rules and regulations have been drawn up in response to strengthen the presidium of company information procedures aimed at the production of obligatory financial market information. One of the most articulated and complete initiatives is the Sarbanes-Oxley Act (SOA) to which companies quoted in the United Sates and registered with the Securities and Exchange Commission (SEC), and therefore SANPAOLO IMI, are subject.

Confirming the attention it has always paid to maintaining a high level of corporate governance, the Group has begun a wide-ranging program aimed at establishing an innovative system for the governance and control of financial information, based on the increased reliability of procedures to ensure the highest standards in the quality of the disclosures. This demanding program consists of the formal and organic codification of the processes of reporting and disclosures, acting on these in the case of inefficiency of the foreseen controls and planning continuous updating procedures to implement change resulting from company and/or external phenomena, among which the transition to IAS/IFRS is of particular importance. With the enactment of the provisions of the Sarbanes-Oxley Act, the SANPAOLO IMI Group intends to capitalize on the opportunities offered by the regulations in terms of competitive advantage.

### Basel 2 Project

Work continued during 2004 for the implementation of the Basel 2 Project aimed at preparing the Group for the adoption of the advanced approached foreseen in the New Agreement, approved in its definitive version by the Basel Committee on 26 June 2004. In order to align close control of the risks inherent in loan disbursement with a service of excellence for businesses, in terms of clarity and strict procedures for reliability, in its risk management activities, SANPAOLO IMI has anticipated by a few years the evolution of prudential regulation and international best practice. In 2004, investments were made to bring internal organization models and processes in line with legal requirements. As outlined in the chapter "Risk management and control", to which reference should be made for more detailed information, the models to evaluate credit risks have been refined, extending application to customer segments not yet covered. The use of rating (previously reserved for the larger counterparties managed by head office) has been extended as an essential element of the lending process also for the branch networks, restructuring the entire process of creditworthiness and risk management, as well as the relevant support instruments. Finally, the Group Regulation of operational risks has been approved, defining the organization structure, the areas of application and the related guidelines for management and control.

# Consolidated results

## Summary of results

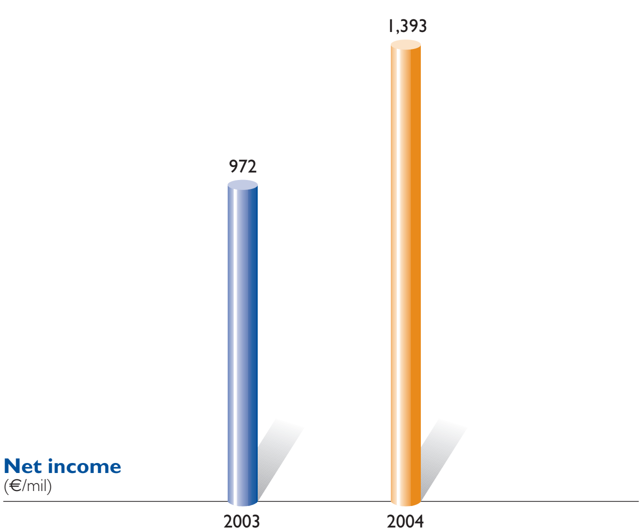
The results of the SANPAOLO IMI Group for 2004 showed an improvement over 2003 in all the principal indicators for profitability, efficiency and quality of assets. Net income reached 1,393 million euro, a rise of 43.3% compared to 2003; RoE was 12.2%, 3 percentage points higher than the previous year. The Group also improved the cost to income ratio which fell to 63.5% from the 65.3% of 2003. The net non-performing loans/net loans ratio remained at an excellent level (1%).

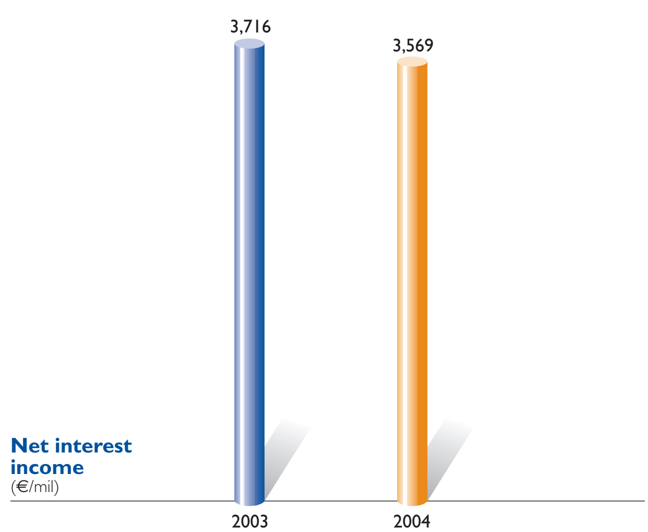
This performance was made possible by the favorable trend in revenues, thanks to commissions and profits from companies carried at equity, the constant monitoring of expenses leading to a reduction in operating costs, as well as the increase in net extraordinary income, compared with charges accounted for in 2003 mainly attributable to staff leaving incentive plans.

The net result for the year was above the budget objective, continuing the growth begun in 2003.

## Net interest income

Net interest income for 2004 was 3,569 million euro, a fall of 4% compared with the previous year. This trend is attributable to the deterioration of the total spread and the redirecting of volumes towards less remunerative activities which were not sufficiently compensated by the positive effect of trading volumes. Concerning the different composition of the volumes, there was a lower influence on interest-earning assets of loans to customers and, within that, the redirection in favor of medium-/long-term loans.




*Net interest income*

| | 2004 (€/mil) | 2003 (€/mil) | Change 2004 / 2003 (%) |
|---|---|---|---|
| Interest income and similar revenues | 7,195 | 7,443 | -3.3 |
| Interest expense and similar charges | -3,508 | -3,701 | -5.2 |
| Reclassification (1) | -118 | -26 | n.s. |
| **Net interest income** | **3,569** | **3,716** | **-4.0** |

*(1) The reclassicification refers to the interest income of the Banca IMI group which, in the interest of a better representation of the Group results, has been reclassified under "Profits and losses from financial transactions and dividends on shares" as it is more closely related, from an operating point of view, to securities dealing.*

The reduction in spread can be ascribed to the trend in market rates: three month Euribor showed an average drop of 22 basis points from the 2.33% of 2003 to the 2.11% of 2004. The rate of interest-earning assets was 4.23% and the cost of interest-bearing liabilities 2.01%. The result was a total spread of 2.22%, 11 basis points lower than 2003 owing to the rates of interest-earning assets falling more than the drop in the cost of interest-bearing liabilities.

The average amount of interest-earning assets rose by 0.5% compared with 2003, thanks to the growth of the securities portfolio. Loans to customers remained basically unchanged. Average interest-bearing liabilities were stable as the rise in direct customer deposits was compensated by a reduction in other interest-bearing liabilities, particularly due to banks and repurchase agreements.

## Net interest and other banking income

The Group's net interest and other banking income in 2004 was 7,592 million euro, up 1.6% compared with the previous year.

The downward trend in net interest income and profits and losses from financial transactions was more than compensated by the rise in net commissions, as well as the profits from companies carried at equity and dividends from shareholdings.

Net commissions amounted to 3,240 million euro, a growth of 6.7% compared with the previous year. The positive trend in commission revenues is evident in all the compartments, except for "other commissions" which fell due to fewer receipts from tax collecting activities and the failure to conclude some private equity transactions. Management, dealing and advisory services, which make up around 60% of the overall aggregate, showed an increase of 7.2%, entirely attributable to asset management which benefited from both the positive trend of financial markets and the major placements of insurance policies in the life sector. The significant expansion of loans and guarantees (+18.5%) and deposits and current accounts (+8.8%) was also confirmed.

The good performance during the year of net commissions gave rise to a significant improvement on 2003 in hedging

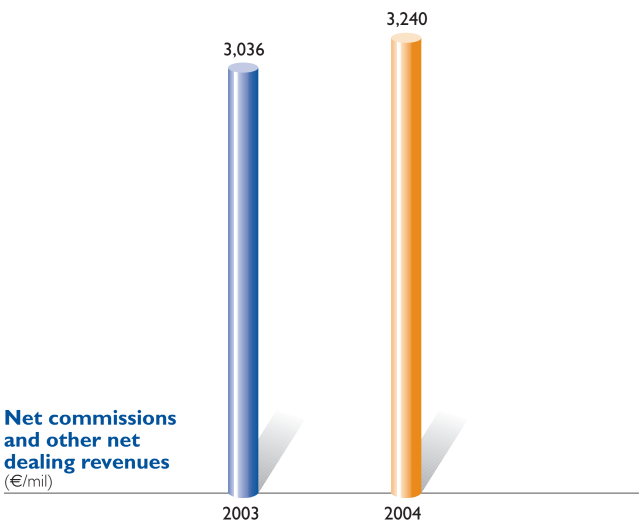
*Analysis of average amounts and interest rates*

| | 2004 | | 2003 | | Change 2004 / 2003 | |
|---|---|---|---|---|---|---|
| | Average amounts (€/mil) | Average rate (%) | Average amounts (€/mil) | Average rate (%) | Change in average amounts (%) | Difference in rates (points %) |
| Interest-earning assets | 156,767 | 4.23 | 155,977 | 4.53 | +0.5 | -0.30 |
| - loans to customers (excluding repurchase agreements) | 116,784 | 4.83 | 116,659 | 5.17 | +0.1 | -0.34 |
| - securities | 16,512 | 3.08 | 14,528 | 3.17 | +13.7 | -0.09 |
| - other interest-earning assets | 23,471 | 2.05 | 24,790 | 2.30 | -5.3 | -0.25 |
| Non interest-earning assets (1) | 52,860 | | 47,004 | | +12.5 | |
| **Total assets** | **209,627** | | **202,981** | | **+3.3** | |
| Interest-bearing liabilities | 152,026 | 2.01 | 152,223 | 2.20 | -0.1 | -0.19 |
| - direct customer deposits (excluding repurchase agreements) | 115,444 | 1.82 | 110,360 | 2.03 | +4.6 | -0.21 |
| *- due to customers* | *70,580* | *1.01* | *66,822* | *1.14* | *+5.6* | *-0.13* |
| *- securities issued* | *44,864* | *3.10* | *43,538* | *3.39* | *+3.0* | *-0.29* |
| - other interest-bearing liabilities | 36,582 | 2.62 | 41,863 | 2.65 | -12.6 | -0.03 |
| Non interest-bearing liabilities (1) | 46,201 | | 39,909 | | +15.8 | |
| Shareholders' equity | 11,400 | | 10,849 | | +5.1 | |
| **Total liabilities and shareholders' equity** | **209,627** | | **202,981** | | **+3.3** | |

*(1) This figure includes Banca IMI group's average volumes, in line with the reclassification of the related interest income and expense.*

operating costs. The net commissions/administrative costs and the net commissions/personnel costs ratios were respectively 71% and 115.6%.

Profits from financial transactions and dividends on shares reached 432 million euro, a drop of 3.4% compared with 2003. Market evaluation of some share investments was reduced in the light of the contribution of placement activities for derivative products on rates and exchanges for businesses which were basically at the same levels as the previous year. With reference to investment banking activities on the capital market, the results of the payables and equity compartments suffered the effects of the destabilizing events in the Italian corporate system and, more generally, the weak situation of the domestic macro-economy.




In 2004, profits from companies carried at equity and dividends from shareholdings, 351 million euro, increased overall by 30% over the previous year. In particular:

- profit from companies carried at equity came to 278 million euro compared with 197 million euro for 2003, thanks to the results of the Group's insurance companies concentrated in A.I.P.;
- dividends paid to the Group by minority shareholdings not included in the consolidation area, equal to 73 million euro, remained unchanged compared to the previous year.

## Operating income

Operating income amounted to 2,890 million euro, an increase of 6.9% on 2003. This evolution benefited from the reduction in operating costs as well as from the above-mentioned rise in revenues.

Administrative costs amounted to 4,565 million euro compared to 4,610 million euro in the previous year. These costs, in a context characterized by an annual inflation rate

*Net interest and other banking income*

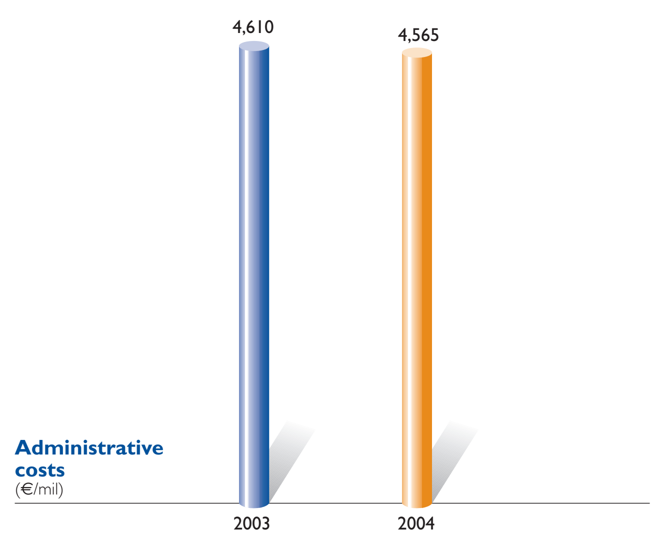
| | 2004 (€/mil) | 2003 (€/mil) | Change 2004 / 2003 (%) |
|---|---|---|---|
| Net interest income | 3,569 | 3,716 | -4.0 |
| Net commissions and other net dealing revenues | 3,240 | 3,036 | +6.7 |
| - management, dealing and advisory services | 1,904 | 1,776 | +7.2 |
| *- asset management* | *1,646* | *1,479* | *+11.3* |
| *- brokerage and custody of securities and currencies* | *258* | *297* | *-13.1* |
| - loans and guarantees | 333 | 281 | +18.5 |
| - collection and payment services | 248 | 239 | +3.8 |
| - deposits and current accounts | 531 | 488 | +8.8 |
| - other services and net dealing revenues | 224 | 252 | -11.1 |
| Profits and losses from financial transactions and dividends on shares | 432 | 447 | -3.4 |
| Profits from companies carried at equity and dividends from shareholdings | 351 | 270 | +30.0 |
| Net interest and other banking income | 7,592 | 7,469 | +1.6 |

of 2.2%, fell by 1%, attributable to personnel costs and indirect duties and taxes. On the other hand, other administrative costs remained virtually unchanged.

Personnel costs fell to 2,803 million euro (-1.3% compared to 2003) thanks to actions of containment and optimization of the workforce, realized also by using the "Income, employment and re-training fund for staff in the banking industry". The reduction in the average number of employees of 2.8% more than compensated the ordinary dynamics of payroll, which includes the increase due to the renewal of the national collective labor contract (renewed in February 2005) which gave rise to an increase of 1.9% in 2004, as well as the settling of contractual holiday pay from April 2004. Actions to make the compartment more efficient also absorbed both the higher charges connected to the IT migration processes and unification of the distribution model of the banking networks and the dynamics of the variable component of payroll which rose as a result of the improvement in the Group's income results.

Other administrative costs, equal to 1,510 million euro, were at similar levels to 2003. Detailed analysis by type of cost shows a reduction in IT costs, benefiting from the integration of the banking networks, and general costs. Utilities remained unchanged as the reduction in telephone costs compensated the rise in energy costs. Indirect personnel costs increased, especially those linked to training and mobility within the Group induced by the integration processes, and the promotional-advertising and marketing expenses connected with sponsorship of the Olympic Winter Games 2006 in Turin. Real estate costs rose due to higher location rates charges following the updating of inflation contracts, compared with a decrease in maintenance, cleaning and security charges. There was an increase in professional and insurance costs connected to enquiries before contract due to the extension of the loans policy of the Parent Bank to all the companies of the Group, and to insurance premiums thanks to rising customer demand for products with insurance coverage.

The drop in tangible and intangible fixed assets (-5.6%) is in line with the performance of investments which,




*Operating income*

| | 2004 (€/mil) | 2003 (€/mil) | Change 2004 / 2003 (%) |
|---|---|---|---|
| Net interest and other banking income | 7,592 | 7,469 | +1.6 |
| Operating costs | -4,702 | -4,765 | -1.3 |
| - administrative costs | -4,565 | -4,610 | -1.0 |
| *- personnel* | *-2,803* | *-2,841* | *-1.3* |
| *- other administrative costs* | *-1,510* | *-1,512* | *-0.1* |
| *- indirect duties and taxes* | *-252* | *-257* | *-1.9* |
| - other operating income, net | 320 | 329 | -2.7 |
| - adjustments to tangible fixed assets | -238 | -252 | -5.6 |
| - adjustments to intangible fixed assets | -219 | -232 | -5.6 |
| **Operating income** | **2,890** | **2,704** | **+6.9** |

despite reaching high levels, were lower than the previous year.

The cost/income ratio of the Group fell to 63.5%, an improvement of almost 1.8 percentage points over 2003, thanks to the favorable trend in revenues and the reduction in costs.

## Income before extraordinary items

Income before extraordinary items came to 1,953 million euro, up 15.8% compared with the 1,687 million euro of 2003.

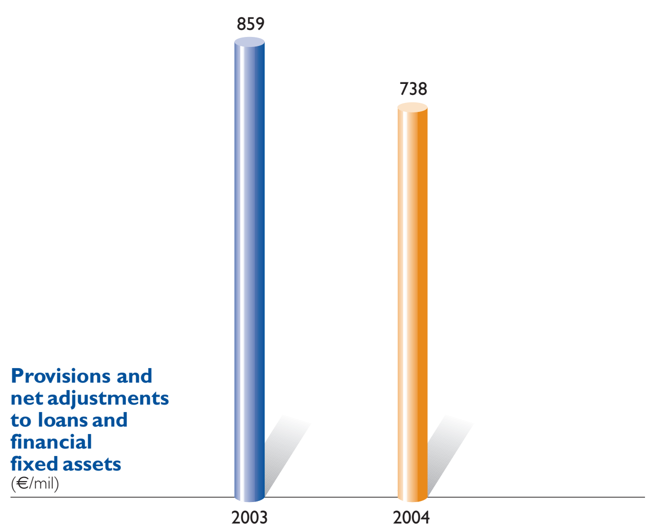
Adjustments to goodwill and merger and consolidation differences rose to 199 million euro, an increase of 25.9% compared to the 2003 value. The rise was mainly the result of the adjustment of 40 million euro on the goodwill related to the shareholding in Cassa dei Risparmi di Forlì, as well as the clean-up for 16 million euro of the residual positive consolidation difference connected with the French Fideuram Wargny group.

The reduction, begun in 2003, in provisions and adjustments to loans, risks and charges and financial fixed assets continued and passed from the 859 million euro of the previous year to 738 million euro.

Provisions to the risk and charges fund came to 231 million, a rise of 18.5% basically linked to the greater provisions against legal disputes, in particular bankruptcy liquidations. On the contrary, the figure for 2003 had benefited from the freeing of provisions related to the recalculation of the potential charge for the renegotiation of subsidized building mortgages in accordance with terms established by the Government.

Provisions and net adjustments to loans came to 525 million euro, lower than in 2003 which included the provision of 90% of the exposure to the Parmalat group (273 million euro) and the provision aimed at the full writedown of the exposure to the Cirio group (10 million euro). Adjustments to loans for 2004 mainly derived from analytical valuation of doubtful loans and include adapting hedging of the contractual commitment inherent in the FIAT convertible facility (14 million euro).

Valuation of financial fixed assets showed a recovery in net value of 18 million euro compared to the 60 million of




*Other administrative costs*

| | 2004 (€/mil) | 2003 (€/mil) | Change 2004 / 2003 (%) |
|---|---|---|---|
| IT costs | 419 | 430 | -2.6 |
| Real estate costs | 290 | 287 | +1.0 |
| General expenses | 247 | 258 | -4.3 |
| Professional and insurance fees | 265 | 264 | +0.4 |
| Promotion, advertising and marketing expenses | 99 | 93 | +6.5 |
| Indirect personnel costs | 104 | 94 | +10.6 |
| Utilities | 86 | 86 | - |
| **Other administrative costs** | **1,510** | **1,512** | **-0.1** |

2003. The main actions in the investment portfolio were the writedowns in Hutchison 3G Italia (61 million), in FIAT (5 million) as well as the provision for Cassa dei Risparmi di Forlì (23 million) in the context of the put option awarded to the shareholding foundation of the Cassa as part of the purchase agreements. These charges were offset by the recovery in value of the investment in Santander Central Hispano (122 million).

## Net income

Extraordinary income contributed 148 million euro to net income for 2004, compared with 32 million net charges in the previous year, generated mainly by staff leaving incentives (475 million), only partially compensated by income from sales of shareholdings (320 million).

The flow of net extraordinary income during the year was determined by:
- 61 million euro of capital gain linked to the sale of real estate and real estate shareholdings;
- 55 million for the sale of the remaining 30% shareholding in Finconsumo Banca;
- 50 million euro for the placement on the market by a subsidiary of own shares received through the split of Fideuram Vita;
- 50 million in expenses for the transfer of the sharehold-

*Income before extraordinary items*

| | 2004 (€/mil) | 2003 (€/mil) | Change 2004 / 2003 (%) |
|---|---|---|---|
| Operating income | 2,890 | 2,704 | +6.9 |
| Adjustments to goodwill and merger and consolidation differences | -199 | -158 | +25.9 |
| Provisions and net adjustments to loans and financial fixed assets | -738 | -859 | -14.1 |
| - provisions for risks and charges | -231 | -195 | +18.5 |
| - adjustments to loans and provisions for guarantees and commitments | -525 | -724 | -27.5 |
| *- net writedowns* | *-795* | *-972* | *-18.2* |
| *- net provisions for guarantees and commitments* | *-14* | *6* | *n.s.* |
| *- recoveries* | *284* | *242* | *+17.4* |
| - net adjustments to financial fixed assets | 18 | 60 | -70.0 |
| *- net writedowns of equity investments* | *45* | *66* | *-31.8* |
| *- net writedowns of investment securities* | *-27* | *-6* | *n.s.* |
| **Income before extraordinary items** | **1,953** | **1,687** | **+15.8** |

*Net income*

| | 2004 (€/mil) | 2003 (€/mil) | Change 2004 / 2003 (%) |
|---|---|---|---|
| Income before extraordinary items | 1,953 | 1,687 | +15.8 |
| Net extraordinary income/expense | 148 | -32 | n.s. |
| - net gains from disposal of equity investments | 76 | 320 | -76.3 |
| - other net extraordinary items | 72 | -352 | n.s. |
| **Income before taxes** | **2,101** | **1,655** | **+26.9** |
| Income taxes for the period | -658 | -644 | +2.2 |
| Change in reserve for general banking risks | -2 | 9 | n.s. |
| Income attributable to minority interests | -48 | -48 | - |
| **Net income** | **1,393** | **972** | **+43.3** |

ing in CDC Ixis to vehicle companies for which investment was replaced following the restructuring of the French Caisse d'Epargne group.

With a tax liability for the year of 658 million euro, the tax rate was 31.3%, significantly lower than that recorded in 2003 (38.9%). The improvement is mainly attributable to the resolutions introduced by the new system of income related to equity investments effective as of 2004, as well as the decrease of one percentage point in the company income tax rate and the benefits deriving from the activation within the Group of a single national fiscal consolidation according to articles 117 and following of "Consolidated Income Tax Law". The non-deductibility of charges for leaving incentives in terms of IRAP (Regional Income Tax) had a penalizing effect in 2003.

# Embedded value of the life insurance business

## Introduction

The reorganization of the Group's insurance business during 2004 culminated in the merger, with effect from 1 December, of Sanpaolo Vita and Fideuram Vita in Assicurazioni Internazionali di Previdenza (A.I.P.), which also controls the Dublin-based life insurance company Sanpaolo Life, the casualty companies Egida Assicurazioni (jointly owned with Reale Mutua) and Fideuram Assicurazioni, as well as the insurance administrative IT outsourcing company Universo Servizi.

Income associated with the Group's life insurance activities is reported in A.I.P. and its subsidiaries, and also in other Group companies, primarily those involved in distribution and asset management activities.

The consolidated result of A.I.P. contributed 216 million euro to the Group income in 2004, determined on a pro forma basis considering all the merged entities in the Insurance sector for the entire year. Net income in the year generated in other Group companies related to life insurance business, determined after associated costs, adjustments for deferred acquisition costs and taxes, and net of minority interests (principally in Banca Fideuram), amounted to 147 million euro.

A more representative method for reporting value and determining the performance of an insurance business is to use accounting based on embedded value, which comprises the sum of adjusted shareholders' equity and the value of business in force at the valuation date.

An embedded value is thus an estimate, made using actuarial techniques, of the value of a company, calculated on a going-concern basis, but excluding any value attributable to future new business.

Embedded value earnings, defined as the change in the embedded value over a period after adjustment for any capital movements such as dividends and capital injections, provide a measure of the company's performance in terms of its ability to generate value.

Given the importance which the Group attributes to the measurement of embedded value, this section shows the embedded value of the life insurance business considering both the value of A.I.P. and the portion of value associated with the life insurance business which arises in other Group companies, determined net of relevant costs, taxes and minority interests.

## Methodology and assumptions

The calculations at 31 December 2004 and the pro forma at 31 December 2003 have been carried out with the assistance and under the supervision of leading firms of consulting actuaries. The valuations make use of actuarial methodology typically used in traditional embedded value reporting, based on deterministic projections of future after-tax profits, with an allowance for risk through the use of a single discount rate and an explicit assumption for the level and cost of holding capital. The allowance for risk may not correspond to capital market-based valuations.

Adjusted shareholders' equity is based on the consolidated net assets of A.I.P., with adjustments made primarily for the after-tax effects of (i) marking shareholders' assets to market, including a surveyor's valuation of real estate, (ii) the elimination of intangible assets including goodwill, (iii) the effects of statutory deferred acquisition costs, and (iv) the cost associated with the taxes payable in advance on reserves according to D.L. 168/2004.

The value of in-force business is calculated as the present value of the projected flow of after-tax profits that are expected to be generated in A.I.P. and other Group companies by the portfolio of policies in force at the valuation date, adjusted to allow for the cost of holding an amount of capital equal to the minimum EU solvency margin.

The flow of future after-tax profits is determined using realistic assumptions for expected future operating conditions, such as investment returns, profit-sharing, inflation, commissions, expenses, taxation, lapse, disinvestment, surrender, mortality, other departures and annuity take-up rates.

The discount rates used to calculate the present values are determined with reference to the prevailing levels of interest rates, increased to allow for the risk that the assumptions chosen to project the future profits may not be borne out in practice.

In particular, the economic background as of 31 December 2004 was characterized by investment returns on 10-year

Btp of 3.85% (compared to 4.5% at 31 December 2003), while total returns on equities were set equal to 6.35% (7% in 2003). On this basis, a discount rate was set at 6.6% for all lines of business (7.25% as of 31 December 2003). The risk premium between the discount rate and the 10-year government bond rate was thus maintained at 2.75%.

The rates of return on assets backing life technical reserves reflect the characteristics of the various portfolios, as follows:

- for the segregated funds, the average rates used were: for Sanpaolo Vita 4.28% for the first five years and then 3.51% (compared to 4.18% for the first five years and then 4.12% for the 2003 valuation), for Noricum Vita 4.1% (4.1% in 2003) and for Fideuram Vita 4.55% (4.55% in 2003); these rates allow for the emergence of unrealized gains and losses within the segregated funds;
- for unit-linked funds, the projected rates of return before all management charges were set at 4.75% (4.8% in 2003) for Sanpaolo Life, at 4.1% (4.1% in 2003) for Noricum Vita, whereas for Fideuram Vita the average rates considered were 4.35% (4.95% in 2003) for guaranteed funds and 4.25% (4.8% in 2003) for non-guaranteed funds.

## Group embedded value and added value

The consolidated embedded value of the Group's life insurance business as of 31 December 2004, net of minority interest, was estimated at 2,433 million euro, an increase of 283 million euro compared to 31 December 2003, restated on a pro forma basis to account for the effects of the business reorganization. The embedded value earnings of the Group's life insurance business amount to 497 million euro, and are determined as (i) the change in the embedded value over the year, plus (ii) dividends distributed by A.I.P. during the year and other capital movements, plus (iii) the income generated in other Group companies (net of costs, adjustments for deferred acquisition costs, taxes and minority interests), associated with distribution and asset management activities.

The table below shows the derivation of the Group's embedded value earnings for the year, analyzed in its principal components, namely (i) the expected return on the opening embedded value based on opening assumptions, (ii) variances due to differences between actual and expected experience, (iii) changes in assumptions at the end of the year and (iv) the value added by new business and transformations, calculated on end-year assumptions.

*Embedded value of the life insurance business* *(€/mil)*

| | | | |
|---|---|---|---|
| Embedded value at 31/12/2003 | a | | 2,150 |
| Embedded value at 31/12/2004 | b | | 2,433 |
| Change in embedded value during 2004 | c=b-a | | 283 |
| Dividends distributed and other capital movements | d | | 67 |
| Net income emerging in other group companies | e | | 147 |
| Embedded value earnings | c+d+e | | 497 |
| *of which:* | | | |
| Expected return on initial embedded value | | | 154 |
| Experience variances in the year | | | (15) |
| Changes in assumptions | | | (24) |
| Value added by new business and transformations | | | 383 |
| *of which SANPAOLO IMI Group bank branches* | | *271* | |
| *Private Bankers of Banca Fideuram/Sanpaolo Invest SIM (1) (2)* | | *112* | |

*(1) Of which transformations from traditional business to unit-linked for 23 million euro.*
*(2) Of which originating from the simultaneous disinvestment from Banca Fideuram asset management for 36 million euro.*

# Operating volumes and organization

## Assets managed on behalf of customers

At the end of December 2004, customer financial assets amounted to 377.4 billion euro, up 2.6% on the value at the end of 2003, attributable to the favorable trend in direct and indirect deposits in both asset management and asset administration.

Indirect deposits showed a growth of 2.5% on an annual basis, largely attributable to asset administration. The trend was favored by the positive performance of the financial markets which was reflected in the revaluation of existing stock. Direct deposits increased by 2.6% from the end of December 2003.

### Asset management and administration

At the end of 2004, asset management volumes reached 144.5 billion euro, a slight increase (+0.5%) compared with the end of 2003. Revaluation of stocks, due to the positive performance of the markets, more than compensated for net negative inflow of 3.6 billion euro.

In the context of the various products, mutual funds and fund-based portfolio management amounted to 98 billion euro, down by 4.6% compared to the end of December 2003. The decrease is attributable to disinvestment in mutual funds linked also to a significant increase in subscriptions to life policies. On the other hand, fund-based

*Customer financial assets*

| | 31/12/2004 | | 31/12/2003 | | Change |
|---|---|---|---|---|---|
| | Amount (€/mil) | % | Amount (€/mil) | % | 31/12/04-31/12/03 (%) |
| Asset management | 144,485 | 38.3 | 143,711 | 39.0 | +0.5 |
| Asset administration | 97,757 | 25.9 | 92,610 | 25.2 | +5.6 |
| Direct deposits | 135,202 | 35.8 | 131,721 | 35.8 | +2.6 |
| **Customer financial assets** | **377,444** | **100.0** | **368,042** | **100.0** | **+2.6** |

*Asset management*

| | 31/12/2004 | | 31/12/2003 | | Change |
|---|---|---|---|---|---|
| | Amount (€/mil) | % | Amount (€/mil) | % | 31/12/04-31/12/03 (%) |
| Mutual funds and fund-based portfolio management | 98,009 | 67.8 | 102,738 | 71.5 | -4.6 |
| Portfolio management | 6,035 | 4.2 | 7,437 | 5.2 | -18.9 |
| Life technical reserves | 40,441 | 28.0 | 33,536 | 23.3 | +20.6 |
| **Asset management** | **144,485** | **100.0** | **143,711** | **100.0** | **+0.5** |

*Change in assets under management*

| | 2004 (€/mil) | 2003 (€/mil) |
|---|---|---|
| Net inflow for the period | -3,635 | 7,748 |
| - mutual funds and fund-based portfolio management | -7,503 | 2,659 |
| - portfolio management | -1,647 | -1,251 |
| - life policies | 5,515 | 6,340 |
| Performance effect | 4,409 | 3,032 |
| **Change in assets under management** | **774** | **10,780** |

portfolio management rose mainly due to positive net inflows. The recovery of the financial markets and the postponement of the expected rise in interest rates led customers to prefer other types of funds over liquidity funds. These were mainly bond and equity funds which respectively rose to 44.3% and 24.8% from the 41.5% and 23.6% at the end of 2003. At the end of 2004, the SANPAOLO IMI Group held the top position in the domestic market with a share of 20.1%.

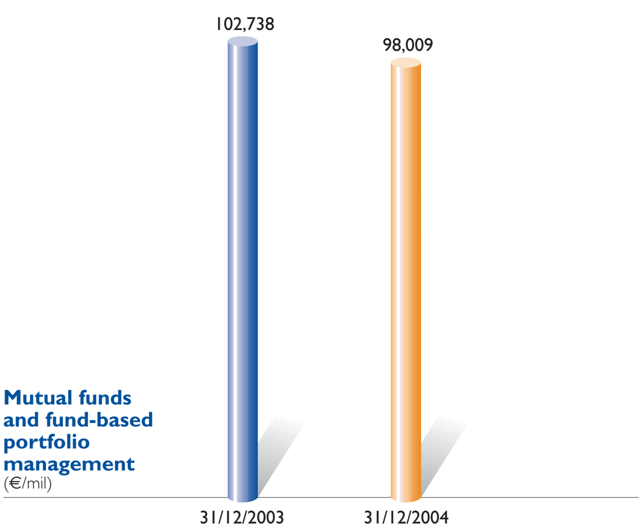
In 2004, the life insurance sector confirmed the growth already shown in the previous year; life technical reserves, equal to 40.4 billion euro, grew by 20.6%, benefiting from a net flow of 5.5 billion euro. The year saw a renewed interest by customers in traditional policies, a sector in which the range of products has recently been enriched. These policies represent approximately half the premium flows in life insurance; the remainder mainly comprise index-linked and unit-linked policies, which show a greater financial content. At the end of December, the Group had a share of the life market of 12% in technical reserves and 16% in new business.

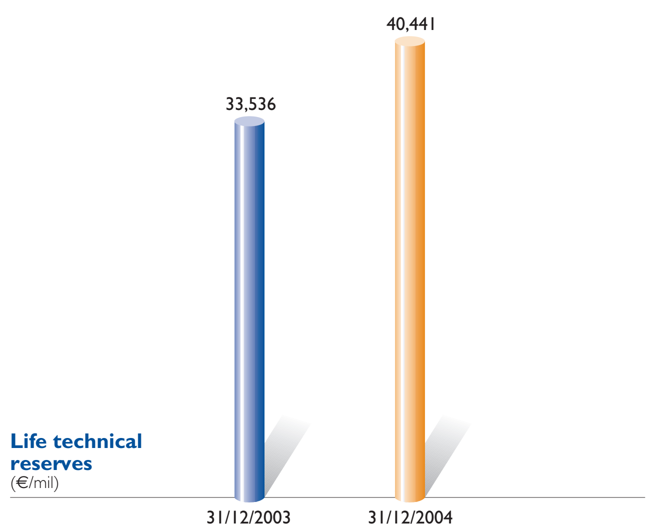
At the end of the year, asset administration amounted to 97.8 billion euro, a rise of 5.6% over the twelve months.

### Direct deposits

At the end of December 2004, direct deposits amounted to 135.2 billion euro, a rise of 2.6% since the beginning of the year thanks to the positive trend of current accounts and deposits (+7%), repurchase agreements and security lending (+16.1%) and the other forms of deposits linked to Banca IMI's security transactions. On the contrary, certificates of deposit (-59%), commercial paper (-11%) and bonds (-0.9%) showed a negative change over the year.

Analysis of the Group's Business Sectors shows that the deposits of Commercial Banking, that makes up about two thirds of the total aggregate, had an annual increase of 4.9%



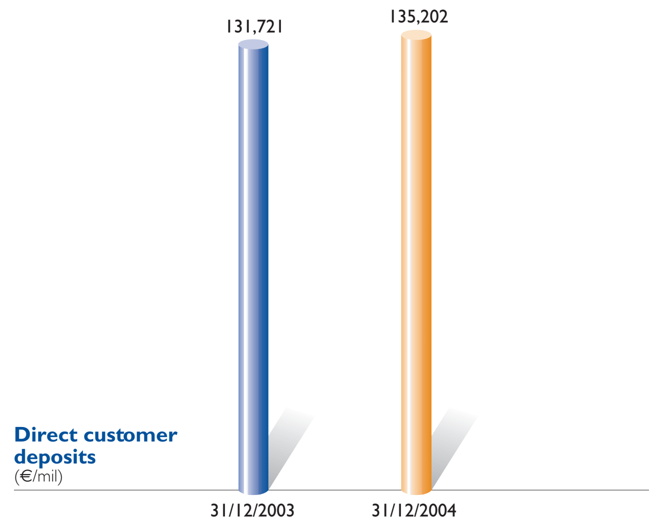




*Mutual funds by type*

| | 31/12/2004 (%) | 31/12/2003 (%) |
|---|---|---|
| Equity | 24.8 | 23.6 |
| Balanced | 7.5 | 7.4 |
| Bond | 44.3 | 41.5 |
| Liquidity | 23.4 | 27.5 |
| **Total Group mutual funds** | **100.0** | **100.0** |

thanks to the positive influence of the majority of the bank networks. In more detail, there was an increase in deposits in the private and retail market of the Parent Bank operating areas, favored by the rise in current accounts and deposits and repurchase agreements. The growth in Investment Banking is mainly attributable to Banca IMI's short-term funding in security transactions, as mentioned above. There was a fall in direct deposits in the Public Authorities and Entities sector due to the expiry of bonds. The slight drop in deposits for Central Functions is mainly attributable to the fall in bonds issued by the Treasury of the Parent Bank.

At the end of the year, the Group's share of the domestic direct deposit market was 9.9%.




*Direct customer deposits*

| | 31/12/2004 | | 31/12/2003 | | Change |
|---|---|---|---|---|---|
| | Amount (€/mil) | % | Amount (€/mil) | % | 31/12/04-31/12/03 (%) |
| Current accounts and deposits | 73,180 | 54.1 | 68,373 | 51.9 | +7.0 |
| Certificates of deposit | 2,930 | 2.2 | 7,149 | 5.4 | -59.0 |
| Bonds | 39,628 | 29.3 | 39,979 | 30.4 | -0.9 |
| Commercial paper | 3,352 | 2.5 | 3,766 | 2.9 | -11.0 |
| Repurchase agreements and securities lending | 11,696 | 8.6 | 10,073 | 7.6 | +16.1 |
| Other deposits | 4,416 | 3.3 | 2,381 | 1.8 | +85.5 |
| **Direct customer deposits** | **135,202** | **100.0** | **131,721** | **100.0** | **+2.6** |

*Direct customer deposits by Business Sector*

| | 31/12/2004 (€/mil) | 31/12/2003 pro forma (€/mil) | Change 31/12/04-31/12/03 pro forma (%) |
|---|---|---|---|
| Commercial Banking (1) | 90,208 | 86,018 | +4.9 |
| - Sanpaolo (Parent Bank operating areas and product companies) | 45,642 | 42,121 | +8.4 |
| *- of which: private and retail* | *29,611* | *27,812* | *+6.5* |
| - Sanpaolo Banco di Napoli | 16,140 | 15,525 | +4.0 |
| - Cassa di Risparmio di Padova e Rovigo | 11,279 | 10,820 | +4.2 |
| - Cassa di Risparmio in Bologna | 6,973 | 7,432 | -6.2 |
| - Cassa di Risparmio di Venezia | 4,429 | 4,427 | +0.0 |
| - Friulcassa | 3,067 | 2,977 | +3.0 |
| - Banca Popolare dell'Adriatico | 2,558 | 2,571 | -0.5 |
| Investment Banking | 9,955 | 9,178 | +8.5 |
| Personal Financial Services | 3,868 | 3,581 | +8.0 |
| Public Authorities and Entities | 4,366 | 5,557 | -21.4 |
| Central Functions (2) | 26,805 | 27,387 | -2.1 |
| **Direct customer deposits** | **135,202** | **131,721** | **+2.6** |

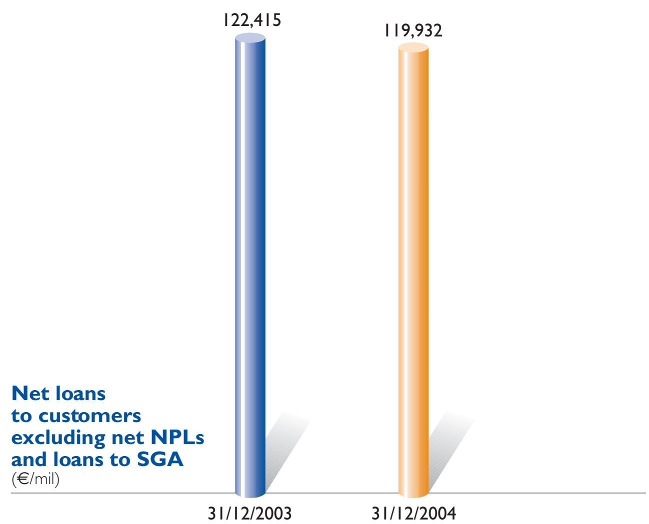
*(1) Including infra-sector postings.*
*(2) Including deposits of Group Finance and Cassa dei Risparmi di Forlì.*

## Loans to customers

The Group's net loans to customers, excluding non-performing loans and loans to SGA (the company into which the former Banco di Napoli doubtful loans were transferred), were 119.9 billion euro, down 2% since the end of 2003, due also to the securitization of 1.8 billion euro in performing loans for leasing transactions. There was a drop in short-term loans (-11.8%), offset by the trend in medium- and long-term loans, which increased by 3.2%.

In medium- and long-term loans, good progress continued in financings directed to the retail sector: mortgage disbursements to households by the Group networks were 4 billion euro, up 4.9% on the previous year. As regards the performance of loans made by Banca OPI for public works and infrastructures, the stock at the end of the year amounted to 18.8 billion euro, substantially in line with the levels at the end of 2003. Medium- and long-term loans, typical of the sector, increased by 5%, offsetting the recovery of some short-term loans. Direct lending was accompanied by the subscription of customer securities, amounting, at the end of the year, to around 5 billion euro, almost double the levels of end 2003.

Counterparty loans showed a rise in loans to households and financial companies which had an annual change of 10.1% and 11.6% respectively. On the other hand, there was a decline in loans to family businesses and non-financial companies (-7.8%) and governments and public entities (-1.9%).




*Loans to customers*

| | 31/12/2004 Amount (€/mil) | 31/12/2004 % | 31/12/2003 Amount (€/mil) | 31/12/2003 % | Change 31/12/04-31/12/03 (%) |
|---|---|---|---|---|---|
| Short-term loans | 37,754 | 31.0 | 42,815 | 34.4 | -11.8 |
| Medium- and long-term loans | 82,178 | 67.4 | 79,600 | 63.9 | +3.2 |
| **Loans to customers excluding NPLs and loans to SGA** | **119,932** | **98.4** | **122,415** | **98.3** | **-2.0** |
| Non-performing loans | 1,161 | 1.0 | 1,171 | 0.9 | -0.9 |
| Loans to SGA | 814 | 0.6 | 1,013 | 0.8 | -19.6 |
| **Loans to customers** | **121,907** | **100.0** | **124,599** | **100.0** | **-2.2** |

*Loans to customers by counterparty*

| | 31/12/2004 Amount (€/mil) | 31/12/2004 % | 31/12/2003 Amount (€/mil) | 31/12/2003 % | Change 31/12/04-31/12/03 (%) |
|---|---|---|---|---|---|
| Loans to households | 27,474 | 22.5 | 24,962 | 20.0 | +10.1 |
| Loans to family businesses and non-financial companies | 68,911 | 56.5 | 74,732 | 60.0 | -7.8 |
| Loans to financial companies | 11,405 | 9.4 | 10,222 | 8.2 | +11.6 |
| Loans to governments and public entities (1) | 13,568 | 11.1 | 13,826 | 11.1 | -1.9 |
| Other | 549 | 0.5 | 857 | 0.7 | -35.9 |
| **Loans to customers** | **121,907** | **100.0** | **124,599** | **100.0** | **-2.2** |

*(1) Excluding Banca OPI's loans to municipalized companies, included among loans to non-financial businesses.*

Loans issued by the Group's foreign network amounted to 6.7 billion euro, a drop of 10.4%. This trend is the result of increased selectivity which has reduced the risk profile with corporate counterparties, and of the effect of exchange rates mainly due to the devaluation of the dollar against the euro.

*Loans to customers by type of lending*

| | 31/12/2004 Amount (€/mil) | % | 31/12/2003 Amount (€/mil) | % | Change 31/12/04-31/12/03 (%) |
|---|---|---|---|---|---|
| Loans to households | 27,474 | 22.5 | 24,962 | 20.0 | +10.1 |
| - Domestic network | 27,132 | 22.2 | 24,708 | 19.8 | +9.8 |
| *- overdrafts* | *1,673* | *1.4* | *1,588* | *1.3* | *+5.4* |
| *- personal loans* | *3,556* | *2.9* | *3,164* | *2.5* | *+12.4* |
| *- mortgages* | *20,308* | *16.6* | *18,026* | *14.5* | *+12.7* |
| *- other* | *1,595* | *1.3* | *1,930* | *1.5* | *-17.4* |
| - Foreign network | 342 | 0.3 | 254 | 0.2 | +34.6 |
| Loans to family businesses, companies, governments, public entities and others | 94,433 | 77.5 | 99,637 | 80.0 | -5.2 |
| - Domestic network | 88,063 | 72.3 | 92,398 | 74.2 | -4.7 |
| *- overdrafts* | *14,486* | *11.9* | *15,482* | *12.4* | *-6.4* |
| *- repurchase agreements* | *1,221* | *1.0* | *856* | *0.7* | *+42.6* |
| *- import/export financing* | *2,904* | *2.4* | *3,003* | *2.4* | *-3.3* |
| *- leasing* | *3,657* | *3.0* | *4,579* | *3.7* | *-20.1* |
| *- mortgages* | *46,985* | *38.6* | *46,123* | *37.0* | *+1.9* |
| *- other* | *18,810* | *15.4* | *22,355* | *18.0* | *-15.9* |
| - Foreign network | 6,370 | 5.2 | 7,239 | 5.8 | -12.0 |
| **Loans to customers** | **121,907** | **100.0** | **124,599** | **100.0** | **-2.2** |

*Loans to customers by Business Sector*

| | 31/12/2004 (€/mil) | 31/12/2003 pro forma (€/mil) | Change 31/12/04-31/12/03 pro forma (%) |
|---|---|---|---|
| Commercial Banking (1) | 93,738 | 98,425 | -4.8 |
| - Sanpaolo (Parent Bank operating areas and product companies) | 56,964 | 60,723 | -6.2 |
| *- of which: private and retail* | *21,992* | *20,107* | *+9.4* |
| - Sanpaolo Banco di Napoli | 8,299 | 8,344 | -0.5 |
| - Cassa di Risparmio di Padova e Rovigo | 10,898 | 11,112 | -1.9 |
| - Cassa di Risparmio in Bologna | 9,473 | 9,758 | -2.9 |
| - Cassa di Risparmio di Venezia | 3,325 | 3,466 | -4.1 |
| - Friulcassa | 2,406 | 2,580 | -6.7 |
| - Banca Popolare dell'Adriatico | 2,380 | 2,479 | -4.0 |
| Investment Banking | 3,991 | 2,782 | +43.5 |
| Personal Financial Services | 812 | 735 | +10.5 |
| Public Authorities and Entities | 18,845 | 18,693 | +0.8 |
| Central Functions (2) | 2,546 | 1,780 | +43.0 |
| **Loans to customers excluding NPLs and loans to SGA** | **119,932** | **122,415** | **-2.0** |

*(1) Including infra-sector postings.*
*(2) Including deposits of Group Finance and Cassa dei Risparmi di Forlì.*

The overall trend in loans is the result of the fall in all the Commercial Banking networks. As far as loans by Sanpaolo (Parent Bank operating areas and product companies) are concerned, the decrease of 6.2% is attributable to the resizing of exposure to large domestic and foreign groups. Loans on the private and retail market went against this trend supported by mortgages to households and consumer credit. Loans issued by Central Functions, mainly asset repurchase agreements, rose.

At the end of 2004, the Group held a 10% share of the domestic market for total loans. More specifically, there was an 11.7% share of medium- and long-term loans and 8.1% in short-term loans.

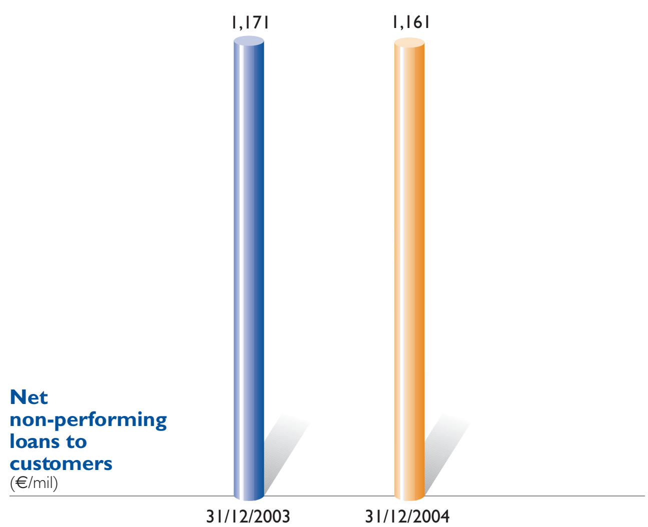
## Quality of the loan portfolio

During the year the Group continued to pay close attention to the quality of assets, thanks to the adoption of strict loan-issue selection policies and prudent provision policies in all the network banks.

At the end of 2004, net doubtful loans amounted to 2,566 million euro, slightly down (-0.2%) on the beginning of the year. In more detail, in relation to loans to customers:

- net non-performing loans were 1,161 million euro against 1,171 million at the end of 2003 (-0.9%); the net non-performing loans/net loans to customers ratio was 1%, a little above the 0.9% at 31 December 2003. The coverage ratio of the Group's non-performing loans rose to 74.9% from 73.2% at the end of 2003;
- problem, restructured and in course of restructuring loans were 1,361 million euro, an increase of 1% compared with the end of December 2003. The coverage ratio was 30.9% against 33.9% at the end of 2003;
- non-guaranteed loans to customers in countries subject to risk amounted to 25 million euro compared with 22 million as of 31 December 2003.

The good quality of the loan portfolio is confirmed by the influence of non-performing loans and problem and restructured loans on net loans to customers which was 2.1% at the end of the year. Forfeit adjustments to protect the performing loan portfolio amounted to 1,174 million euro at the end of the year, including the potential loss attributable to the contractual commitments connected with the FIAT convertible facility estimated at 167 million




*Qualitative analysis of the loan portfolio*

| | 31/12/2004 Amount (€/mil) | % | 31/12/2003 Amount (€/mil) | % | Change 31/12/04-31/12/03 (%) |
|---|---|---|---|---|---|
| Non-performing loans | 1,161 | 1.0 | 1,171 | 0.9 | -0.9 |
| Problem, restructured and in course of restructuring loans | 1,361 | 1.1 | 1,348 | 1.1 | +1.0 |
| Loans to countries at risk | 25 | 0.0 | 22 | 0.0 | +13.6 |
| **Doubtful loans - customers** | **2,547** | **2.1** | **2,541** | **2.0** | **+0.2** |
| Performing loans | 119,360 | 97.9 | 122,058 | 98.0 | -2.2 |
| **Total loans to customers** | **121,907** | **100.0** | **124,599** | **100.0** | **-2.2** |
| Non-performing and problem loans - banks | - | | - | | - |
| Loans to countries at risk - banks | 19 | | 30 | | -36.7 |
| **Total doubtful loans - customers and banks** | **2,566** | | **2,571** | | **-0.2** |

euro. This provision corresponds to 1% of the performing loan portfolio (excluding loans to SGA), an improvement on the 0.9% of 2003.

## Activities on financial markets

### Dealing, treasury and financial management activities

Control of the treasury activities and the financial risk management of the domestic bank networks is centralized in the Parent Bank. With respect to treasury activities, the Parent Bank guarantees access to monetary markets, currencies and securities, as well as payment systems and control of the Group's liquidity policy. The Parent Bank accesses OTC derivative markets mainly through Banca IMI taking advantage of the synergies with its market making activities. In the management of financial risks connected to the banking book of the Group's banking networks, the asset and liabilities management of SANPAOLO IMI aims to maximize profitability compatibly with stability of economic results over many years. In that context, positions on interest rate risks are adopted in line with the strategic views of the Group Financial and Market Risks Committee.

With reference to the centralized management of liquidity, at the end of 2004 some 59% of SANPAOLO IMI's positive interbank positions and 55% of its negative interbank positions referred to infra Group financing and deposits. The net interbank position of the Parent Bank was characterized by an imbalance in market debt which Treasury met through net imbalances of short-term liquidity under a strict policy of funding diversification.

About 74% of the overall volumes of interbank exchanges concerned collection transactions in euro, of which a significant part - 56% of the total - was channeled through the e-Mid circuit. Approximately 15% of short-term funding was carried out through the issue of certificates of deposit and commercial paper using "Issuance programs" placed on foreign markets.

As regards medium- and long-term funding, also centralized for the domestic banking networks and the Group companies, during 2004 SANPAOLO IMI placed securities for 2.4 billion euro through the internal network and the Sanpaolo Banco di Napoli and Banca Fideuram networks. Of these, 2.27 billion were of senior nature and 0.13 billion of subordinate nature (Lower Tier II). The Parent Bank placed securities of 3.3 billion euro on foreign markets, of which 2.3 billion of senior nature and 1 billion of subordinate nature (Lower Tier II). Other funding, for a total of 2.2 billion euro, was made by the Parent Bank in the form of loans and deposits on foreign markets, direct deposits from Group banks and deposits from international organizations. Medium- and long-term senior issues by the banking networks of the North East and Banca Popolare dell'Adriatico generated total deposit flows of 2 billion euro.

At the end of 2004, the Group's securities portfolio came to 29.3 billion euro, up 16% on the end of 2003. The investment component came to 3.2 billion euro, accounting for 11% of the total, in comparison to 11.6% at the end of the previous year (2.9 billion euro).

At the end of the year, the dealing portfolio of the subsidiary Banca IMI was 12 billion euro, up 4.3% on the 11.6

*Securities, interbank position and derivatives*

| | 31/12/2004 | | 31/12/2003 | | Change |
|---|---|---|---|---|---|
| | Amount (€/mil) | % | Amount (€/mil) | % | 31/12/04-31/12/03 (%) |
| Investment securities | 3,219 | 11.0 | 2,935 | 11.6 | +9.7 |
| Dealing securities (1) | 26,125 | 89.0 | 22,357 | 88.4 | +16.9 |
| **Total securities** | **29,344** | **100.0** | **25,292** | **100.0** | **+16.0** |
| Loans to banks | 23,777 | | 22,278 | | +6.7 |
| Funding from international banking organizations | 7,528 | | 6,360 | | +18.4 |
| Funding from other banks | 20,670 | | 22,174 | | -6.8 |
| Derivatives and forward transactions in foreign currencies (at nominal value) | 857,896 | | 560,068 | | +53.2 |

(1) The figure includes SANPAOLO IMI shares bought by subsidiaries as part of their dealing activities.

billion held at end 2003. This comprised 45.1% Government bonds, 35.8% other bonds and another 19.1% other shares and shares in OICR - Collective Savings Investments Organizations funds.

As of 31 December 2004, the Parent Bank's securities portfolio came to 11.6 billion euro, more or less in line with the pro forma account at the end of 2003 (11.5 billion euro).

The dealing component amounted to 9.2 billion euro and the investment component to 2.4 billion euro. In the total dealing portfolio, Italian Government bonds accounted for 22%, bonds from financial and banking issuers (including Group securities) represented 75%, while a further 3% was made up by shares in the Imi Global Sicav fund (acquired through the incorporation of Invesp). The investment component consisted of nearly 90% Government bonds of the EU and international organizations and the remaining 10% of corporate issues.

The composition of the portfolio remained at adequate values to maximize the aims for profitability, while at the same time acting as a refinancing tool for addressing the liquidity needs of the Parent Bank and the Group companies. During the year, in observance of the guidelines adopted for funding liquidity risk, the securities portfolio of the Parent Bank maintained the minimum quantity of eligible securities to be held available for spot hedging of the very short-term liquidity risk while the "Target Liquidity Ratio", to be respected in the short-term in connection with the imbalance between inflows (maturing and readily available assets) and outflows (expiring liabilities), divided into time brackets, was constantly above one at consolidated level. Imbalances for subsequent time buckets (up to one year) were also constantly above attention levels.

The volume of the securities negotiated by the Parent Bank was 31 billion euro, while transactions in repurchase agreements, entered into for retail and corporate customers and to support activity on the monetary markets, amounted to 429 billion euro, 255 billion of which were handled by the MTS/PCT platform.

Activities in hedging derivatives for financial management were particularly important towards the end of 2004 due to a number of factors, including extraordinary ones. The difficulties in interpreting macro-economic performance, which led to major changes in interest risk positions, were aggravated in the second half of the year by the effects of reviewing the internal model of representing risk generated by core deposits (see also "Risk management and control"), and the preparation for the transition to IAS/IFRS accounting policies. This combination influenced the timing and methods of derivative transactions, giving rise in particular to an acceleration in negotiation of new contracts at the close of the year. The transaction was carried out according to the guidelines established by the Group Financial and Market Risks Committee and remained mostly within the operative powers of the Finance department of the Parent Bank which is responsible for the Group Treasury activities.

The Group also carried out closed dealing in derivatives for corporate customers for a notional amount of 20 billion euro at the end of the year (18.1 billion in 2003).

### Placement and advisory business

Despite the difficult market situation, during 2004 Banca IMI acted as leader in 39 bond issues, for a total amount of around 17 billion euro, with a major presence in the transactions of foreign issuers. In particular:
- in the financial institutions sector, the senior issues of Banca Antonveneta, Islandsbanki, AngloIrish Bank, Cassa di Risparmio di Rimini, Cassa dei Risparmi di Forlì, Mediocredito del Trentino Alto Adige, Antonveneta, Banca delle Marche, Veneto Banca and Landsbanki Island; the subordinated issues of SANPAOLO IMI and Unibanca; the Medium Term Note Programme of Cassa di Risparmio di Bolzano, and the securitization of leasing rates of Sanpaolo Leasint;
- in the government bonds and local entities sector, the placement of inflation-linked BTP, the private placement of Greek government bonds, issues for Comune di Napoli and Regione Friuli Venezia Giulia;
- in the corporate issuers sector, the issues of Enel and General Electric and the High Yield issue of IT Holding.

In the equity sector, characterized by the appreciable recovery of the main international stock exchange indexes, 2004 saw an increase in operating volumes and the number of transactions (especially in the IPO sector) in Europe. The Italian market also showed signs of recovery compared to the previous year, mainly attributable to the third tranche of Enel shares (Enel III), the largest share placing in the world for the year.

In this context, in Italy Banca IMI participated in the abovementioned Enel corporate offer, the Public Offers for Terna shares and for shares in the Tecla real estate fund, the IPO of Geox, the capital increase of Buzzi Unicem, the private placements of Lottomatica and Isagro and, internationally, the institutional offers of Genworth Financial and General Electric shares. It also executed some tranches in the capital increase of Mondo TV and of Buongiorno Vitaminic.

In relation to corporate finance advisory activities, the domestic market showed a marked reduction of operations during the year compared to 2003, partly compensated at the end of the year. In this context, the bank concluded assistance to Amga and Smat in the acquisition of a majority share in Acque Potabili, to Finmeccanica in the ceding of a share of about 10% in ST Microelectronics, to SIA in the setting up of a joint venture with GL Trade, to Manuli in the context of the inverse merger of FinM into Manuli, to Edison in the ceding of Edison T&S and the related gas transportation network, as well as in the evaluation of the ISE subsidiary, to Cassa di Risparmio di Firenze and Cassa di Risparmio di Genova in the purchase of, respectively, Cassa di Risparmio di La Spezia and Cassa di Risparmio di Carrara, to IT Holding in the disposal of the Romeo Gigli and Gentry di Portofino trademarks, and to IPSE for a fairness opinion.

Regarding current transactions, the bank continued to provide global advisory services to the FIAT group and consultancy services to the Albanian Government for the privatization of the telecom and energy sectors.

The activities carried out for the Ministry for the Economy and Finance in structuring and placing the F.I.P. fund (Fondo Immobili Pubblici - public real estate fund) in the context of the privatization of public real estate assets, should also be mentioned.

## Equity investments

As of 31 December 2004, the Group's investments in companies that are not consolidated on a line by line basis amounted to 4,503 million euro, with a net decrease of 69 million euro compared with the value as of 31 December 2003. This change reflects the 32 million euro increase for purchases and subscriptions, the 391 million euro decrease for disposals (which realized a gain of 129 million euro), net writebacks of 45 million euro and 116 million euro other net increases.

The main transactions during the year concerned:
- in the context of transactions of the Parent Bank and Commercial Banking:
  - the disposal to Santander Central Hispano of the residual 30% shareholding in Finconsumo Banca, following the exercising of the put option. The transaction was completed at a price of 80 million euro, realizing a capital gain of 55 million euro;
  - the sale of the 28.32% shareholding in HDI Assicurazioni to the German insurance group Talanx AG of Hanover which held the remaining part of the capital. The transaction was completed for a price of 47 million euro, realizing a capital gain of 5.2 million euro;
  - the disposal to the Carlyle group of the total shareholding in CSP Investimenti for a price of 208 million euro. The transaction, which is part of a broader project of appreciation of the Group's non-instrumental real estate portfolio, was completed with a capital gain of 51 million euro;
  - the disposal to the Naples Chamber of Commerce of the 8.02% share held in Mostra d'Oltremare for a price of 3.1 million euro and a capital gain for the same amount.

  Moreover, as already described in detail elsewhere in this Report, the exchange took place in December of the 3.45% shareholding in CDC Ixis with a 12% shareholding in Ixis Asset Management Group (IAMG) and 2.45% in Ixis Corporate & Investment Bank (ICIB) with a loss from conferral of 50 million euro reported among the extraordinary expenses;

*Non-consolidated equity investments*

| | 31/12/2004 | | 31/12/2003 | | Change |
|---|---|---|---|---|---|
| | Amount (€/mil) | % | Amount (€/mil) | % | 31/12/04-31/12/03 (%) |
| **Equity investments** | **4,503** | **100.0** | **4,572** | **100.0** | **-1.5** |
| - carried at equity | 1,679 | 37.3 | 1,775 | 38.8 | -5.4 |
| - carried at cost | 2,824 | 62.7 | 2,797 | 61.2 | +1.0 |
| *- in listed companies* | *1,458* | *32.4* | *1,331* | *29.1* | *+9.5* |
| *- in other companies* | *1,366* | *30.3* | *1,466* | *32.1* | *-6.8* |

- in the context of Investment Banking transactions, the 5% share held in Serene, a company operating in the production and distribution of electrical energy, was sold to British Gas Italia (which already held 32% of the capital) and Edison. The transaction was completed at a price of 5.2 million euro, realizing a capital gain of 3.9 million euro;
- in the context of the transactions of Public Authorities and Entities:
  - the disposal to Fondazione Cassa di Risparmio di Padova e Rovigo and Fondazione Cassa di Risparmio in Bologna of an overall shareholding of 20% (10% for each buyer) of Sinloc, an investment company for local development and revival of the territory, for a price of 9.8 million euro, realizing a capital gain of 0.5 million euro);
  - the disposal to the Rinascente group and Lamaro Appalti of the 33.33% shareholding in Immobiliare Colonna '92. The transaction was completed at a price of 1.8 million euro, realizing a capital loss of 178 thousand euro.

Writebacks, equal to 123 million euro, mainly refer to the shareholding in Santander Central Hispano, while adjustments for a total of 78 million euro substantially refer to the holdings in Hutchison 3G (61 million) and FIAT (5 million).

With reference to the equity investment portfolio, there was also the adjustment reflecting the writeback for Cassa dei Risparmi di Forlì (23 million euro for the put option awarded to the shareholding Foundation).

Other net increases, equal to 116 million euro, mainly refer to the increases in value of the companies carried at equity, net of the loss from conferral for investments in CDC Ixis (50 million euro).

## Operating structure

### The distribution network

In line with the 2003-2005 Plan, actions continued during the year for the development and rationalization of the Group's distribution networks. In particular:

- integration of the banking networks of the North East and Banca Popolare dell'Adriatico was completed through migration of the IT systems to that of the Parent Bank, together with the adoption of the SANPAOLO IMI organization and commercial structure. The distribution model of the Sanpaolo network, characterized by branch specialization according to customer type (Retail, Private and Companies) has now been extended to all the Group's networks;
- in order to rationalize presence on the territory and strengthen the competitive position of the single bank networks, optimizing the brand name, approval was given for the transfer of 113 operating points of the Sanpaolo network in the provinces of the Triveneto and Emilia to the four banking networks of the North East; at the same time, 30 operating points of Cassa di Risparmio di Padova e Rovigo and Cassa di Risparmio in Bologna located outside their respective reference territories (namely Rome, Milan and Lodi) were transferred to the Sanpaolo network. The operation began in November and was concluded in January 2005.

At the end of 2004 the SANPAOLO IMI Group had a network of 3,205 banking branches in Italy, 32.7% of which are distributed throughout the North West, which is widely covered by the Sanpaolo network, 29.5% in the North East (Triveneto and Emilia), where the four network branches (Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Cassa di Risparmio di Venezia and Friulcassa) and Cassa dei Risparmi di Forlì (in which a 29.8% interest is held) are concentrated, and 25.3% in Southern Italy and the Islands, headed, for the mainland regions, by Sanpaolo Banco di Napoli and by the Sanpaolo network in the Islands. The remaining 12.5% of the Group's network is located in Central Italy where the branches of Sanpaolo and Banca Popolare dell'Adriatico are located.

The branches of Cassa di Risparmio di Firenze (in which an 18.7% interest is held) and Banca delle Marche (in which a 7% interest is held) are also located in Central Italy. SANPAOLO IMI has stipulated distribution agreements with both banks.

The internal and external lines of development followed to date have led to the Group's networks covering all the Italian regions, almost all the 103 provinces and over 20% of Italian municipalities.

The share of branches held throughout Italy amounts to 10.4%. In particular, the Group has an 11.1% share in the North West, 11.4% in the North East, 5.7% in the Center and 13.5% in the South and the Islands.

In 2004, the Group confirmed its commitment to the distribution of multi-channel services. With regard to the private and retail sectors, at the end of the year direct banking contracts managed by Sanpaolo branches rose above 465,000, an increase of about 20% compared with 31 December 2003 and reported with unity of comparison. Internet banking contracts with companies reached 32,000 for Sanpaolo customers (an increase of over 20% on the beginning of the year) and 8,700 for Sanpaolo Banco di Napoli customers (up more than 80% on the beginning of the year), and 16,300 with reference to the customers of the banking networks of the North East and Banca Popolare dell'Adriatico (a rise of over 180% since the beginning of the year).

The retail customer service is also carried out through the network of automatic Bancomat tellers which, at the end of December, included 1,929 Sanpaolo ATMs, 844 Sanpaolo Banco di Napoli ATMs and 1,085 ATMs related to the four North East bank networks and Banca Popolare dell'Adriatico, as well as through the POS terminals (30,949 for the Sanpaolo network, 11,928 for Sanpaolo Banco di Napoli, and 19,971 of the other networks).

The Group's distribution structure also comprises 4,317 financial planners, mainly from Banca Fideuram and Sanpaolo Invest SIM.

The Group operates abroad through a network of 113 branches and 18 representative offices.

During the year, the Parent Bank opened representative offices in Paris and Dubai and transformed the representative office in Madrid into an operating branch.

### Personnel

At the end of the year, the Group employed 42,738 resources, a fall of 727 units (-1.7%) compared to 31

*Group distribution network*

| | 31/12/2004 | 31/12/2003 | Change 31/12/04-31/12/03 (%) |
|---|---|---|---|
| **Banking branches and area offices** | **3,318** | **3,272** | **+1.4** |
| - Italy | 3,205 | 3,168 | +1.2 |
| *of which: Parent Bank (1)* | *1,367* | *1,357* | *+0.7* |
| - Abroad | 113 | 104 | +8.7 |
| **Representative offices** | **18** | **18** | **-** |
| **Financial planners** | **4,317** | **4,675** | **-7.7** |
| *of which: Banca Fideuram (2)* | *4,313* | *4,543* | *-5.1* |

*(1) The figure for the previous year has been reposted with respect to the 2003 Annual Report (1,438 branches) to take into account the transfer by the Parent Bank of 81 branches operating in the Triveneto and Emilia to Cassa di Risparmio di Padova e Rovigo and to Cassa di Risparmio in Bologna.*

*(2) Including Sanpaolo Invest SIM.*

*Group distribution network in Italy as of 31/12/2004*

| | Sanpaolo | North East bank networks (1) | Banca Popolare dell'Adriatico | Sanpaolo Banco di Napoli | Other networks (2) | TOTAL | % |
|---|---|---|---|---|---|---|---|
| North West (Piedmont, Val d'Aosta, Lombardy and Liguria) | 998 | 10 | 2 | - | 38 | 1,048 | 32.7 |
| North East (Triveneto and Emilia Romagna) | 21 | 798 | 17 | - | 110 | 946 | 29.5 |
| Center (Tuscany, Marche, Umbria, Lazio, Abruzzo and Molise) | 238 | 11 | 118 | 4 | 29 | 400 | 12.5 |
| South and Islands (Campania, Puglia, Basilicata, Calabria, Sicily and Sardinia) | 110 | - | - | 684 | 17 | 811 | 25.3 |
| **Banking branches and area offices in Italy** | **1,367** | **819** | **137** | **688** | **194** | **3,205** | **100.0** |

*(1) Comprises Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Cassa di Risparmio di Venezia and Friulcassa.*

*(2) Includes the branches of Banca Fideuram (89), Cassa dei Risparmi di Forlì (82), Finemiro Banca (22) and Farbanca (1).*

December 2003. This trend has had a positive influence on personnel costs and is the result of around 3,600 departures and 2,800 new hires.

Departures under leaving incentives were over 2,300, 2,100 of which using the "Income, employment and re-training fund for staff in the banking industry" that resulted in rationalization and integration at Group level and created space in the distribution structure for the entry of new personnel. This represented an important investment for the future, especially in support of the commercial development plan for the network.

As a result of the rationalization and integration activities foreseen in the 2003-2005 Three-Year Plan, there was a significant use of infra-group mobility involving over 500 resources during the year, also through re-training.

In Commercial Banking, over 3,000 employees (out of a base of around 3,700) made use of the "Income, employment and re-training fund", including over 2,000 departures during 2004. In addition, there were around 150 early retirements using incentive plans.

With reference to the Parent Bank, at the end of the year there were 20,794 resources, a reduction of 609 units (-2.8%) compared with 31 December 2003, reported in unity of comparison to take into account the cession by the Parent Bank of the operative branches in the provinces of the Triveneto and Emilia to Cassa di Risparmio di Padova e Rovigo and Cassa di Risparmio in Bologna.

Users of the "Income, employment and re-training fund" within the Parent Bank totaled over 2,000 out of a base of some 2,450 people. There were around 1,400 departures during 2004 using the fund, to which must be added about one hundred other retirements with incentives.

At the end of the year Sanpaolo Banco di Napoli employed 5,727 resources, a reduction of 86 units compared to the end of 2003 due to 255 entries, of which 105 new hires, and 341 departures, of which 219 using the "Income, employment and re-training fund".

The number of employees of the banking networks of the North East and the Banca Popolare dell'Adriatico was 8,954 at the end of the year, a reduction of 17 units compared to 31 December 2003, reported in unity of comparison to take into account the above-mentioned cession of branches. Recourse to the "Income, employment and re-training fund" led to the departure of 440 people in addition to some 50 retirements with incentives. These departures were compensated by the insertion of personnel necessary to cope with the migration to the IT systems of the Parent Bank and the application of its organization processes.

In the other companies of the Group, there was a reduction of 15 units compared with the end of 2003.

In particular, during 2004 activities continued to rationalize the tax collection sector (-6.5%). Reduction in the number of employees was made possible also through use of the "Income, employment and re-training fund" which helped in the departure of around 70 resources.

*Personnel*

| | 31/12/2004 | % | 31/12/2003 | % | Change 31/12/04-31/12/03 | (%) |
|---|---|---|---|---|---|---|
| - Parent Bank (1) | 20,794 | 48.6 | 21,403 | 49.3 | -609 | -2.8 |
| - North East bank networks and Banca Popolare dell'Adriatico (1) | 8,954 | 21.0 | 8,971 | 20.6 | -17 | -0.2 |
| - Sanpaolo Banco di Napoli | 5,727 | 13.4 | 5,813 | 13.4 | -86 | -1.5 |
| - other companies | 7,263 | 17.0 | 7,278 | 16.7 | -15 | -0.2 |
| **Period-end headcount** | **42,738** | **100.0** | **43,465** | **100.0** | **-727** | **-1.7** |
| *of which:* | | | | | | |
| *- executives* | *773* | *1.8* | *821* | *1.9* | *-48* | *-5.8* |
| *- third and fourth level managers* | *4,985* | *11.7* | *5,408* | *12.4* | *-423* | *-7.8* |
| *- other personnel* | *36,980* | *86.5* | *37,236* | *85.7* | *-256* | *-0.7* |

*(1) The figures for the previous year have been reposted with respect to the 2003 Annual Report (respectively 22,086 resources for the Parent Bank and 8,288 for the North East bank networks and Banca Popolare dell'Adriatico) to take into account the transfer by the Parent Bank of branches to Cassa di Risparmio di Padova e Rovigo and Cassa di Risparmio in Bologna.*

In line with the 2003-2005 Three-Year Plan, growth continued in consumer banking (+16.5%) and in the East European banks (+6.4%).

The restructuring of the Epta group begun in 2003 was completed with the absorbing of the personnel by other companies of the Group, also using professional re-training.

# Capital and reserves

## Net shareholders' equity

Group shareholders' equity, 11,804 million euro at 31 December 2004, showed the following movements in the year:

| *Movements in Group shareholders' equity* | *(€/mil)* |
|---|---|
| **Shareholders' equity at 31 December 2003** | **10,995** |
| **Decreases** | **-715** |
| - Dividends | -715 |
| **Increases** | **1,524** |
| - Split of Fideuram Vita investment in SANPAOLO IMI | 117 |
| *of which: increase of SANPAOLO IMI S.p.A. capital* | *74* |
| - Exchange and other adjustments | 12 |
| - Provision to the reserve for general banking risks | 2 |
| - Net income | 1,393 |
| **Shareholders' equity at 31 December 2004** | **11,804** |

Besides the distribution of the 2003 dividend and the net income for 2004, the changes with respect to the figures at the end of December 2003 reflect the increase in SANPAOLO IMI capital destined for minority shareholders in Banca Fideuram, following the split of the investment in Fideuram Vita in favor of the Parent Bank. This transaction also caused an increase in consolidated reserves due to the acquisition of the share of reserves of the insurance subsidiary formerly owned by the Fideuram minority partners.

### Own shares

As of 31 December 2004, SANPAOLO IMI shares held by the Group totaled 5,137,361, equal to 0.28% of the share capital, and were recorded in the assets in the Balance sheet at a total market value of 54.4 million euro (10.585 euro unit value).

Transactions in SANPAOLO IMI shares in 2004 were as follows:

- at 31 December 2003, the Parent Bank held 3,220,919 SANPAOLO IMI shares in its portfolio, equal to 0.18% of the share capital, which were recorded in the assets in the Balance sheet at a market value of 34 million euro (10.413 euro unit cost). In application of the decisions made by the Shareholders' meeting regarding authorization to purchase and dispose of own shares, during the year the Bank purchased 795,000 shares (2.2 million euro nominal value), for an outlay of 7.1 million euro. Consequently, at 31 December 2004, the Bank held 4,015,919 own shares in its portfolio (11.2 million euro nominal value), equal to 0.22% of the share capital, which were recorded in the securities dealing portfolio in the assets of the Balance sheet at a market value of 42.5 million euro (10.585 euro unit cost);
- as of 31 December 2003, the subsidiary Banca IMI, in relation to its institutional dealing activity, recorded, among the liabilities in its accounts, a "short-term position" in relation to 395,575 SANPAOLO IMI shares (1.1 million euro nominal value) attributable to the normal dealing activity and financially balanced by transactions in derivatives. During the year, the company purchased 4,707,753 shares (13.2 million euro nominal value) for a cost of 44.7 million euro, and sold 4,311,012 shares (12.1 million euro nominal value) for a total outlay of 42.7 million euro. Consequently, at 31 December 2004, Banca IMI held 1,166 SANPAOLO IMI shares in its portfolio (approximately 3,000 euro nominal value) booked at a market value of around 12,000 euro;
- as of 31 December 2003, the subsidiary Banca Fideuram held no Parent Bank shares in its portfolio. During the year, and following the above-mentioned split in Fideuram Vita, the company acquired 1,120,276 SANPAOLO IMI shares (3.1 million euro nominal value) for a cost of 12.7 million euro. At 31 December 2004, Banca Fideuram adjusted the value of the above shares by 0.8 million euro. Consequently, as of 31 December 2004, the bank held 1,120,276 SANPAOLO IMI shares in its portfolio (3.1 million euro total nominal value) booked at a market value of 11.9 million euro.
- following the split of investment in Fideuram Vita, the subsidiary Invesp, already a shareholder of 9.28% in Banca Fideuram but with no Parent Bank shares in its portfolio as of 31 December 2003, also acquired SANPAOLO IMI shares (6,793,642 shares at a nominal value of 19,0 million euro). These shares, reported at the time of the split for an outlay of 8.4 million euro, were ceded by the subsidiary at a price of 69.4 million euro.

## Regulatory capital and solvency ratios

As of 31 December 2004, the ratio of the Group's total regulatory capital to total weighted assets against risks, mainly deriving from credit and market risks, showed a total solvency ratio of 12.0%. In particular, the market risks referable to the Parent Bank and other Group companies, 13 billion euro at end December 2004, were 57% hedged by Tier 3 subordinated loans, entered into for a total of 594 million euro.

At end December 2004, the ratio between the Group's base regulatory capital and the total weighted assets reached 8.1% (Tier 1 ratio). At the same date, the Core Tier 1 ratio (calculated by reference to the Tier 1 capital net of preferred shares) came to 7.4%.

The regulatory capital structure of the SANPAOLO IMI Group is therefore consistent with the recommendations formulated by the Bank of Italy which, following a general international trend aimed at stimulating the formation of more solid capital endowment for the more important banks (for example aligned to the status of Financial Holding Company in accordance with US standards), recommended stricter targets than the obligatory ratios:

- Core Tier 1 ratio = 6%;
- Total Risk ratio = 10%.

*Regulatory capital and solvency ratios*

| | 31/12/2004 | 31/12/2003 |
|---|---|---|
| **Solvency capital (€/mil)** | | |
| Tier 1 capital | 10,860 | 10,038 |
| *of which: preferred shares* | *1,000* | *1,000* |
| Tier 2 capital | 5,356 | 4,470 |
| less: prescribed deductions | -840 | -837 |
| Regulatory capital | 15,376 | 13,671 |
| Tier 3 subordinated loans | 594 | 598 |
| Total regulatory capital | 15,970 | 14,269 |
| **Weighted assets (€/mil)** | | |
| Credit risk | 119,600 | 124,987 |
| Market risk | 13,063 | 10,963 |
| Other requirements | 787 | 563 |
| Total assets | 133,450 | 136,513 |
| **Solvency ratios (%)** | | |
| Core tier 1 ratio | 7.4 | 6.6 |
| Tier 1 ratio | 8.1 | 7.4 |
| Total risk ratio | 12.0 | 10.5 |

# Risk management and control

## The basic principles

The SANPAOLO IMI Group is strongly committed to risk management and control, which is based on three principles:

- clear identification of responsibility for taking on risks;
- measurement and control systems in line with international best practice;
- organizational separation between the Business Areas that carry on day to day operations and those that carry out controls.

The policies relating to the acceptance of credit and financial risks are defined by the Parent Bank's Board of Directors and Executive Committee with support from specific operating Committees.

The Parent Bank also performs general functions of risk management and control and makes risk-acceptance decisions in case of major risks.

The Business Areas that generate credit and/or financial risks are all assigned limits of autonomy and each has its own control structure. For the main Group banking networks (Sanpaolo Banco di Napoli, Cassa di Risparmio in Bologna, Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio di Venezia, Banca Popolare dell'Adriatico and Friulcassa) these functions are carried out, on the basis of an outsourcing contract, by the Parent Bank's risk control functions, which periodically report to the Board of Directors and the Audit Commitee of the subsidiary.

## The Basel 2 Project

On 26 June 2004, the Basel Committee on Banking Supervision published the new Capital Accord on capital adequacy ("Basel 2").

Very briefly, the Accord provides for new quantitative rules to establish the minimum capital requirement to cover credit, market and operational risks:

- as regards credit risks, the new rules introduce a greater degree of correlation between capital requirements and risks, through the acknowledgment of ratings and other credit risk measurement tools. The Accord sets out a Standard approach as well as two increasingly sophisticated approaches based on internal risk management tools;
- as regards market risks, the legal regulations currently in force apply;
- finally, the new Accord introduces capital absorption for operational risks, which can also be measured using three approaches which are increasingly more analytical.

The regulations are designed to promote, through a lower absorption of capital, the adoption of more sophisticated methods, both in credit risks and operational risks. In order to obtain access to these options, however, the banks must satisfy a set of basic requirements with regard to risk management and control methodologies and processes.

Most of the advantages will come from the management and operating results obtained from the systematic application of new methodologies which should allow to improve risk management and control capabilities as well as increase the efficiency and effectiveness of customer service.

In order to take up these opportunities, since 2003 SANPAOLO IMI has launched the "Basel 2 Project", whose mission is to prepare the Group to adopt the new advanced approaches as soon as the New Accord comes into force, expected by the end of 2006.

During 2004 and the first months of 2005 significant investments have been made to achieve the following summarized objectives:

- improvement of the risk measurement methodologies and historical databases, especially for credit risks (rating models, Loss Given Default, Exposure at Default) and operational risks;
- updating of organizational procedures and related technological supports, especially with regard to the credit granting process, in line with compliance requirements. This alignment is almost complete for both Corporate and Retail portfolios.

Further investments are planned for the current year to complete the above-mentioned activities and to launch new initiatives focused on developing tools to support risk management activity, credit risk mitigation and reporting.

## Financial risk management and control

### Organization

The main body responsible for the management and control of financial risks is the Board of Directors of the Parent Bank. It defines the criteria and strategic issues concerning market risks, allocates capital on the basis of the expected risk/return profile and approves the operating risk limits for the Parent Bank and the guidelines for the subsidiaries.

The Group Financial and Market Risks Committee ("CRFMG") is responsible for defining risk measurement criteria and methodologies, the structure of the Parent Bank and Business Areas' risks limits and verifying the Group companies' risk profile. The CRFMG consists of the Managing Director, the heads of the Business Areas and the Risk Management Department.

The Treasury Department of the Parent Bank is responsible for the treasury activities, including access to markets and immunization against market risks generated by lending activities of the Domestic Banking Network.

The Risk Management Department is responsible for developing risk monitoring methodologies and proposals regarding the system of operating risks limits for the various lines of business of the Parent Bank and the Group, as well as for the measurement of risks existing in the various operating units and monitoring the Business Areas' compliance with the limits laid down by the Board of Directors and Executive Committee of the Parent Bank.

The individual Business Areas measure the financial risks internally, using a system of limits consistent with the Parent Bank's global design.

### Measurement techniques

The financial risk measurement methods used by the Group consist mainly of:
- Value at Risk (VaR);
- Sensitivity analysis;
- Worst Case Scenario.

VaR corresponds to the maximum loss of the value of the portfolio which could occur in the ten subsequent working days in 99% of cases, based on the volatility and historical correlations (of the last 250 working days) among the individual risk factors, made up, for every currency, of the short- and long-term interest rates, the exchange rates and equity prices.

Sensitivity Analysis quantifies the change in value of a portfolio resulting from adverse movements in the risk factors. As regards interest rate risk, adverse movement is defined as a parallel and uniform shift of 100 basis points of the interest rate curve. The measurements include the risk originated by repayable on demand customer accounts, which are typical of commercial banks, whose features of stability and partial and delayed reactivity to interest rate fluctuations have been studied by analyzing a large collection of historical data, obtaining a maturity representation model through equivalent deposits; for loans, the average duration is very short (approximately 1 month), whereas the estimated average duration for core deposits is greater (approximately 12 months) depending on their stability features.

The interest margin sensitivity is also measured for the companies in the banking book. This quantifies the impact on net interest income of a parallel and instantaneous shock in the interest rate curve of ±25 basis points over a time horizon of 12 months. This measurement shows the effect of the changes in rates on the portfolio being measured, excluding assumptions regarding future changes in the assets and liabilities mix, and therefore cannot be considered a predictor of the future level of the Group's net interest income.

The Worst Case method establishes a risk measurement defined as "maximum potential loss", which represents the worst possible economic result of those obtained in various hypothetical scenarios, built in such a way as to represent a significant shock to current market parameters on the basis of a holding period of one day and accumulating the losses deriving from the various risk factors in absolute value. The idea underlying the determination of shocks to be assigned to the risk factors is to ensure a high degree of prudence: the objective is to quantify and limit the maximum potential loss that could emerge in extreme market conditions.

As regards the liquidity risk, the SANPAOLO IMI Group has issued a relevant Policy, which provides for the monitoring of specific action thresholds which, if exceeded, will trigger implementation of the contingency plan.

## Financial risks from lending activities

In 2004, the financial risk generated by the Group's lending activity (*Asset and Liability Management*), measured through Sensitivity Analysis, showed an average value of around 83 million euro, compared with 131 million euro in the previous year, reaching 29 million euro at the end of the year.

During 2004 the VaR of the lending activities has fluctuated around the average value of 36 million euro (with a minimum value of 10 million and a maximum value of 65 million), amounting to 12 million euro at the end of December.

The exchange risk generated by the lending activities was not material during the year.

The sensitivity of the net interest income for companies in the "banking book" - assuming a rise in rates of 25 basis points - amounted at the end of December to 42 million euro (-34 million euro in the case of reduction), corresponding to approximately 1% of the consolidated annual net interest income.

## Non-Group listed equity investments

Equity investments held in quoted companies which are not consolidated line by line or included at net equity showed a market value, at year end prices, of 1,555 million euro. The market value of equity investments had, according to prices at the end of December, a net potential capital gain on book value of 66 million euro (after economic adjustments of the value during the quarter).

During 2004, the VaR related to minority investments in listed companies recorded an average level of 135 million euro, with a minimum of 102 million euro and a maximum of 214 million euro. At the end of 2004 the VaR reached 115 million euro, a significant reduction compared to the levels observed at the end of 2003 (217 million euro) owing to the combined effect of the sale of shareholdings and the decrease in the average volatility of share prices (which, with regard to the portfolio under review, dropped from 28% at the end of 2003 to 16% at the end of 2004).

*Listed investment portfolio VaR*

| | 2004 (€/mil) | 2003 (€/mil) |
|---|---|---|
| Average | 135.1 | 230.9 |
| Low | 102.2 | 199.8 |
| Maximum | 213.6 | 273.5 |
| 31 December | 114.7 | 217.1 |

## Trading activities

Most of these risks are concentrated in Banca IMI and its subsidiaries and arise from dealing activities in fixed income securities, equity securities, currency and other derivatives.

During the year, the VaR of trading activities registered an average value of 7 million euro (against 12 million in 2003), oscillating between a minimum of 2 million euro and a maximum of 20 million euro. At the end of December the VaR was 6 million euro, a significant drop compared with the end of the previous year (15 million).

In addition to the VaR, the Worst Case Scenario technique is used to monitor the impact of potential losses that might arise under extreme market conditions. The maximum potential daily loss in 2004 showed an average value of 41 million euro, compared with 35 million euro last year.

Backtesting showed the prudent nature of the internal measurement techniques used. In 2004, actual daily loss-

*VaR of trading activities broken down by type of risk*

| | 2004 | | | | 2003 | |
|---|---|---|---|---|---|---|
| | 31 December (€/mil) | Average (€/mil) | Low (€/mil) | High (€/mil) | 31 December (€/mil) | Average (€/mil) |
| Interest rate risk | 4.2 | 3.6 | 0.5 | 9.6 | 1.6 | 3.8 |
| Exchange rate risk | 1.6 | 1.3 | 0.1 | 6.1 | 2.8 | 0.8 |
| Equity price risk | 3.5 | 4.8 | 0.9 | 19.0 | 14.0 | 11.6 |
| Diversification risk | -3.6 | -2.9 | n.s. | n.s. | -3.5 | -4.1 |
| **Total** | **5.8** | **6.9** | **1.9** | **19.7** | **14.8** | **12.0** |

es were never greater than the risk measures expressed in terms of maximum potential loss, whilst the actual trading loss exceeded the ex-ante VaR on a daily basis in only two cases.

## Credit risk management and control

### Organization

SANPAOLO IMI has established lines of conduct to be followed throughout the Group when taking on credit risk. They provide for approval limits defined in terms of total Group credit exposure to the counterparty. The first approval level is represented by the Business Areas and the subsidiaries, which, in turn, establish the approval limits to be delegated to their branches. Any transaction exceeding these limits must be submitted to the approval of the appropriate bodies within the Parent Bank, consisting of (according to the level of exposure) the Group Credit Committee (comprising the Managing Director and the heads of the relevant structures), the Executive Committee and the Board of Directors.

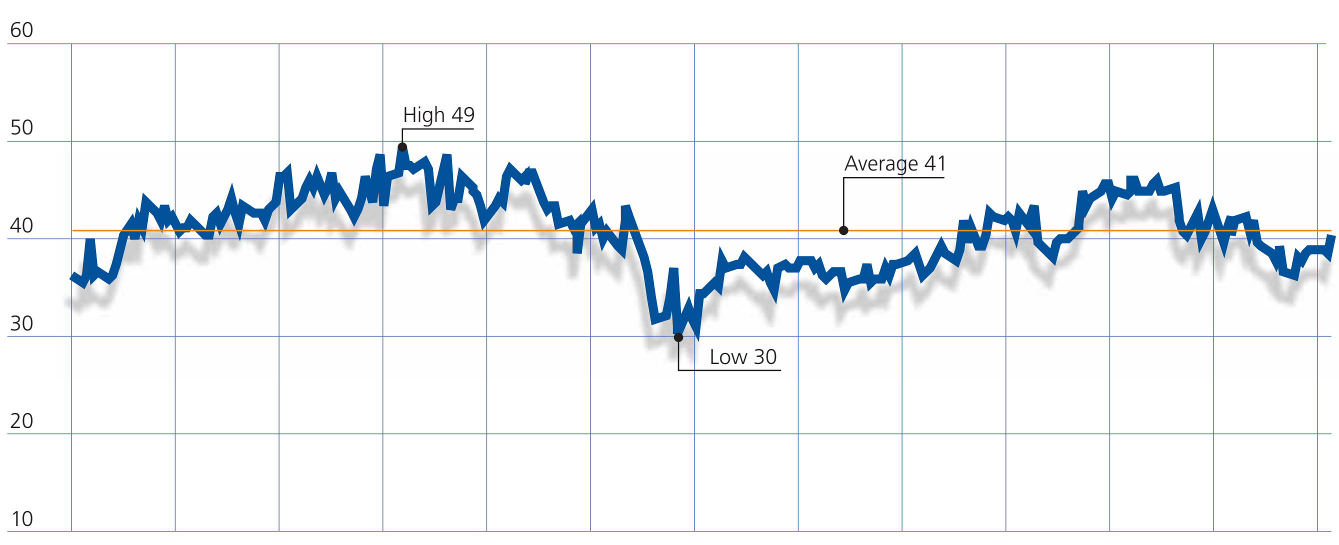
The Risk Management Department is responsible for defining, monitoring and updating the Group risk measurement methods, with the aim of guaranteeing alignment with best practice, as well as the analysis of the Parent Bank and Group risk profile and the proposal of any corrective measures. The Risk Management department is also responsible for measuring the exposure of the larger borrowers and for preparing key reports for the senior management of the Parent Bank on the changes in credit quality of the credit activities and on the use of the economic capital by the individual Business Areas.

The control structures operating within the individual Business Areas are responsible for measuring and monitoring the portion of the loan book assigned to them.

### Measurement techniques

SANPAOLO IMI has developed a series of instruments to ensure analytical control over the quality of the loans to customers and financial institutions, as well as exposures subject to country risk.

With reference to loans to customers, differentiated grading models have been developed according to the economic sector and size of the operating segment of the counterparty. These models make it possible to summarize the credit quality of the counterparty in a measurement, the rating, which reflects the probability of default in a period of one year, adjusted on the basis of the average level of the economic cycle. Statistical calibrations have rendered these ratings fully consistent with those awarded by rating agencies, forming a single scale of reference. The backtesting analyses carried out to date, comparing the insolvency forecasts with the defaults effectively incurred, confirm the validity of the models used.




**Trading activity maximum potential daily loss** (€/mil)

As of 2005, the rating, which had been previously used in the loan approval process with regard to counterparties submitted to the Group Credit Committee or higher bodies, was introduced as an essential element of the process with regard to the credit granted by the branch network.

The rating, associated with the assessment of the credit mitigating factors (typically guarantees and covenants), contributes to the definition of the credit risk strategy, represented by the set of commercial policies and the management behavior (frequency of reviews of lines of credit and recovery actions).

The new network loan approval process, designed in accordance with the Basel 2 organizational requirements, has been implemented at the Corporate segment of SANPAOLO IMI and Sanpaolo Banco di Napoli. During the year it will be gradually extended to the other types of customers and to all the Italian companies of the Group whose main mission is to take on credit risks.

With reference to the banking and financial counterparties, a system has been established to classify the financial institutions in a scale consistent with those used by rating agencies. The risk class forms the basic information which, integrated by the type and duration of the transaction, as well as by any guarantees present, makes it possible to establish the credit limits with each counterparty. In the case of transactions covered by bank guarantees, the creditworthiness of the counterparty being guaranteed is also taken into consideration in determining the maximum limit.

Lastly, as regards the country risk, the rating is assigned on the basis of a model which considers the judgment of specialized institutions and agencies, market information and internal assessments.

These ratings are not just a direct instrument to monitor credit risk, but are also a primary element for the credit risk portfolio model, which summarizes the informnation on asset quality in terms of risk indicators, including the expected loss and capital at risk.

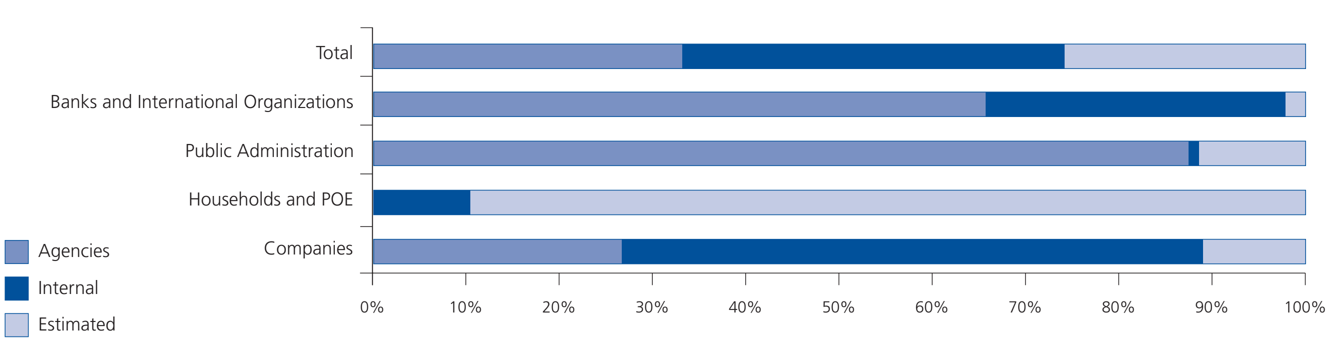
The expected loss is the product of exposure at default, probability of default (derived from the rating) and loss given default; the latter is measured with reference to an economic rather than an accounting concept of loss, comprehensive of legal costs, and prudently calculated on the discounted value of post-default recoveries.

The "expected" loss represents the average of the loss distribution, while the risk capital is defined as the maximum "unexpected" loss which the Group could incur with a confidence level of 99.95%.

## Credit risks

All of the on- and off-balance sheet credit exposures are measured here. The analysis is developed on the loan books of the Parent Bank, Sanpaolo Banco di Napoli, Banca Popolare dell'Adriatico, Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Cassa di Risparmio di Venezia, Friulcassa, Banca OPI, Sanpaolo IMI Bank Ireland and Sanpaolo Leasint. Altogether, the loan book analyzed represents 95% of the Group's risk weighted assets.

The analytical rating covers more than 70% of the credit portfolio in terms of exposure. The unrated counterparties, to whom a rating estimated on the basis of the average probability of default has been assigned, based on actual default experience for the preceding years, are concentrated in households with residential mortgages. Analytical ratings coverage for other sectors is just under 90%.




**Drawn down loan portfolio by rating source**

In relation to the combination of analytical ratings, less than half is represented by ratings of specialized agencies, while the majority are internal ratings; the latter are the prevailing ones in the corporate sector.

Loans to customers to which an analytical rating has been assigned, which represent the main reference of the credit risk management model, show a high credit quality, with a portion of investment grade loans (from AAA to BBB) equal to about three quarters of the total.

At year end, the expected loss of the portfolio considered was equal to 0.43% of loans, a reduction compared to 0.46% at the end of 2003.

The expected loss measure has been taken into account in establishing whether the amount of general writedown to cover the inherent risk of the performing loan portfolio was adequate. On the same date the economic capital accounted for about 4.50% of loans, remaining stable compared to the end of 2003.

## The management and control of other risks

SANPAOLO IMI also considers two other types of risk in its models: operational risk and business risk.

### Operational Risk

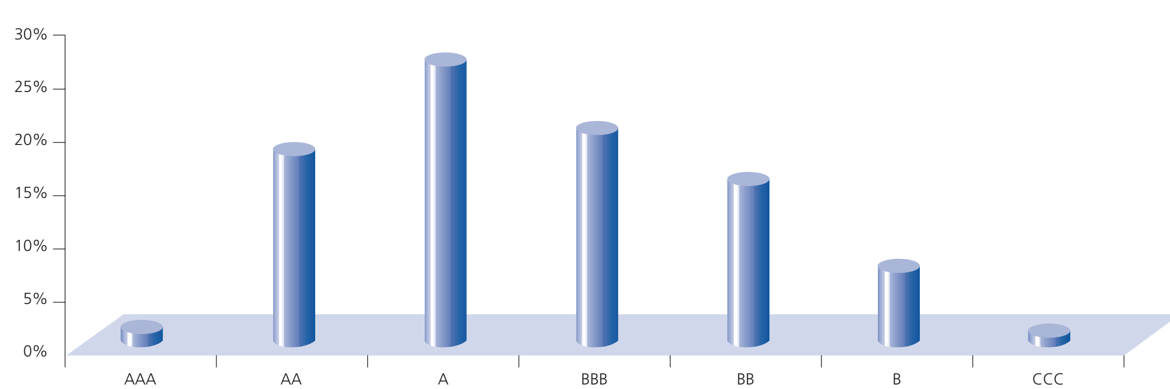
Operational risk is defined as the risk of incurring losses resulting from fraud, legal risks (including breach of contractual obligations), weaknesses in internal control or information systems, and natural calamities.

A database is analyzed, for each risk category, containing significant events which have occurred in the last ten years and from which the impact, in terms of losses incurred, can be easily obtained from public information sources. The empirical distributions of losses calculated in this way are estimated by means of distribution theories according to the extreme value theory. The risk capital is defined as the minimum measurement, net of existing insurance policies, needed to face the maximum potential loss with a confidence level of 99.95%; the method also provides for the application of a correction factor to take into account the effectiveness of internal controls in the various operating areas.

It should be pointed out that this method was developed with the intention to allocate to the Business Areas and to the Group as a whole a quantity of capital adjusted to the potential of these types of events. The control of operating risks is carried out at process level through the definition of internal rules and procedures, the observance of which is monitored by the Audit Department of the Parent Bank.

The internal operational risk measurement model is being developed in order to align its main elements with the Basel 2 regulatory requirements.

In particular, the scenario analysis processes at Group level are being expanded and studied in depth, taking into account in a structured way the economic effect of the effectiveness and frequency of controls; these are coupled with the refining of the statistical processes through in-depth studies of loss data analyses, available either through internal databases or the participation in consor-




**Drawn down loan portfolio by level of rating**

tium initiatives with leading banking groups: DIPO (*Database Italiano delle Perdite Operative* - Italian Database of Operational Losses) in Italy and ORX (Operational Riskdata Exchange association) at international level.

During 2004, the operational risk management and control process was implemented following the approval of the Group Regulations on operational risks, which define the organizational architecture, the application field and guidelines. In accordance with the Basel 2 regulatory requirements, the process provides for the direct involvement of the lines of business, subsidiaries and the Corporate Center structures.

### Business Risk

Business risk (also called strategic risk) is the risk of incurring losses as a result of changes in the macro- or micro-economic scenario which could jeopardize the ability to generate income, typically by reduced operating volumes or margin compression. This is evaluated through the break down of the Business Area assets, on the basis of the respective cost and revenue structures, into fundamental "industrial" business sectors (such as EDP, consulting and distribution). The Business Areas are then allocated a level of capitalization in line with the norm for companies operating in the same type of activity.

# Shareholders and ratings

## Shareholders

As of 31 December 2004 the shareholder structure of SANPAOLO IMI, based on the available information, was as follows:

*Shareholders of SANPAOLO IMI*

| | % of capital | |
|---|---|---|
| | total | ordinary |
| Compagnia di San Paolo | 14.27 | 7.37 |
| Fondazione Cassa di Risparmio di Padova e Rovigo | 10.65 | 4.30 |
| Banco Santander Central Hispano | 8.49 | 10.72 |
| Fondazione Cassa di Risparmio in Bologna | 7.58 | 3.06 |
| Giovanni Agnelli e C. | 3.78 | 4.77 |
| Mediobanca | 1.97 | 2.49 |
| Fondazione Cariplo | 1.72 | 2.17 |
| Società Reale Mutua di Assicurazioni | 1.51 | 1.91 |
| Groupe Caisse d'Epargne | 1.51 | 1.90 |
| Ente Cassa di Risparmio di Firenze | 1.50 | 1.90 |
| Fondazione Cassa di Risparmio di Venezia | 1.48 | 1.87 |
| Other shareholders (1) | 45.54 | 57.54 |
| **Total** | **100.00** | **100.00** |

*(1) Includes own shares held by the Group.*

In April 2004, a convention, known also as a "Unity of Intent Agreement", was signed between the three Fondazioni (Compagnia di San Paolo, Cassa di Risparmio in Bologna and Cassa di Risparmio di Padova e Rovigo). Also in April, an Agreement was signed between the same Fondazioni, Banco Santander Central Hispano and CDC Ixis Italia Holding (now Italia Holding, a company of Groupe Caisse d'Epargne). The shares respectively contributed today represent 14.73% and 27.35% of the ordinary capital and 11.66% and 21.65% of the total capital.

## Ratings

The following table shows the main ratings assigned to the debt of SANPAOLO IMI.

*SANPAOLO IMI debt ratings*

| | |
|---|---|
| Fitch | |
| • Short-term debt | F1+ |
| • Medium-/long-term debt (senior) | AA- |
| Moody's Investors Service | |
| • Short-term debt | P-1 |
| • Medium-/long-term debt (senior) | Aa3 |
| Standard & Poor's | |
| • Short-term debt | A-1 |
| • Medium-/long-term debt (senior) | A+ |

On 1 September 2004, the individual rating of SANPAOLO IMI was raised by Fitch Ratings from B/C to B, confirming the ratings for short- and long-term debt. On 14 December 2004, Standard & Poor's raised the outlook for SANPAOLO IMI from stable to positive.

Standard & Poor's Corporate Governance score of 7 (on a scale of 1 to 10), attributed to SANPAOLO IMI at the end of analysis of the Group's model and procedures for company governance, was published on 15 September 2004.

## Performance of share prices

At the end of December 2004, SANPAOLO IMI's share price was 10.60 euro, up 2.5% compared to the start of the year, against an increase of 9.8% in the MIB bancario index. On the same date, the SANPAOLO IMI share traded on a price/book value of 1.7 and a price/earnings value, calculated on consensus earnings for 2004, of 15.7.

On 18 March 2005, the quoted price was 11.45 euro, up 8% since the start of the year.

*SANPAOLO IMI share price and dividends*

| Year | High (€) | Low (€) | Average (€) | Unit dividend (€) | Dividend yield (1) % | Payout ratio (2) % |
|---|---|---|---|---|---|---|
| 1995 | 5.118 | 4.025 | 4.577 | 0.12 | 2.71 | 38.9 |
| 1996 | 5.269 | 4.236 | 4.766 | 0.14 | 3.03 | 37.9 |
| 1997 | 8.800 | 4.564 | 6.275 | 0.06 | 0.91 | 53.4 |
| 1998 | 16.274 | 8.717 | 12.429 | 0.46 | 3.74 | 71.7 |
| 1999 | 16.071 | 10.970 | 13.192 | 0.52 | 3.91 | 69.0 |
| 2000 | 20.800 | 11.483 | 16.612 | 0.57 | 3.42 | 61.7 |
| 2001 | 18.893 | 8.764 | 14.375 | 0.57 | 3.97 | 66.5 |
| 2002 | 13.702 | 5.231 | 9.439 | 0.30 | 3.18 | 62.0 |
| 2003 | 11.346 | 5.796 | 8.158 | 0.39 | 4.78 | 73.7 |
| 2004 | 11.072 | 8.799 | 9.826 | 0.47 | 4.78 | 62.9 |
| 2005 (3) | 11.500 | 10.201 | 10.894 | | | |

*Market comparison*

| | 18/3/2005 | 30/12/2004 | 30/12/2003 | Change 30/12/04 - 30/12/03 (%) |
|---|---|---|---|---|
| SANPAOLO IMI share price (€) | 11.450 | 10.600 | 10.340 | +2.5 |
| Historical MIB bancario index | 2,621 | 2,472 | 2,251 | +9.8 |

| | 30/12/2003 | 30/12/2004 |
|---|---|---|
| Book value per share (€) | 6.00 | 6.35 |
| | 2005E | 2006E |
| Consensus earnings per share (EPS) (€) | 0.75 | 0.89 |

*(1) Calculated on annual average price.*
*(2) On consolidated income.*
*(3) Up to 18 March 2005.*


**SANPAOLO IMI share price and MIB bancario** (30/12/02=100)

# Supplementary information

## Transactions with related parties

### Procedural aspects

In accordance and compliance with the Consob regulation (Communications dated 20 February 1997 and 27 February 1998 and subsequent integrations), the Board of Directors of SANPAOLO IMI has identified the parties related to the Parent Bank and defined a Group procedure for the deliberation of transactions with such parties, aimed at setting competencies and responsibilities, as well as indicating the information flows between the structures of the Bank and the directly and indirectly controlled Companies.

In line with the code of conduct, the procedure establishes that significant transactions with related parties (defined on the basis of analytical thresholds regarding types of operations and counterparties) referring to the Parent Bank are the reserve of the decisions of the Board of Directors after examination by the Technical Audit Committee. Significant transactions between subsidiaries and related parties of the Parent Bank are decided upon by the boards of the subsidiary company with the prior consent of the Parent Bank.

Over and above the specific decision process, the structures of the Parent Bank and the subsidiaries undertaking transactions with related parties must provide a quarterly report so that the Bank may adhere to Art. 150 of D. Lgs. 58/1998 (relative to information for the Statutory Auditors), and must, when necessary, meet the immediate or periodical informative obligations of the market.

As regards transactions with subjects exercising functions of administration, management and control of the Parent Bank, Art. 136 of D. Lgs. 385/93 (Testo Unico Bancario - Consolidated Banking Law) will be applied. For these subjects (regardless of the fact that they are related counterparties), these transactions were approved unanimously by the Board of Directors, with the favorable vote of all the Statutory Auditors, subject to the obligations provided by the Italian Civil Code regarding the interests of the directors. The same procedure also applies to the parties who carry out the administrative, managerial, and executive duties within a bank or a company belonging to the Group, for actions taken in connection with the company itself or for financing transactions entered into with other companies or banks within the Group. In such cases, the transactions are decided upon by the boards of the contracting company or bank, with the prior consent of the Parent Bank.

Section D of the Explanatory Notes to the Consolidated and Parent Bank Financial Statements reports the loans and guarantees issued to Directors, Auditors and Managing Director of the Parent Bank.

The same section of the Explanatory Notes to the Parent Bank Financial Statements also reports, in accordance with Art. 78 of Consob Resolution 11971/99, the remuneration of the Directors, Auditors and Managing Director of the Parent Bank.

The shares of the Parent Bank and subsidiaries, held by Administrators, Auditors and Managing Director of the Parent Bank and by others, as provided for by Art. 79 of Consob Resolution 11971/99, are detailed in the table on the following page.

### Transactions with related parties

#### a) Transactions of atypical and/or unusual nature

In accordance with current regulations, no transactions of "atypical or unusual nature" were carried out during 2004, the relevance/importance of which might give rise to doubts with regard to the safety of the shareholders' equity and the protection of minority shareholders, either with related parties or with subjects other than related parties.

#### b) Transactions of ordinary or recurrent nature

The transactions of non-atypical or non-unusual nature (under standard conditions) with related parties lie within the scope of the normal operations of the Group and are usually entered into under market conditions, on the basis of valuations made for mutual economic convenience, also in observance of the internal procedures mentioned above.

Receivable and payable balances with related parties in the consolidated accounts at the end of 2004 amount to a total which is not relevant to the entity of the Group's portfolio. They refer mainly to transactions with affiliated companies and subsidiaries not consolidated line by line, while balances with other related parties are marginal.

Similarly, the influence of income and charges with related parties on the consolidated operating income is not relevant. In particular, commission income from the placement of the Group's insurance products, included under the relevant caption of the consolidated statement of income for 341 million euro, is largely offset by the results of the Group's insurance companies, counterparties of these economic flows, valued using the equity method.

• *Transactions with Group companies*

In accordance with Articles 2497 and following of the Civil Code, SANPAOLO IMI manages and coordinates its direct and indirect subsidiaries, including those companies that in relation to existing regulations are not part of the banking Group.

As far as transactions with Group companies are concerned, it should be noted that they are attributable to the ordinary internal operations of a multifunctional banking organization. These transactions are largely regulated at the conditions under which the Parent Bank accesses the reference markets, which are not necessarily the same as those which would be applicable if the counterpart companies were to operate independently. In any case, these conditions are applied in observance of substantial correctness and always in pursuit of the aim to create value for the Group.

Transactions with Group companies principally concern:
- support by SANPAOLO IMI for the financial needs of the other Group companies, both in the form of risk capital and loans and in the form of subscription of securities issued by the subsidiaries;
- the channeling of foreign funding made by the Group's specialist companies (Sanpaolo IMI US Financial Co., Sanpaolo IMI Bank International S.A., Sanpaolo IMI Capital Company I L.l.c.) towards the Parent Bank and, to a lesser degree, towards other subsidiaries;
- the lending transactions of the liquidity of subsidiaries with the Parent Bank;
- outsourcing relations governing auxiliary activities provided by the Parent Bank mainly to the Banking Network. In particular, services provided concern management of the information technology structure and the back offices, property services and logistics, com-

*Shares held by individuals as per Article 79 of Consob Resolution no. 11971 of 14/5/99 (1)*

| Name and SURNAME | Company | How held | Title to shares | Shares held at 31/12/03 | Shares bought during 2004 | Shares sold during 2004 | Shares held at 31/12/04 |
|---|---|---|---|---|---|---|---|
| Enrico SALZA | SANPAOLO IMI | Direct | Full | 500 | | | 500 |
| | | Spouse | Full | 1,250 | | | 1,250 |
| Pio BUSSOLOTTO | SANPAOLO IMI | Direct | Full | 3,000 | 1,750 | | 4,750 |
| | | Spouse | Full | | 1,250 | | 1,250 |
| Gian Luca GALLETTI (2) | SANPAOLO IMI | Spouse | Full | 162 | | 162 | - |
| Alfonso IOZZO | SANPAOLO IMI | Direct | Full | 7,087 | | | 7,087 |
| Rainer Stefano MASERA (3) | SANPAOLO IMI | Direct | Full | 150,000 | | | 150,000 |
| | | Spouse | Full | 27,500 | | | 27,500 |
| Abel MATUTES (3) | SANPAOLO IMI | Subsidiary | Full | 761,517 | | | 761,517 |
| Iti MIHALICH | SANPAOLO IMI | Direct | Full | 3,000 | | | 3,000 |
| Emilio OTTOLENGHI | SANPAOLO IMI | Direct | Full | 320,000 | | | 320,000 |
| | | Subsidiary | Full | 4,658,731 | | | 4,658,731 |
| | | Spouse | Full | 4,000 | | | 4,000 |
| Orazio ROSSI | SANPAOLO IMI | Direct | Full | 52,593 | | | 52,593 |
| Gian Guido SACCHI MORSIANI | SANPAOLO IMI | Direct | Full | 200,000 | | | 200,000 |
| Mario SARCINELLI (2) | SANPAOLO IMI | Spouse | Full | 287 | | | 287 |
| Leone SIBANI (2) | SANPAOLO IMI | Direct | Full | 56,000 | 3,241 (4) | 1,000 | 58,241 |
| | | Spouse | Full | 15,796 | | | 15,796 |
| | Banca Fideuram | Direct | Full | 28,000 | 2,000 | | 30,000 |

*(1) Shares held in SANPAOLO IMI and its subsidiaries by Directors, Statutory Auditors, Managing Directors and by their not legally divorced spouses and by minor sons, directly, through a subsidiary, a trust or a third party.*
*(2) Effective as of 29 April 2004.*
*(3) Resigned 29 April 2004.*
*(4) Of which 2,241 acquired following the partial ceding of Banca Fideuram in favor of SANPAOLO IMI.*

mercial, administrative and control assistance and consultancy;
- agreements with Group companies in relation to the distribution of products and/or services or, more generally, assistance and consultancy between the Group companies;
- management of the Group's tax position using the procedure of "transfer of IRPEG (Corporate Income Tax) credit between Group companies" provided for by tax regulations. In 2004 sales were completed for a total of 345 million euro. On the authorization of the meeting of the Board of Directors held on 12 October 2004, and taking into account the consent of the consolidated companies, the Parent Bank has finalized the agreements between the Group companies necessary for the activation (by communication to the Financial Administration) of the "national fiscal consolidated balance sheet" for the SANPAOLO IMI Group.

The assets, liabilities, guarantees, income and charges of SANPAOLO IMI with Group companies and subsidiaries subject to significant influence as of 31 December 2004, are presented in detail in the Explanatory Notes to the Parent Bank Financial Statements (Part B – Section 3).

Information on financial balances existing with the subsidiaries not consolidated on a line by line basis, as well as with affiliated companies subject to significant influence, are reported in the Explanatory Notes to the Consolidated Financial Statements (Part B – Section 3).

*• Transactions with relevant Shareholders*

Transactions with relevant shareholders and related subjects (in accordance with the Consob regulation), can be attributed to the ordinary internal operations of a multifunctional banking organization, and are entered into at the same market conditions practiced with other non-related counterparties with the same creditworthiness. Loans to relevant shareholders are substantially of no influence, while passive deposits with some shareholding Foundations amount to 157 million euro.

*• Transactions with Representatives*

Relations between the SANPAOLO IMI Group and representatives (including those connected to them according to Consob regulations) can be attributed to the ordinary internal operations of the Group and are entered into at market conditions, applying special conditions for employees and/or co-workers and, in the case of legal entities, for other non-related counterparties with the same creditworthiness.

During the year, two properties were sold to two representatives for a total of 0.7 million euro. The first followed the closing of an option awarded by the Parent Bank's Board of Directors in 22 December 1998 and reapplied in the overall financial treatment approved by the Board at the time of election at a price equal to 0.4 million euro. The second sale, by Emil Europe 92 (a subsidiary of Cassa di Risparmio in Bologna) to a director of the Parent Group, was estimated by an external expert.

c) Transactions of particular importance

During the year the Group has entered into particularly significant transactions with related parties mainly as regards the organizational-business model.

The most significant transactions, some of which have already been mentioned elsewhere in the Report, are listed hereafter in greater detail.

Transactions entered into with reference to Parent Bank and Commercial Banking operations:
• the Parent Bank's takeover of 31% of Sanpaolo IMI International S.A.'s stake in Sanpaolo IMI Bank (International) S.A. (in which the Parent Bank already held around 69%) was concluded on 16 January 2004 for a price of 56 million euro, corresponding to the equity pro quota as of 30 September 2003. This price was considered as the "normal value" for the transaction, taking into account the instrumental nature of the Portuguese company (a funding vehicle at the exclusive service of the Group companies) and its income;
• on 3 February 2004 the Parent Bank transferred its shareholding in Sanpaolo IMI Bank Romania to Sanpaolo IMI Internazionale for a value of 7.2 million euro determined on the basis of an appraisal made in accordance with Art. 2343 of the Civil Code;
• on 29 September 2004, SANPAOLO IMI purchased 16.94% of the capital of Sanpaolo Bank S.A. (Luxembourg) held by Banca IMI for a total of 100 million euro in line with the adjustor's estimate for the merger of Sanpaolo Bank S.A. and IMI Bank (Lux) S.A. and with the recording of the investment in the statements of Banca IMI. The transaction follows the integration of the two Luxembourg subsidiaries, as described hereafter;

- on 9 December 2004, in accordance with the memorandum of understanding signed on 11 October between SANPAOLO IMI and Caisse Nationale des Caisses d'Epargne (CNCE), a related party of SANPAOLO IMI, the 3.45% shareholding in CDC Ixis was exchanged for the 12% shareholding in Ixis Asset Management Group (IAMG) and the 2.45% in Ixis Corporate & Investment Bank (ICIB), operational subholdings of the French group. The transaction falls under the reorganization of the shareholding structure of the CDC (Caisse des depots et consignations) and CNCE Groups and the incorporation of CDC Ixis in CNCE. It has been effected through a capital increase of IAMG and ICIB with the contribution of CDC Ixis shares and based on fair values estimated by external advisors which are inferior by 50 million euro to the book value of CDC Ixis as of 31 December 2003. On 7 December 2004, shareholders agreements were signed between SANPAOLO IMI and Caisse Nationale des Caisses d'Epargne to regulate governance, circulation of shares, conversion and liquidity rights relative to the subsidiary companies IAMG and ICIB;
- with reference to the development and rationalization of the Group's bank networks described in previous chapters, between November 2004 and January 2005 the operations already described were finalized. In more detail, the transfers from the Sanpaolo network to Cassa di Risparmio in Bologna (Carisbo), Cassa di Risparmio di Padova e Rovigo (Cariparo) and Cassa di Risparmio di Venezia and Friulcassa, were made without change to the accounting and fiscal values and for each transfer an appraisal was made in accordance with Art. 2343 of the Civil Code by an expert appointed by the competent Court; on the other hand, the sale of Carisbo and Cariparo to the Sanpaolo network was finalized through the sale of the company branch whose value was established by a fairness opinion from an external adviser;
- during 2004 (and in addition to the above-mentioned reorganization of the distribution network), the Parent Bank has redeemed a real estate lease from the subsidiary Sanpaolo Leasint on the expiry of the leasing contract to the value of 0.2 million euro. At the same time, Cassa di Risparmio in Bologna sold the majority of a property (for the creation of company offices) to Finemiro Banca to the value of 24.7 million euro, as established by external experts;
- as of 16 December 2004, and effective from 31 December 2004, Invesp and Prospettive 2001 (respectively reported in the Parent Bank's financial statements at 248 million euro and 40 million euro), financial companies whose founding principles had expired, were merged by incorporation to SANPAOLO IMI, using the simplified procedure, taking account also of the possibility to bring their portfolios under the direct management of the Parent Bank.

Transactions entered into in the context of Asset Management:

- on 1 April 2004, Sanpaolo IMI Wealth Management completed its purchase of 15% of the capital of Sanpaolo IMI Institutional Asset Management SGR held by Banca IMI and IMI Bank (Lux), at a cost of 7 million euro (defined by the internal assessments based on market criteria);
- on 16 April 2004, Sanpaolo IMI Wealth Management acquired 100% of Eptafund SGR (previously 100% owned by Eptaconsors and subsequently by Invesp) at a cost of 33 million euro, determined also on the basis of the value estimated by independent experts. Subsequently, on 1 May 2004, Eptafund SGR was merged into Sanpaolo IMI Asset Management SGR.

Transactions entered into in the context of Investment Banking:

- on 29 January 2004, IMI Investimenti acquired from SANPAOLO IMI 7.4% of the capital in Infracom, which operates in the telecommunications sector. The reallocation of interest is aimed at achieving a more efficient and constant management of investments, also taking into account that IMI Investimenti is the corporate vehicle within the Group responsible for managing investments in industrial companies. The transfer was completed at a price made up of a base component, at spot rates and equal to the book value of the investment (25 million euro corresponding to a P/BV of 2.3), and an "eventual and floating" component (earn out/price adjustment) to be settled at the moment of sale or at the quotation price of the investment on the stock exchange;
- the merger by incorporation of the Luxembourg subsidiary IMI Bank (Lux) S.A. into Sanpaolo Bank S.A. was completed on 1 September 2004. This merger is part of the initiatives which will progressively adopt the guidelines set out by the Board of Directors of SANPAOLO IMI to optimize the operational model in an industrial logic, in terms of scale and scope of economies. The valuation by the expert appointed by the competent Court to fix the share exchange ratio established the value of the capitals of the two companies at 491 million euro for

Sanpaolo Bank and 100 million euro for IMI Bank (Lux). Subsequent to the merger, Banca IMI's share in Sanpaolo Bank was sold to the Parent Bank, as previously reported;

- as part of a program of inter-group relocation of shares approved at the end of 2003, in September IMI Investimenti purchased 6.05% of Merloni Termosanitari from LDV Holding B.V. (100% Sanpaolo IMI Private Equity) for a total of 22 million euro (corresponding to the recorded value in LDV's statements); in November, IMI Investimenti purchased 1.37% of Merloni Termosanitari from Banca Popolare dell'Adriatico (BPA) for a total of 5 million euro (corresponding to the recorded value in BPA's statements). With the purchase, the Group's investment in the company (7.42%) is now entirely placed with IMI Investimenti;
- in December 2004, IMI Investments sold its 4.24% investment in Dyckerhoff AG to IMI Finance Luxembourg at a price of 56 million euro. In January 2005, the investment and related instruments were ceded to minority counterparties at market prices, substantially in line with those of the infra-Group transaction.

Transactions entered into in the context of Insurance:

- in February 2004 an agreement was stipulated for the coinsurance sale by Sanpaolo Vita to Reale Mutua Assicurazioni (at that time a "relevant" shareholder of SANPAOLO IMI and adhering to the shareholders agreement) of a certain amount of premiums on the new annual production, the maximum amount of which was estimated at 85 million euro. The economic conditions are in line with those usually practiced on the market;
- during the year, unusual transactions were undertaken to reorganize asset management following the establishment of the Insurance Business Sector which led to the definitive company and business structure of the wealth management and insurance areas as summarized hereafter:

  *Split of Sanpaolo IMI Wealth Management:*
  - on 19 November 2004, and effective as of 30 November 2004, the partial split was executed of Sanpaolo IMI Wealth Management (SPWM) through the allocation to Assicurazioni Internazionali di Previdenza (A.I.P., formerly Noricum Vita) of the total investment in Sanpaolo Vita in preparation for the merger by incorporation of Sanpaolo Vita in A.I.P.;
  - subsequently, on 20 December 2004 the total split of Sanpaolo IMI Wealth Management was finalized, with effect from 29 December 2004, through the allocation, at book value, of:
    - › the following investments to SANPAOLO IMI: 100% of Sanpaolo IMI Asset Management SGR; 41.5% of Sanpaolo Bank S.A., which is now virtually totally controlled by the Parent Bank that holds 100% less 1 share of the capital (headed by IMI Investments S.A.); 50% of Allfunds Bank S.A.;
    - › the remaining parts of assets and liabilities, shown with reference to 30 June 2004 in the split plan, at the net book value at the same date of 61.6 million euro, to Sanpaolo IMI Asset Management SGR, including the following sharings: 100% of Sanpaolo IMI Alternative Investments; 100% of Sanpaolo IMI Institutional Asset Management; 100% (less 1 share) of Sanpaolo IMI WM Luxembourg S.A., now Sanpaolo IMI Asset Management Luxembourg S.A.; 5% of Consorzio Studi e Ricerche Fiscali; 1% of Universo Servizi.

  The transactions were carried out using the simplified procedure foreseen in the Civil Code.

  *Partial split of investments held by Banca Fideuram in Fideuram Vita in favor of SANPAOLO IMI - merger of Sanpaolo Vita and Fideuram Vita in A.I.P.:*
  - on 9 March 2004 Banca Fideuram completed transfer of the fully controlled subsidiary Fideuram Assicurazioni to Fideuram Vita for a sum of 20 million euro;
  - on 19 November 2004, and effective as of 30 November 2004, the split was executed of the total investments held by Banca Fideuram in Fideuram Vita in favor of SANPAOLO IMI;
  - on 24 November 2004, and effective as of 1 December 2004, the merger by incorporation was completed of Sanpaolo Vita and Fideuram Vita in A.I.P. whose capital is now virtually totally held by the Parent Bank.

  SANPAOLO IMI and Banca Fideuram each appointed external independent financial consultants to evaluate the actuarial aspects and those concerning the economic capital of the companies involved in order to determine the exchange ratios.

## Offices held by Directors in other companies

In accordance with the recommendations of the Code of Conduct for Listed Companies issued by Borsa Italiana, Section D of the Explanatory Notes to the Parent Bank financial statements reports the list of the offices of Director or Auditor held by the Directors of SANPAOLO IMI in other companies listed in regulated markets (also foreign), in financial, banking, insurance and other significant-sized companies.

### Stock incentive plans

The Shareholders' Meeting, held on 31 July 1998, authorized the Board of Directors to make stock incentive (stock option) plans in favor of Group executives, resorting to increases in capital against payment up to a maximum amount subsequently established as 40 million euro, corresponding to 14,285,714 shares.

On the strength of this power of attorney, the Board of Directors:

- in the meeting held on 9 February 1999, presented a first plan, assigning to the Managing Directors, inasmuch as General Managers, and to another 56 executives, a total of 6,772,000 rights exercisable for one third as of 2000, for one third as of 2001 and for the remaining third as of 2002 and no later than 31 March 2003 (extended to 31 March 2004 with resolution of the Board of Directors of 30 July 2002), at a subscription price of 12.396 euro per share; the rights have lapsed as the deadline for their exercise has expired;
- in the meeting of 27 June 2000, it presented a second plan, assigning to the Managing Directors, inasmuch as General Managers, and to 122 other executives, 3,378,270 rights exercisable as of 2003 and no later than 31 March 2005, at a subscription price of 16.45573 euro per share;
- on 18 December 2001, it approved a third stock option plan, assigning to 171 Group executives, of which about 40 employees of subsidiaries, 4,030,000 rights exercisable after the issue of the dividend for 2003 and no later than 31 March 2006, at a price of 12.7229 euro.

The Shareholders' Meeting held on 30 April 2002 conferred a new power of attorney to the Board of Directors to make stock incentive plans in favor of Group executives, resorting to increases in capital against payment up to a

*Development of stock option plans in 2004*

| | Number of shares | Average exercise price (€) | Market price (€) |
|---|---|---|---|
| (1) Rights existing as of 1/1/2004 | 21,119,104 | 10.0333 | 10.340 (a) |
| (2) Rights exercised in 2004 | - | - | - |
| (3) Rights lapsed (b) | -4,305,834 | 12.396 | - |
| (4) Rights lapsed in 2004 (c) | -290,000 | 9.0562 | - |
| (5) Rights exisiting as of 31/12/2004 | 16,523,270 | 10.6955 | 10.600 (d) |
| (6) Of which: exercisable as of 31/12/2004 (e) | - | - | - |

*(a) Reference market price as of 30/12/2003.*
*(b) Rights no longer exercisable because of expiry.*
*(c) Rights no longer exercisable because holders no longer work for the Bank.*
*(d) Reference market price as of 30/12/2004.*
*(e) The exercise of rights is admitted within specific periods of time, which did not include 31 December 2004. On this date, 3,093,270 rights at a price of 16.45573 euro each had already become eligible for exercise, the expiry being set for March 2005, 3,760,000 rights, at a price of 12.7229 euro, the expiry being set for March 2006 and a further 1,650,000 rights, at a price of 12.6244 euro, the expiry being set for May 2006.*

*Detail of rights by exercise price and residual maturity*

| Exercise price (€) | Rights assigned as of 31/12/2004 | | | | | of which: exercisable as of 31/12/2004 | |
|---|---|---|---|---|---|---|---|
| | Minimum remaining contractual validity | | | | | | |
| | May 2003 - March 2005 | May 2004 - March 2006 | May 2004 - May 2006 (a) | May 2005 - May 2007 (b) | Total | Total | Average residual contractual maturity |
| 16.45573 | 3,093,270 | - | - | - | 3,093,270 | - | - |
| 12.7229 | - | 3,760,000 | - | - | 3,760,000 | - | - |
| 12.6244 | - | - | 1,650,000 | - | 1,650,000 | - | - |
| 7.1264 | - | - | - | 8,020,000 | 8,020,000 | - | - |
| **Total** | **3,093,270** | **3,760,000** | **1,650,000** | **8,020,000** | **16,523,270** | - | - |

*(a) Original deadline of March 2006 postponed to May 2006 by the Board of Directors on 25 January 2005.*
*(b) Original deadline of March 2007 postponed to May 2007 by the Board of Directors on 25 January 2005.*

maximum amount of 51,440,648 euro, corresponding to 18,371,660 shares.

On the strength of this power of attorney, on 17 December 2002 the Board of Directors presented a new stock option plan, assigning to 291 Group executives, of which about 77 employees of subsidiaries, in relation to the office held, 8,280,000 rights exercisable at a price of 7.1264 euro after the issue of the dividend for 2004 and no later that 31 March 2007 (postponed to 15 May 2007 by the Board of Directors on 25 January 2005).

Furthermore, on 14 May 2002 the Board of Directors presented a stock option plan for the Chairman and the Managing Directors, for the 2001-2003 three-year period, on the basis of the power of attorney approved by the Ordinary meeting of 30 April 2002 to use own shares at the service of the same plan.

The plan provides for the assignment of 1,650,000 rights (own shares) exercisable after the issue of the dividend for 2003 and before approval by the Board of Directors of the 2005 financial statements and no later than 31 March 2006 (postponed to 15 May by the Board of Directors on 25 January 2005). The purchase price is 12.6244 euro.

In 2002 the Board of Directors approved the first stock granting operation of SANPAOLO IMI shares to all Parent Bank personnel in service from 27 June 2002. The initiative, application for which was voluntary, was connected with the 2001 company production premium issued in May 2002.

A second plan for the stock granting operation to Parent Bank personnel was approved in 2003, with voluntary application, providing for a link to the 2002 company production premium issued in 2003.

In greater detail, in 2002 Banca Fideuram approved stock incentive plans in favor of directors and financial operators and in 2003 and 2005 in favor of the Fideuram and Sanpaolo Invest networks. More details can be found in the company's financial statements.

## Initiatives for financial and administrative governance

The attention of domestic and international Regulators has particularly intensified in relation to the correctness, completeness and clarity of company information of an administrative and financial nature following company defaults in recent years which have seriously affected savers' portfolios. Rules and regulations have been drawn up in response to strengthen the presidium of company information procedures aimed at the production of obligatory financial market information.

One of the most articulated and complete initiatives is the Sarbanes-Oxley Act (SOA) to which companies quoted in the United States and registered with the Securities and Exchange Commission (SEC), and therefore SANPAOLO IMI, are subject.

The enactment of the SOA meets the recent trend in the governance and control of company information, underlining:

- common aspects of administrative and financial information with relation to means of protecting third-party subscribers, connected to an overall control mechanism also in the light of the adoption of the International Accounting Standards which imposes new evaluation criteria, measures and processes and brings the content of management and administrative analyses closer together;
- the advisability of moving the timing of protection and control of information released from the result to the production process (result driver), to be documented systematically according to internationally accepted standards.

In order to be competitive, the SANPAOLO IMI Group intends to use the opportunity offered by the regulation to pursue a broad program for an innovative financial information governance and control system based on greater reliability to ensure higher standards in the drawing up of disclosures.

In more detail, with the enactment of the SOA and related regulations adopted by the SEC, SANPAOLO IMI has taken some significant organizational measures including the establishment of a Disclosures Committee to support the company bodies in carrying out their responsibilities and duties in connection with the accuracy and timeliness of the disclosures made by the Bank.

At the level of organization, the need for the continuous presidium of the various initiatives aimed at administrative and financial governance to meet the regulations (IAS, SOA, updating of normative profiles), and the advisability of managing the related overall development through highly-specialized inter-disciplinary responsibilities, has prompted the establishment of the "Presidium of administrative and financial governance" office as part of the Annual Report and Administration Directorate, with the objective of ensuring unity of purpose and systematic coordination of planned actions. The necessary body of inter-functional coordination of the related initiatives has also been established in support of the office.

In reference to Section 302 of the SOA, aimed at strengthening "Corporate responsibility for financial reports" of the listed issuers, and in the light of Section 404, the Parent Bank has completed a specific initiative, begun in 2003, entitled "Analysis of the Group's models of administrative and accounting governance and formulation of related procedures". This has taken the form of a formal and organic codification of the production of annual reports and disclosures, taking action in the case of ineffectiveness of controls, planning continuous updating procedures to reflect changes due to company and/or external causes, namely the transition to IAS/IFRS.

The analysis is currently being extended to the subsidiaries to bring the separate company IT control systems in line with those of the Group.

The enforcement, for non-US issuers, of the disciplinary measures of Section 404 (including the public announcement of a Management Assessment of Internal Controls) will mean that as of the Annual Report on Form 20-F of 31 December 2006:

- the Group Management expresses its assessment of the efficiency-effectiveness of the internal system of controls for financial reporting and reports that judgment in the filing sent to the SEC;
- the auditing company issues a report aimed at the adequacy of the assessment process used by Management for the controls system and independently evaluates the effectiveness-efficiency of that system.

A plan of communications, operative guidelines and the periodic information to be provided for the management of institutional relations with the Disclosure Committee, the auditing company of the Parent Bank and the Regulators has been set up to manage the actions to bring the organization in line with above-mentioned regulations on control of financial reporting.

In order to finalize these initiatives, SANPAOLO IMI recommends that the Group create a permanent office for the presidium of obligatory, or in any case public, administrative and financial information capable of ensuring higher quality of the correctness of disclosures according to the regulations issued by domestic and foreign Regulators.

## Transition to IAS/IFRS international accounting standards

### The regulatory context

EC Regulation 1606/2002 (the "IAS Regulation") requires EU listed companies to prepare, as of 2005, consolidated financial statements, in accordance with international accounting standards ("IAS/IFRS") issued by the International Accounting Standard Board ("IASB") and endorsed by the European Commission. Pursuant to the IAS Regulation, EU member states may extend the application of IAS/IFRS to the unconsolidated financial statements of listed companies and to the unconsolidated and consolidated financial statements of unlisted companies.

The 2003 European Law no. 306 of 2003 ("Legge Comunitaria 2003"), approved by the Italian Parliament on October 31, 2003, gives the Italian Government a mandate for the application of IAS/IFRS to Italian companies.

On February 25, 2005, the Italian Government exercised the mandate by issuing a legislative decree allowing banks and financial institutions (subject to the regulatory supervisions of the Bank of Italy) to adopt IAS/IFRS for the unconsolidated financial statements of 2005 and requiring the adoption of IAS/IFRS for the unconsolidated financial statements of 2006. The same decree confirms the current powers of the Bank of Italy and ISVAP, each for its own area of supervision, in relation to defining the form and content of financial statements in annual reports and notes appertaining thereto.

In 2005, Consob will issue further regulations containing the instructions for preparing interim reports; the Bank of Italy will issue regulations relating to the form and content of financial statements in annual reports and notes appertaining thereto. In 2005 the Bank of Italy will provide the regulations required to assess the impact of IAS/IFRS on regulatory capital and capital adequacy.

The EU has endorsed all amendments and modifications of all the IAS/IFRS standards (a total of 36 standards). While the EU endorsement of IAS/IFRS standard was achieved without serious problems for the majority of the standards, the endorsement of IAS 39 ("IAS 39"), relating to financial recognition and measurements of financial instruments, was subject to prolonged delays because of the issues raised by banks and regulatory authorities. A particular concern for banks, raised in connection with the EU endorsement debate of IAS 39, was the prohibition of fair value hedge of core deposits on a portfolio basis, while a particular concern for regulatory authorities was the possible application of fair value option to financial liabilities.

For these reasons, the EU only endorsed IAS 39 in November 2004 on the basis of a compromise (commonly referred to as IAS 39 "carve out") pursuant to which the text endorsed by the EU differs slightly to the IASB text. The agreement reached on the EU endorsed version of IAS 39 removes the parts of the original IASB text, which were the subject of the debate. The EU hopes that in 2005 the IASB will review the amended IAS 39 and that a consensus will be reached on the text of IAS 39.

### Main accounting and valuation changes

Compared to currently applicable national accounting standards, international accounting standards are characterized by a more frequent use of fair value evaluation criteria. This is reflected in:

- the requirement to use a fair value valuation for a wide category of financial instruments, including:
  - All trading or available for sale securities. According to the Italian accounting standards currently applied by the Group, only listed securities held for dealing purposes are valued at market price, unlisted securities held for dealing purposes are valued at cost or market value, whichever is lower.
  - All hedging and non-hedging derivative contracts. Currently, derivative contracts entered into with the aim of hedging banking book transactions are valued at cost, while the amount attributable to such transactions is recorded on an accruals basis.
  - All financial instruments (comprising essentially lending and funding contracts) hedged against the risk of depreciation in value (so called fair value hedge). In compliance with currently applicable Italian accounting principles, instruments included in the banking book are accounted for, on an accrual basis, at their net carrying amount (lending) or redemption price (funding).
  - All shareholdings below significant influence threshold. These are currently valued at cost and eventually adjusted to reflect any permanent losses in value.
- The option to account all tangible fixed assets at fair value, eventually amortizing the value on a long-term basis, as an alternative to amortizing the cost.
- The requirement to apply a fair value to the assets and liabilities arising from company acquisitions (commonly referred to as business combinations), regardless of the method used to account for the transaction (purchases of businesses, mergers, transfers, etc.). Currently applicable Italian accounting principles, on the contrary, allow widespread measures designed to maintain pre-existing values, in accordance with the principle of continuity of value.
- The requirement to apply a fair value to intangibles, excluding the systematic process of amortization for those of an unlimited duration (such as goodwill or brands) and envisaging writedowns in the event of permanent losses in value (commonly referred to as impairments). Currently applicable Italian accounting principles require intangible assets to be recorded at purchase cost and amortized over the period of their expected useful life.

In connection with liabilities relating to personnel (such as termination indemnities and other long-term commitments), IAS/IFRS requires a valuation on an actuarial basis, taking into account the time when such liabilities will be paid out. Currently, these liabilities are accounted for on the financial statements at the value of the amount matured, regardless of the estimated effect of financial and demographic changes.

Furthermore, with the adoption of IAS/IFRS, employees' stock options, which according to Italian accounting standards are not reported in the financial statements, are reported at their initial value for a vesting period as personnel costs offset against a specific reserve of net shareholders' equity.

As regards recording the interest profile of financial instruments in the banking book, IAS/IFRS provide for the use of amortizing cost criteria, determined taking into account the total original outlay adjusted by the related charges and/or revenues and the effective performance rate. The latter is represented by the rate which balances the sum of the current value of expected contractual cash flow and the original value of the financial instrument.

Another regulation characterizing IAS/IFRS relates to discounting of doubtful loans, applying the contractual rates,. This criterion, which is not widespread under Italian accounting principles, is already applied in the SANPAOLO IMI Group financial statements.

Lastly, it should be emphasized that the application of IAS/IFRS will widen the line by line area of consolidation through the inclusion of all the subsidiaries, also de facto subsidiaries, without exemptions other than justifiable accounting insignificance of the investment. Therefore, the consolidation area of the SANPAOLO IMI Group will also include those insurance companies which, today, are included using the net equity valuation method.

## The IAS Project and the Group

In December 2002 the SANPAOLO IMI Group launched a project to plan and implement the measures necessary to adequately cope with the transition to the new regulatory framework. In the context of the project, the Parent Bank took on a role of directing and controlling the activities entered into by the Group companies which, on the one hand, involved the definition, at the end of 2003, of "Group Guidelines" supplying methodological and operational support to subsidiaries for planning the transitional processes and, on the other hand, provides for constant monitoring of the progress of the measures underway at the subsidiaries.

The project is mainly split into two prongs:

- Study and analysis of IAS/IFRS and of the main issues raised by their introduction. This activity, which involves a high number of resources (about 120 specialists within the Parent Bank and the material subsidiaries subdivided into 15 working groups) has enabled the production of the first IAS compliant version of the "Group Accounting Policies Handbook", which represents the univocal point of reference for the Parent Bank and all the subsidiaries for the preparation of financial statements using consistent Group policies. The manual is subject to continuous updates, to reflect the evolution of the contents of IAS/IFRS.
- Activities performed independently within the different areas of the Group on the basis of the above mentioned manual. In particular, these activities includes:
  - *Adjustments of IT systems,* currently about to be completed. Given the uncertainties surrounding the application of the new accounting policies to different areas of importance (separate financial statements, tax regulations and reports to the Supervising Authorities) which have characterized the project since its inception. The Group has taken all the required actions aimed at guaranteeing parallel assessments of economic and equity results on the basis of both IAS/IFRS and Italian accounting principles. Overall, for the two areas of project activity and considering the residual activities programmed for 2005 at the Parent Bank and its subsidiaries, the external costs of the IAS Project have been estimated at 32 million euro.
  - *Organizational operations regarding administration, valuation and accounting processes.* These activities started in the second half of 2004 and will be finalized by 2005.
  - *Training operations.* These activities were conceived with the aim of divulging insight of the new regulatory framework to the Parent Bank and all the subsidiaries through special courses and meetings with different levels of specialization and detail. As of December 2004, the first two training modules have been completed, involving 2,000 employees of the Parent Bank and its subsidiaries. Training will continue throughout 2005.

## Application to the Group

With regard to the adoption of IAS/IFRS within the SANPAOLO IMI Group, the Board of Directors decided to take advantage of the option provided by Italian law to adopt IAS/IFRS also in drawing up the financial statement of the Parent Bank for 2005. For reasons of uniformity of accounting reporting within the Group and coherence with the consolidated balance sheets, a similar approach was also adopted for the subsidiaries. As far as interim reports are concerned, transition to IAS/IFRS is expected for the 2005 Half Year Report.

A first valuation of the impact of the application of IAS/IFRS to the Group's income and equity profiles appears to be positive. In particular, the effect of the transition is expected to determine is an estimated increase in net equity of approximately 250/300 million euro.

This result is primarily attributable to the adequacy of the valuation of the Group's loan portfolio that was already in line with IAS/IFRS policies. Specifically, the Group has adopted (in line with best international practice) the criterion now required by IAS/IFRS to evaluate doubtful loans at net present value since 1998, the year that SANPAOLO IMI securities were registered in the USA pursuant to the merger with IMI.

Furthermore, it is estimated that the application of IAS/IFRS will increase the transition consolidated shareholders' equity by approximately 250 million euro as a result of revaluation of the land component of the Group's real estate portfolio (IAS standard 16), irrespective of any eventual revaluations of the real estate portfolio.

An analysis of other areas of possible impact of the Group's first time adoption on capital, caused either by the application of the new accounting standards concerning financial instruments and hedge accounting (IAS standards 32 and 39) or by other standards, especially those related to employee benefits, contingent liabilities and other provisions (IAS 19 and 37) and the treatment of goodwill (IFRS 3), showed no material effects on the overall consolidated shareholders' equity.

From an economic viewpoint, the consolidated net income for 2004 in the light of IAS/IFRS, and taking into account the recourse to the exemptions foreseen under transition regulations, especially the "non-reopening" of company aggregations (IFRS 3) and the adoption as of 1 January 2005 of IAS/IFRS concerning financial instruments (IAS 32 and 39) and insurance contracts (IFRS 4), shows an estimated increase in net income of over 100 million euro. This result is mainly attributable to the non applicability of amortization for goodwill, as other single amounts have been considered either irrelevant or mutually off-setted.

The above mentioned estimates will be subject to updates in the light of the new regulatory framework and analyzed again in the first Quarterly Report for 2005. The usual market information will be integrated on the basis of current accounting standards. As mentioned above, the definitive transition to IAS/IFRS will be made with the Half Year Report for 2005. At that time, the effects of the transition to the international accounting standards will be audited-by PricewaterhouseCooper S.p.A., as external auditor, and the other auditors of Group companies, and will be disclosed.

# Group Business Structure

Following the redesign of the organizational structure, since 1 May 2004 the SANPAOLO IMI Group has adopted a new model for the Business Areas divided into the following Business Sectors:

- Commercial Banking
- Asset Management
- Investment Banking
- Personal Financial Services
- Insurance
- Public Authorities and Entities
- Central Functions.

As already described in the chapter "Action points and initiatives in the year", Insurance became operative as of 1 December 2004.

The following tables show the data of the statement of income, the operating structure, as well as the main profitability ratios for the new organizational model. There are two types of report. The first refers to Business Sectors ("Reportable Segments"), with figures expressing the contribution to the Group income. The second refers to Business Areas ("Business Segments"), where the figures are expressed, in the case of business performed by companies, before the posting of consolidation and reporting the contribution to Group income as additional information.

It should be emphasized that, where necessary, the figures used to compare the performance with the previous year have been consistently reconstructed, assuming that the new organizational model was launched as of 1 January 2003.

### Criteria for calculating the profitability of Business Sectors and Business Areas

The statement of income of the Business Sector is the outcome of the aggregation of the statements of income of its Business Areas. The latter have been determined as follows:

- for those Areas whose activities are carried out both by the Parent Bank and by subsidiaries, the Parent Bank accounts attributable to the relevant Area have been consolidated with the income statement line items of the subsidiary companies. In particular, the attribution to individual Areas of Parent Bank line items has been made on the basis of the following principles:
  - the net interest income has been calculated using appropriate Internal Transfer Rates;
  - in addition to real commissions, notional commissions for services rendered between Areas have also been quantified;
  - the direct costs of each Area have been calculated and the costs of central structures other than those attributable to holding company functions have been allocated to the same Areas. It should be noted that the allocation of costs for services provided to the operating business units by head office was made on the basis of standard prices, allocating to head office the difference between costs effectively sustained and costs allocated. This method is aimed at making the central structures responsible for the recovery of efficiency;
- for those Areas whose activities are carried out wholly by subsidiaries, the income statements of the companies are reported; their contribution to consolidated net income of the Group is also reported, net of minority interest and after the posting of consolidation attributable to the Area.

As with the statement of income, the capital of the Business Sector is the result of the aggregation of the capitals of the respective Business Areas. The capital has been attributed to each Area according to the following criteria:

- for those Areas whose activities are carried out both by the Parent Bank and by subsidiaries, the average economic capital of the Parent Bank referring to the Area has been consolidated with that of the subsidiaries. The capital has been calculated according to the VaR (Valued at Risk) approach, considering the different types of risk individually and as a whole: credit risk, market risks and operational risks; these risks are covered entirely by the primary capital;
- for those Areas whose activities are carried out exclusively by subsidiaries, reference is made to the average accounting net shareholders' equity (including income for the period).

Finally, the profitability of each Area has been calculated. In particular:

- for those Areas whose activities are carried out both by the Parent Bank and by subsidiaries, profitability has been expressed in terms of RORAC (Return On Risk Adjusted Capital), relating the Area's contribution to net income of the Group to the relative economic capital quantified according to VaR;
- for those Areas whose activities are carried out exclusively by subsidiaries, profitability has been expressed in

terms of RoE (Return on Equity), relating the Area's contribution to net income of the Group to the respective average accounting net shareholders' equity (including income for the period), consistently with the principles adopted for the Group.

## Results of the Business Sectors

The statements of income and main operational data are summarized in the table and analyzed hereafter for each Business Sector.

| | Commercial Banking | Asset Management (1) | Investment Banking | Personal Financial Services (1) | Insurance (1) (2) | Public Authorities and Entities | Central Functions | Group Total |
|---|---|---|---|---|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | | | | | | |
| Net interest and other banking income | | | | | | | | |
| 2004 | 5,923 | 183 | 259 | 610 | 216 | 161 | 240 | 7,592 |
| 2003 | 5,805 | 184 | 331 | 557 | 123 | 165 | 304 | 7,469 |
| Change 2004 / 2003 (%) | +2.0 | -0.5 | -21.8 | +9.5 | +75.6 | -2.4 | -21.1 | +1.6 |
| Operating income | | | | | | | | |
| 2004 | 2,388 | 91 | 101 | 276 | 216 | 132 | -314 | 2,890 |
| 2003 | 2,303 | 83 | 173 | 218 | 123 | 139 | -335 | 2,704 |
| Change 2004 / 2003 (%) | +3.7 | +9.6 | -41.6 | +26.6 | +75.6 | -5.0 | -6.3 | +6.9 |
| Income before extraordinary items | | | | | | | | |
| 2004 | 1,789 | 88 | 15 | 230 | 216 | 106 | -491 | 1,953 |
| 2003 | 1,502 | 70 | 23 | 182 | 123 | 129 | -342 | 1,687 |
| Change 2004 / 2003 (%) | +19.1 | +25.7 | -34.8 | +26.4 | +75.6 | -17.8 | +43.6 | +15.8 |
| Net income | | | | | | | | |
| 2004 | 1,023 | 75 | 45 | 128 | 216 | 74 | -168 | 1,393 |
| 2003 | 851 | 49 | 12 | 105 | 123 | 92 | -260 | 972 |
| Change 2004 / 2003 (%) | +20.2 | +53.1 | n.s. | +21.9 | +75.6 | -19.6 | -35.4 | +43.3 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | | | | | | | | |
| 2004 | 8,005 | 162 | 1,749 | 441 | 987 | 791 | -735 | 11,400 |
| 2003 | 7,675 | 157 | 1,437 | 406 | 912 | 710 | -448 | 10,849 |
| Change 2004 / 2003 (%) | +4.3 | +3.2 | +21.7 | +8.6 | +8.2 | +11.4 | +64.1 | +5.1 |
| **PROFITABILITY (RoE, RORAC)** (%) | | | | | | | | |
| 2004 | 12.8 | 46.3 | 2.6 | 29.0 | 21.9 | 9.4 | n.s. | 12.2 |
| 2003 | 11.1 | 31.2 | 0.8 | 25.9 | 13.5 | 13.0 | n.s. | 9.0 |
| **EMPLOYEES** | | | | | | | | |
| 31/12/2004 | 33,615 | 449 | 617 | 1,824 | - | 164 | 6,069 | 42,738 |
| 31/12/2003 | 33,763 | 508 | 615 | 1,871 | - | 167 | 6,541 | 43,465 |
| Change 31/12/2004-31/12/2003 (%) | -0.4 | -11.6 | +0.3 | -2.5 | - | -1.8 | -7.2 | -1.7 |

*(1) The figures are shown according to the operational perimeter in which the three sectors are currently active.*

*(2) The Insurance sector is consolidated using the net equity method and therefore employees are not considered part of the Group; only the net income value is reported in the consolidated statement of income.*

The **Commercial Banking** sector, which constitutes the Group's core business, comprises: Sanpaolo, which is widespread in North Western Italy and has a significant presence in Central Italy and the Islands; Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Cassa di Risparmio di Venezia and Friulcassa, rooted in the North East; Banca Popolare dell'Adriatico, in the central Adriatic regions; Sanpaolo Banco di Napoli, in the mainland South. The networks, dedicated to the service of retail and private customers and companies, cover the entire Italian territory through more than 3,000 banking branches and integrated multi-channel infrastructures. In the context of Sanpaolo, the

*Commercial Banking*

| | 2004 | 2003 pro forma (1) | Change 2004 / 2003 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 3,433 | 3,508 | -2.1 |
| Net commissions and other net dealing revenues | 2,340 | 2,172 | +7.7 |
| Profits and losses from financial transactions and dividends on shares | 145 | 121 | +19.8 |
| Profits from companies carried at equity and dividends from shareholdings | 5 | 4 | +25.0 |
| Net interest and other banking income | 5,923 | 5,805 | +2.0 |
| Administrative costs | -3,755 | -3,714 | +1.1 |
| *- personnel* | *-2,089* | *-2,083* | *+0.3* |
| *- other administrative costs* | *-1,481* | *-1,445* | *+2.5* |
| *- indirect duties and taxes* | *-185* | *-186* | *-0.5* |
| Other operating income, net | 285 | 285 | - |
| Adjustments to tangible and intangible fixed assets | -65 | -73 | -11.0 |
| Operating income | 2,388 | 2,303 | +3.7 |
| Adjustments to goodwill and merger and consolidation differences | -1 | - | n.s. |
| Provisions and net adjustments to loans and financial fixed assets | -598 | -801 | -25.3 |
| *- provisions for risks and charges* | *-104* | *-111* | *-6.3* |
| *- net adjustments to loans and provisions for guarantees and commitments* | *-493* | *-684* | *-27.9* |
| *- net adjustments to financial fixed assets* | *-1* | *-6* | *-83.3* |
| Income before extraordinary items | 1,789 | 1,502 | +19.1 |
| Net extraordinary income/expense | 6 | 39 | -84.6 |
| Income before taxes | 1,795 | 1,541 | +16.5 |
| Income taxes for the period | -769 | -695 | +10.6 |
| Change in reserve for general banking risks | -2 | 7 | n.s. |
| Income attributable to minority interests | -1 | -2 | -50.0 |
| Net income | 1,023 | 851 | +20.2 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 8,005 | 7,675 | +4.3 |
| **RATIOS** (%) | | | |
| Profitability (RoE, RORAC) | 12.8 | 11.1 | |
| Cost / Income ratio | 61.5 | 62.2 | |
| | 31/12/2004 | 31/12/2003 pro forma (1) | Change 31/12/04-31/12/03 pro forma (%) |
| **OPERATING STRUCTURE** | | | |
| Intermediary funds (€/mil) | 376,680 | 367,225 | +2.6 |
| Employees | 33,615 | 33,763 | -0.4 |
| Domestic branches | 3,034 | 3,004 | +1.0 |
| Foreign branches and representative offices | 126 | 117 | +7.7 |

*(1) To give unity of comparison with 2004, figures for 2003 are reported taking into account the new organizational structure of the Group adopted on 1 May 2004.*

sector also includes: Large Groups, which is responsible for managing relations with the major groups of domestic and international importance; the Parent Bank's International Activities and Foreign Networks, limited to corporate lending, the Irish subsidiary Sanpaolo IMI Bank Ireland and Sanpaolo IMI Internazionale, established to develop and supervise the Group's activities in Central Eastern Europe; companies operating in private banking, consumer credit and leasing.

Commercial Banking manages over three-quarters of the volumes handled by the Group, generating around 78% of net interest and other banking income. The latter has shown an increase of 2% compared to 2003. This trend is higher than that of the Group and reflects the ability of the banking networks and the related product companies to offset the decline in net interest income with the development of other sources of income, particularly commission revenues, as well as in profits from financial transactions.

The contained growth in operating costs (+0.9%), together with the aforementioned increase in revenues, led to a 3.7% increase in operating income. In this respect, it is worth noting that personnel costs, which form a relevant part of Commercial Banking costs, have remained substantially stable: it employs 33,615 resources, corresponding to 79% of the Group's total staff.

The decrease in extraordinary income of the previous year has largely been compensated by the decrease of provisions and adjustments (-25.3%), that in 2003 included the devaluation of Parmalat bonds. Net income was 1,023 million euro, up 20.2% on the previous year.

Commercial Banking absorbed 70% of the Group's capital, the same as in 2003. As the increase in capital allocated to the sector (+4.3%) is lower than profit performance, profitability rose to 12.8% compared to 11.1% in 2003.

After the demerger of the insurance business, the **Asset Management** sector includes Sanpaolo IMI Asset Management and its subsidiaries, dedicated to providing asset management products to the Group networks as well as institutional investors.

Asset Management contributed over 5% to the consolidated net income for 2004 and absorbed a little over 1% of the capital, remaining substantially in line with the figures for 2003. This sector, which uses the Group's banking networks throughout the country for the placement of its products, is characterized by high levels of profitability, which rose to 46.3% compared to 31.2% for the previous year.

The contribution to net income of the Group rose to 75 million euro, compared with the 49 million of 2003,

*Asset Management*

| | 2004 | 2003 pro forma (1) | Change 2004 / 2003 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 4 | 5 | -20.0 |
| Net commissions and other net dealing revenues | 179 | 179 | - |
| Profits and losses from financial transactions and dividends on shares | - | - | - |
| Profits from companies carried at equity and dividends from shareholdings | - | - | - |
| Net interest and other banking income | 183 | 184 | -0.5 |
| Administrative costs | -93 | -104 | -10.6 |
| *- personnel* | *-40* | *-43* | *-7.0* |
| *- other administrative costs* | *-52* | *-60* | *-13.3* |
| *- indirect duties and taxes* | *-1* | *-1* | *-* |
| Other operating income, net | 7 | 11 | -36.4 |
| Adjustments to tangible and intangible fixed assets | -6 | -8 | -25.0 |
| Operating income | 91 | 83 | +9.6 |
| Adjustments to goodwill and merger and consolidation differences | - | -7 | n.s. |
| Provisions and net adjustments to loans and financial fixed assets | -3 | -6 | -50.0 |
| *- provisions for risks and charges* | *-3* | *-6* | *-50.0* |
| *- net adjustments to loans and provisions for guarantees and commitments* | *-* | *-* | *-* |
| *- net adjustments to financial fixed assets* | *-* | *-* | *-* |
| Income before extraordinary items | 88 | 70 | +25.7 |
| Net extraordinary income/expense | - | - | - |
| Income before taxes | 88 | 70 | +25.7 |
| Income taxes for the period | -13 | -21 | -38.1 |
| Change in reserve for general banking risks | - | - | - |
| Income attributable to minority interests | - | - | - |
| Net income | 75 | 49 | +53.1 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 162 | 157 | +3.2 |
| **RATIOS** (%) | | | |
| RoE | 46.3 | 31.2 | |
| Cost / Income ratio | 52.1 | 57.4 | |
| | 31/12/2004 | 31/12/2003 pro forma (1) | Change 31/12/04-31/12/03 pro forma (%) |
| **OPERATING STRUCTURE** | | | |
| Assets under management (€/mil) | 103,871 | 100,142 | +3.7 |
| Employees | 449 | 508 | -11.6 |

*(1) To give unity of comparison with 2004, figures for 2003 are reported taking into account the demerger of the insurance companies as of 1 January 2003.*

reformulated pro forma in consideration of the demerger of the insurance companies. This was obtained mainly through a reduction in personnel and administrative costs and also partly to the integration of Eptafund and lack of adjustments to goodwill and provisions for risks and charges.

The **Investment Banking** sector operates through Banca IMI, the Group's investment bank, Sanpaolo IMI Private Equity, responsible for the private equity activities, IMI Investimenti, which is dedicated to the management of major industrial shareholdings, and Structured Finance, which is dedicated to project financing and specialized structured lending.

Investment Banking made a contribution of 45 million euro to consolidated net income for 2004, essentially attributable to Banca IMI and, to a lesser degree, Structured Finance, which compensated for the losses of IMI Investimenti and Sanpaolo IMI Private Equity. The net income, a considerable improvement on 2003, is mainly the result of smaller adjustments for financial fixed assets.

Absorption of capital amounted to 15% while resources remained the same as for 2003, representing a little over 1% of the Group's employees.

*Investment Banking*

| | 2004 | 2003 pro forma (1) (2) | Change 2004 / 2003 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 23 | 20 | +15.0 |
| Net commissions and other net dealing revenues | 27 | 54 | -50.0 |
| Profits and losses from financial transactions and dividends on shares | 196 | 249 | -21.3 |
| Profits from companies carried at equity and dividends from shareholdings | 13 | 8 | +62.5 |
| Net interest and other banking income | 259 | 331 | -21.8 |
| Administrative costs | -149 | -147 | +1.4 |
| *- personnel* | *-80* | *-76* | *+5.3* |
| *- other administrative costs* | *-68* | *-70* | *-2.9* |
| *- indirect duties and taxes* | *-1* | *-1* | *-* |
| Other operating income, net | 2 | 3 | -33.3 |
| Adjustments to tangible and intangible fixed assets | -11 | -14 | -21.4 |
| Operating income | 101 | 173 | -41.6 |
| Adjustments to goodwill and merger and consolidation differences | -11 | -11 | - |
| Provisions and net adjustments to loans and financial fixed assets | -75 | -139 | -46.0 |
| *- provisions for risks and charges* | *-2* | *-2* | *-* |
| *- net adjustments to loans and provisions for guarantees and commitments* | *1* | *-7* | *n.s.* |
| *- net adjustments to financial fixed assets* | *-74* | *-130* | *-43.1* |
| Income before extraordinary items | 15 | 23 | -34.8 |
| Net extraordinary income/expense | 10 | 12 | -16.7 |
| Income before taxes | 25 | 35 | -28.6 |
| Income taxes for the period | 20 | -21 | n.s. |
| Change in reserve for general banking risks | - | -2 | n.s. |
| Income attributable to minority interests | - | - | - |
| Net income | 45 | 12 | n.s. |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 1,749 | 1,437 | +21.7 |
| **RATIOS** (%) | | | |
| Profitability (RoE, RORAC) | 2.6 | 0.8 | |
| Cost / Income ratio | 61.3 | 48.2 | |
| | 31/12/2004 | 31/12/2003 pro forma (1) | Change 31/12/04-31/12/03 pro forma (%) |
| **OPERATING STRUCTURE** | | | |
| Employees | 617 | 615 | +0.3 |

*(1) To give unity of comparison with 2004, figures for 2003 are reported taking into account the new organizational structure of the Group adopted on 1 May 2004.*

*(2) Comparison of the principal economic figures is affected by the new regulations that are reflected in net interest and other banking income and in tax charges, with no significant effects on net income.*

**Personal Financial Services** manage the activities carried out by the networks of financial planners of the Banca Fideuram group to serve customers with a medium/high savings potential. The staff operating in this sector includes 4,313 financial planners and 1,824 employees. The contribution to the Group's net income was 128 million euro compared with 105 million in 2003. Figures for 2004 and, for unity of comparison, those for 2003 are reported in the light of the demerger of insurance activities adopted from 1 January 2003.

This sector contributed to the consolidated net income by over 9% with respect to the 11% in the previous year and absorbed 4% of the capital. Profitability was therefore high, confirming a RoE of 29% in the year compared with 25.9% in 2003.

*Personal Financial Services*

| | 2004 normalized (1) | 2003 pro forma (1) | Change 2004 normalized / 2003 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 43 | 51 | -15.7 |
| Net commissions and other net dealing revenues | 551 | 479 | +15.0 |
| Profits and losses from financial transactions and dividends on shares | 16 | 26 | -38.5 |
| Profits from companies carried at equity and dividends from shareholdings | - | 1 | n.s. |
| Net interest and other banking income | 610 | 557 | +9.5 |
| Administrative costs | -320 | -321 | -0.3 |
| *- personnel* | *-145* | *-148* | *-2.0* |
| *- other administrative costs* | *-155* | *-150* | *+3.3* |
| *- indirect duties and taxes* | *-20* | *-23* | *-13.0* |
| Other operating income, net | 24 | 24 | - |
| Adjustments to tangible and intangible fixed assets | -38 | -42 | -9.5 |
| Operating income | 276 | 218 | +26.6 |
| Adjustments to goodwill and merger and consolidation differences | -18 | -3 | n.s. |
| Provisions and net adjustments to loans and financial fixed assets | -28 | -33 | -15.2 |
| *- provisions for risks and charges* | *-30* | *-31* | *-3.2* |
| *- net adjustments to loans and provisions for guarantees and commitments* | *4* | *-2* | *n.s.* |
| *- net adjustments to financial fixed assets* | *-2* | *-* | *n.s.* |
| Income before extraordinary items | 230 | 182 | +26.4 |
| Net extraordinary income/expense | -3 | -5 | -40.0 |
| Income before taxes | 227 | 177 | +28.2 |
| Income taxes for the period | -53 | -34 | +55.9 |
| Change in reserve for general banking risks | - | - | - |
| Income attributable to minority interests | -46 | -38 | +21.1 |
| Net income | 128 | 105 | +21.9 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 441 | 406 | +8.6 |
| **RATIOS** (%) | | | |
| RoE | 29.0 | 25.9 | |
| Cost / Income ratio | 56.5 | 62.5 | |
| | 31/12/2004 | 31/12/2003 | Change 31/12/04-31/12/03 (%) |
| **OPERATING STRUCTURE** | | | |
| Assets under management (€/mil) | 59,469 | 58,129 | +2.3 |
| Employees | 1,824 | 1,871 | -2.5 |
| Financial planners | 4,313 | 4,543 | -5.1 |
| Domestic branches | 89 | 88 | +1.1 |

*(1) Figures for 2004 and, for unity of comparison, those for 2003 are reported taking into account the demerger of the insurance business as of 1 January 2003.*

Transactions benefited both from initiatives in the customer portfolio aimed at a mix of products with higher added value, and from the recovery of the financial markets. Assets under management grew by 2.3%, reaching 59.5 billion euro where the weight of managed funds generating recurring commission increased. Operating income reached 276 million euro, an increase of 26.6% as a result of the increase in commission revenues. The cost to income ratio improved by 6 percentage points, coming down to 56.5%. This trend confirms the success of commercial policies based on a return to profitability and the synergies resulting from integration with Sanpaolo Invest.

**Insurance** operates through Assicurazioni Internazionali di Previdenza (A.I.P.), the company that has been operational since 1 December 2004 and comprises all the Group's insurance companies. This concentration of the Group's insurance activities has led to the creation of a leading Italian insurance operator. Thanks to consolidated premium flows of over 8.5 billion euro and technical reserves of 38.8 billion euro, Assicurazioni Internazionali di Previdenza is one of the leading operators on the market, with an estimated share of 11.9% for premiums and 12.5% for reserves. The new company has over 2 million contracts.

Figures for 2004 and, for unity of comparison, those for 2003, are reported taking into consideration that all the insurance companies of the Group have been concentrated in the sector since 1 January 2003. Only the net income is reported for both years as consolidation was done using the net shareholders' equity method.

The favorable performance of operations, confirmed by analysis of the premium flow and technical reserves, has generated a net income of 216 million euro, up 75.6%.

The sector absorbed 9% of the Group's shareholders' equity in 2004, growing less than income. The RoE has benefited in consequence, rising by 21.9%.

*Insurance*

| | 2004 normalized (1) | 2003 pro forma (1) | Change 2004 normalized / 2003 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net income | 216 | 123 | +75.6 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 987 | 912 | +8.2 |
| **RATIOS** (%) | | | |
| RoE | 21.9 | 13.5 | |
| | 31/12/2004 normalized (1) | 31/12/2003 pro forma (1) | Change 31/12/04 normalized-31/12/03 pro forma (%) |
| **STATEMENT OF TRANSACTIONS** (€/mil) | | | |
| Life technical reserves | 38,782 | 31,557 | +22.9 |
| Life premiums issued | 8,539 | 8,062 | +5.9 |

*(1) Figures for 2004 and, for unity of comparison, those for 2003 are reported including the results of Fideuram Vita for the entire year.*

The **Public Authorities and Entities** sector is dedicated to developing relations with organizations and institutions and, through Banca OPI, provides advisory services and medium- and long-term financing to public bodies and infrastructures.

Owing to a drop in the main income margins caused by the natural expiry of important transactions with high returns stipulated in the past and the harsher competition on the reference market, this sector defended its net interest income (+1.6%) thanks to an increase in the total volume of loans and investments in securities by customers. Operating income reached 132 million euro, compared with 139 million euro for 2003. Higher provisions and adjustments in 2004 brought net income to 74 million euro. The sector absorbed 7% of the Group's shareholders' equity and posted a profitability of 9.4%.

*Public Authorities and Entities*

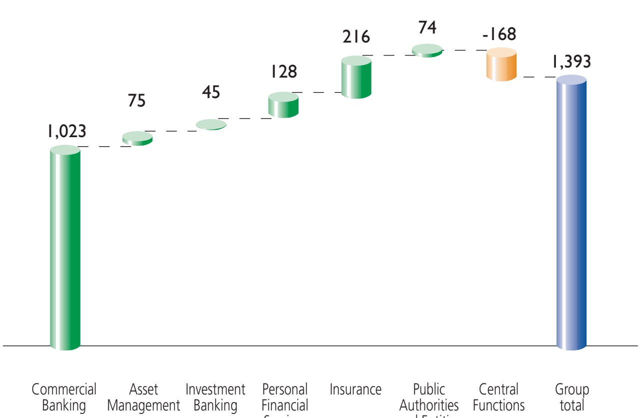
| | 2004 | 2003 pro forma (1) | Change 2004 / 2003 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 131 | 129 | +1.6 |
| Net commissions and other net dealing revenues | 13 | 18 | -27.8 |
| Profits and losses from financial transactions and dividends on shares | 16 | 17 | -5.9 |
| Profits from companies carried at equity and dividends from shareholdings | 1 | 1 | - |
| Net interest and other banking income | 161 | 165 | -2.4 |
| Administrative costs | -30 | -28 | +7.1 |
| *- personnel* | *-14* | *-14* | - |
| *- other administrative costs* | *-14* | *-10* | *+40.0* |
| *- indirect duties and taxes* | *-2* | *-4* | *-50.0* |
| Other operating income, net | 2 | 3 | -33.3 |
| Adjustments to tangible and intangible fixed assets | -1 | -1 | - |
| Operating income | 132 | 139 | -5.0 |
| Adjustments to goodwill and merger and consolidation differences | - | - | - |
| Provisions and net adjustments to loans and financial fixed assets | -26 | -10 | +160.0 |
| *- provisions for risks and charges* | - | - | - |
| *- net adjustments to loans and provisions for guarantees and commitments* | *-25* | *-9* | *+177.8* |
| *- net adjustments to financial fixed assets* | *-1* | *-1* | - |
| Income before extraordinary items | 106 | 129 | -17.8 |
| Net extraordinary income/expense | 13 | 8 | +62.5 |
| Income before taxes | 119 | 137 | -13.1 |
| Income taxes for the period | -45 | -45 | - |
| Change in reserve for general banking risks | - | - | - |
| Income attributable to minority interests | - | - | - |
| Net income | 74 | 92 | -19.6 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 791 | 710 | +11.4 |
| **RATIOS** (%) | | | |
| Profitability (RoE, RORAC) | 9.4 | 13.0 | |
| Cost / Income ratio | 19.0 | 17.3 | |
| | 31/12/2004 | 31/12/2003 pro forma (1) | Change 31/12/04-31/12/03 pro forma (%) |
| **OPERATING STRUCTURE** | | | |
| Securities commitments and subscriptions by customers (€/mil) | 23,726 | 20,799 | +14.1 |
| Employees | 164 | 167 | -1.8 |

*(1) To give unity of comparison with 2004, figures for 2003 are reported taking into account the new organizational structure of the Group adopted on 1 May 2004.*

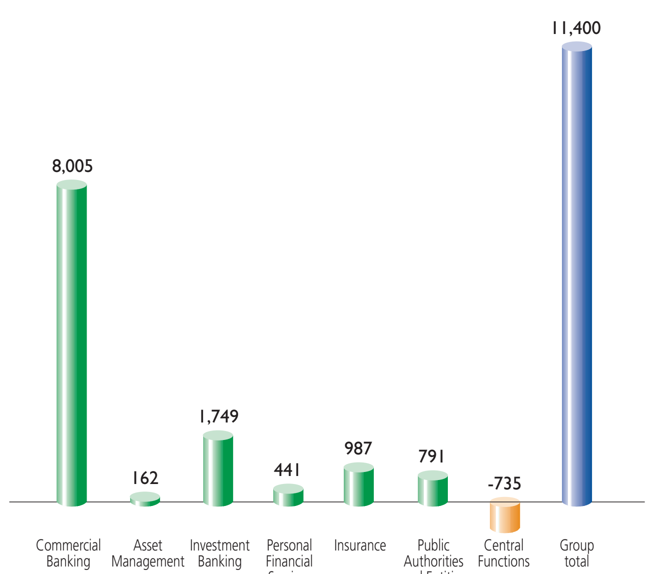
**Central Functions** include holding activities, finance, the management of shareholding investments (including the Group's shareholdings in Cassa di Risparmio di Firenze, in Cassa dei Risparmi di Forlì and in Banca delle Marche), the MOI and GEST Line, which manages the Group's tax collection activities. The main component is represented by bodies that carry out strategic direction, governance and control of the other Group Business Sectors.

The income results reflect the transversal nature of these Functions, which sustain costs using a centralized system and on behalf of other Group companies, only partially allocating them to the operating units. This method answers the need to safeguard cost control by central bodies, which have the facilities to govern costs and tangibly monitor the pursuit of "objective" efficiency levels declared in the internal integration processes.

Central Functions registered a loss of 168 million euro in 2004, essentially attributable to the share of costs not allocated to operating functions and to the amortization of goodwill consequent to equity investments made at holding level, partly offset by the recovery in value of the investment in Santander Central Hispano (SCH) and by the gains from the sale of equity investments. Losses in 2003, equal to 260 million, were conditioned by extraordinary charges concerning staff leaving incentives.




**2004 net income by Business Sector** (€/mil)




**2004 allocated capital by Business Sector** (€/mil)

## Results of the Business Areas

### Commercial Banking

Commercial Banking is organized into two Managements:
- Private and Retail, with the aim of developing and implementing strategies for growth in income results of the segments of households, private customers and small businesses;
- Companies, assigned to supervise:
  - the national business market through specialized branches;
  - large groups of national and international importance;
  - customers operating on international markets and correspondent banks, through International Activities and Foreign Networks.

The two Management areas are the reference point for defining, developing and coordinating the sales strategies for the Group's networks.

### *Sanpaolo (Parent Bank operating areas and product companies)*

Sanpaolo includes the Parent Bank's network of branches represented, at end December 2004, by 1,621 operating points: 1,367 branches and 254 other specialized operating points. There are 1,451 branches dedicated to retail and private customers and 170 aimed at the business sector. In the context of the rationalization of the distribution network, in November 33 operating points belonging to Cassa di Risparmio in Bologna and 60 to Cassa di Risparmio di Padova e Rovigo were converged. In January 2005, a further 10 operating points from Cassa di Risparmio di Venezia and 10 from Friulcassa were ceded, and 9 operating points from Cassa di Risparmio di Padova e Rovigo and 21 from Cassa di Risparmio in Bologna were converged into the Sanpaolo setting.

The activities carried out by Finemiro Banca, which is specialized in the consumer credit sector, Sanpaolo Bank (Luxembourg), which operates in international private banking, Sanpaolo Fiduciaria and Farbanca also lie within Sanpaolo-Private and Retail.

Sanpaolo-Companies also includes the activities carried out in the leasing sector by Sanpaolo Leasint and Sanpaolo IMI Bank Ireland for corporate lending, as well as those performed by Sanpaolo IMI Internazionale for the development of operations in Central Eastern European countries.

In operating terms, Sanpaolo customer financial assets have increased 8.6% over the 12 months. This trend is attributable to the increase in all the aggregate components. Loans fell by 6.2% owing to the recovery of loans to primary Italian and foreign borrowers. On the other hand, transactions with households and small- and medium-businesses have increased and show a lively trend in medium- and long-term disbursements.

The operating income of Sanpaolo for 2004 was 1,424 million euro; a rise of 3.6% compared with the previous year, thanks to an increase in revenues (+2.2%) which more than offset the increase in operating costs, partly attributable to the operational strengthening of Finemiro Banca. This performance, together with minor net adjustments deriving from the posting of higher specific writedowns on loans to companies, and notwithstanding the lack of extraordinary income from the release of reserves in excess accrued in previous years, is reflected in the net income, which reached 644 million euro, a rise of 37%. Profitability expressed in terms of annualized RORAC was 15.4% compared with 11.9% in 2003.

#### Private and Retail sector

The initiatives of the year were aimed at strengthening the relationship with customers by improving the quality of service and personalizing the product range. The achievement of these aims is based on a distribution model specialized by customer segments that was spread across the distribution network in 2003. In the current organizational structure, the retail branches are divided into the various submarkets: personal, family and small business, dedicated respectively to customers with significant financial funds, to households and to customers comprising traders, professionals, artisans, farmers and smaller companies. Within the retail branches, there are also modules specialized in serving private customers, which, together with the branches specifically dedicated to this type of customer, ensure a better coverage of the territory: altogether, the Parent Bank has 67 private points, with more than 200 resources.

During the year, the Private and Retail Market took the following initiatives:
- activities dedicated to supporting customers for a more efficient financial planning continued; these are aimed at optimizing the risk/return profile in observance of specific needs and the propensity for risk, through the tools recently made available to customer managers,

which have been enhanced by simulations and calculations of risk (VaR). These initiatives are in line with the requirements of the Investment Policy, presented in April 2003, which establishes the guidelines for branches in assisting customers with their investments;

- actions have been taken to improve cross selling for private customers, especially in respect of customers of numerous banks, and to develop and expand the customer base by increasing the rate of retention and the acquisition of new customers. Progetto Giovani, a proj-

*Sanpaolo (Parent Bank operating areas and product companies)*

| | 2004 | 2003 pro forma (1) | Change 2004 / 2003 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest and other banking income | 3,495 | 3,420 | +2.2 |
| Operating costs | -2,071 | -2,045 | +1.3 |
| - administrative costs | -2,251 | -2,216 | +1.6 |
| *- personnel* | *-1,214* | *-1,214* | *-* |
| *- other administrative costs* | *-943* | *-905* | *+4.2* |
| *- indirect duties and taxes* | *-94* | *-97* | *-3.1* |
| - other operating income, net | 205 | 195 | +5.1 |
| - amortization | -25 | -24 | +4.2 |
| Operating income | 1,424 | 1,375 | +3.6 |
| Adjustments to goodwill and merger and consolidation differences | -1 | -1 | - |
| Provisions and net adjustments to loans and financial fixed assets | -320 | -558 | -42.7 |
| Income before extraordinary items | 1,103 | 816 | +35.2 |
| Net extraordinary income/expense | 6 | 35 | -82.9 |
| Income before taxes | 1,109 | 851 | +30.3 |
| Income taxes for the period | -461 | -379 | +21.6 |
| Change in reserve for general banking risks and income attributable to minority interests | -4 | -2 | +100.0 |
| Contribution to net income of the Group | 644 | 470 | +37.0 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 4,189 | 3,957 | +5.9 |
| **RATIOS** (%) | | | |
| RORAC | 15.4 | 11.9 | |
| Cost / Income ratio | 61.5 | 62.0 | |
| | 31/12/2004 | 31/12/2003 pro forma (1) | Change 31/12/04-31/12/03 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Customer financial assets | 188,205 | 173,295 | +8.6 |
| - direct deposits | 45,642 | 42,121 | +8.4 |
| - asset management | 62,337 | 60,152 | +3.6 |
| *- mutual funds and fund-based portfolio management* | *43,175* | *43,503* | *-0.8* |
| *- portfolio management* | *1,913* | *2,687* | *-28.8* |
| *- life technical reserves* | *17,249* | *13,962* | *+23.5* |
| - asset administration | 80,226 | 71,022 | +13.0 |
| Net asset management flows | 141 | 1,944 | |
| Net loans to customers excluding NPLs | 56,964 | 60,723 | -6.2 |
| **OPERATING STRUCTURE** | | | |
| Employees | 18,934 | 18,979 | -0.2 |
| Domestic branches (2) | 1,390 | 1,380 | +0.7 |

*(1) To give unity of comparison with 2004, figures for 2003 are reported taking into account the new organizational structure of the Group adopted on 1 May 2004.*

*(2) These include the branches of the Parent Bank, Finemiro Banca and Farbanca.*

ect aimed at younger customers started at the end of June, was particularly significant in this context, aiming to strengthen the Bank's relationship with this important customer segment by leveraging on the offer of dedicated bank products and a customer retention program designed around the needs of customers under the age of 30. In just six months, the number of young people subscribing to the program was over 45,000;

- the Small Business Project, started in 2003, received a considerable boost from the realization of specific initiatives aimed at increasing operations with small entrepreneurs with appropriate creditworthiness. In this context:
  - branch specialists received intense training and new management tools were made available to provide operators with greater knowledge of their customers and greater efficiency in managing risks;
  - new products have been introduced for the small business sector and a development plan has been set out with the aim of spreading POS terminals to small entrepreneurs, emphasizing the improvement to services during installation and after sales;
- in line with the Group's decision to follow an advanced approach starting in 2005, the operational Basel 2 Retail project was begun with the aim of implementing ratings in the network for small business and consumer family loan portfolios. The project is particularly focused on the commercial aspects of the use of the new methodologies;
- private banking operations strengthened even further, in terms of both financial products and advisory services on offer. The year saw an increase in investment products specifically destined for this type of customer, characterized by higher added value;
- the spread of the multi-channel infrastructure continued: at the end of 2004, direct banking contracts managed by the Sanpaolo branches rose to more than 465,000, an increase of around 20% since the beginning of the year, reported with unity of comparison. The customers' favorable response is confirmed by the increase in the average monthly number of users of such channels (+22.6% in the year).

In order to render the initiatives fully efficient, constant attention has been paid to staff training, with the aim of increasing the professionalism of the services offered to customers and of developing the sales capacity of the network staff. An equivalent of more than 60,000 days were spent on training in the year, an average of 6 days per head.

## Companies

The main activities carried out by the Companies Market, Large Groups and International Activities and Foreign Networks are described below.

### *Companies Market*

Activities in 2004 were focused on improving the service level in the small- and medium-sized companies sector, exploiting the professional skills and expertise of the branches dedicated to business with companies. Innovative products and services were strengthened and bank-corporate relations improved. More in detail:

- a program was extended to the Sanpaolo and Sanpaolo Banco di Napoli branch network aimed at achieving levels of excellence in customer service, the key points of which are speed of reply, decentralization of the decision process and strengthening of sales tools available to support customer managers;
- periodic meetings and conferences were promoted with entrepreneurs on issues of topical interest;
- innovative medium-/long-term funding programs were studied and launched in support of investment in small- and medium-sized companies; in particular:
  - specific collaboration with major industrial consortia, aimed at supporting their financial needs for development. The plafond available to these customers was 500 million euro;
  - a new product aimed at promoting competitiveness through investment in research and development;
- activities continued to improve the market position in intermediate flows with foreign companies. As a result of the positive results (flows increased by over 10%), a new project was started to focus business development on diversification of products characterized by high income and customer retention, enhancing the Parent Bank's specialized activities to support internationalization of Italian companies;
- hedging products were offered to select customers with adequate know-how and to propose solutions coherent with the underlying activities;
- the development of the corporate web channel continued to be one of the main objectives to strengthen operational links with companies; activities aimed at increasing the number of Sanpaolo Internet users were successful and gave rise to an increase of over 20% in contracts compared with the previous year;
- training activity continued in the companies sector through specific programs aimed ay improving commer-

cial and technical skills. There were some 15,000 training days during the year together with an intense training program in support of the migration of procedures in the bank networks.

The IT migration of the banks operating in the Triveneto and Emilia regions was concluded during the year, extending the Sanpaolo distribution model as regards operation and management.

Lastly, valuation, planning and preparation was carried out for all the actions necessary to begin the organizational, procedural and system revision of the credit process of the Parent Bank network in the light of the New Basel Agreement.

*Large Groups*

Large Groups is specialized in the management of relations with the more important national and international groups.

In a market scenario characterized by strong commercial competition, due to the banking disintermediation process, with increasing recourse to bond issuing by companies and the consequent tendency to reduce margins on financing, transactions with large companies gave priority to stable profitability and credit asset quality. The objective was pursued through a reduction of exposures to large risks or with an inadequate risk/return profile, intensification of relations with investment and merchant banking and an increase in structured transactions with higher commission revenues.

The economic results of the year were in line with expectations, with higher commissions compensating for lower interest margins. Overall, the trend for funding loan volumes was flexible, partly compensated for by the rise in endorsed loans.

*International Activities and Foreign Networks*

As a result of the new organizational model, the International Activities and Foreign Networks has assumed responsibility for all international activities and transactions with correspondent banks.

The distribution structure is made up of 107 branches, directly covering 31 foreign countries, including the foreign network of the Parent Bank, the Irish subsidiary Sanpaolo IMI Bank Ireland and the subsidiary banks operating in Central Eastern Europe. The Parent Bank network consists of 13 branches, 18 representative offices and the Inter-Alpha consortium office. At the end of 2004, the network was strengthened with the opening of a branch in Madrid and a representative office in Paris. The 94 branches of the subsidiary banks in Central Eastern Europe are supervised through Sanpaolo IMI Internazionale, a company that heads the shareholdings held in the Hungarian Inter-Europa Bank (85.9%), managing 29 branches, and in Sanpaolo IMI Bank Romania (98.3%), with 24 branches. The company is also responsible for the operational control of Banka Koper, operating in Slovenia through a network of 41 branches, of which 63.5% was held by the Parent Bank at end December 2004.

Activities in 2004 were aimed at encouraging the internationalization of Italian companies, promoting the investments and activities of foreign multinationals on the European market, increasing cross selling opportunities for the Group's product factories, developing commercial relations and transaction agreements with banking institutions around the world and operating as a domestic bank in some foreign countries with a high growth rate.

Overall performance for 2004 was positive, from the point of view of both income results and maintenance of a high level of quality in the loan portfolio.

## *Other bank networks*

The process to integrate the bank networks with the SANPAOLO IMI Group continued during 2004. In particular, following the integration of the organizational, commercial and IT systems of Sanpaolo Banco di Napoli, the IT systems of the North East bank networks were migrated towards the Group target. This process concerned Cassa di Risparmio di Venezia at the end of March, Cassa di Risparmio in Bologna in April, Friulcassa in June, Cassa di Risparmio di Padova e Rovigo in mid July and Banca Popolare dell'Adriatico in October. Simultaneously, the Sanpaolo network distribution model was adopted, leading to the redefinition of the central office functions and an articulation of the commercial structure by markets. From an operational point of view, this translated into the opening of some private branches and some company branches.

The integration was completed in January 2005 through the transfer of branches in areas with an historical brand name to the bank holding that name, in order to ensure unitary control of the local market.

The integration processes described above entailed a considerable commitment by the commercial network resources, which involved numerous days of training in respect of new Group procedures and products. These commitments will offer customers the complete range of Group products and services.

### *Cassa di Risparmio di Padova e Rovigo*

As of 31 December 2004, the main bank network in North East Italy had 332 branches and 3,203 employees. The structure includes the convergence, in November 2004, of 60 Sanpaolo operating points. In January 2005, the process of rationalizing the distribution network was completed with the transfer to Sanpaolo of 9 operating points located outside the bank's reference territory. For the purposes of unity of comparison, the figures for 2003 have been treated pro forma taking into account the transfer of operating points executed in November 2004.

The integration process during the year has allowed the bank to increase its range of offers through the placing of the Group's financial products and bancassurance.

In specific reference to the companies segment, initiatives were begun to consolidate and improve customer relations which took the form of agreements with security syndicates.

As far as the family segment is concerned, the Progetto Giovani initiative was begun aimed at improving relations with customers aged between 18 and 30 based on the offer of dedicated bank products and a program of customer retention designed around their needs. The project aims to increase penetration levels and raise customer retention and favors the Group's approach by market segment.

Under the operational profile, Cassa di Risparmio di Padova e Rovigo showed, at the end of December 2004, a growth in customer financial assets of 3.2% compared with the previous year, mainly attributable to the positive trend in direct deposits (+4.2%) and asset administration (+5.9%), compared with a decrease in asset management of 1.8%. The latter is due to a reduction of investments in mutual funds, partly compensated by a growth in life technical reserves and portfolio management. The decrease in loans to customers (-1.9%) is attributable to medium- and long-term loans, while short-term ones rose.

Operating income for the year is in line with 2003 due to an increase in the net interest income and commission revenues offset by the growth of operating costs attributable to IT integration activities and the creation of specialized branches. Net income, equal to 113 million euro, rose by 11.9% for conflicting reasons: greater provisions and net adjustments to loans, attributable to the passage of doubtful loans and to the increase in coverage of non-performing loans and of the general reserve to cover performing loans; and property appreciation. Profitability expressed in terms of RoE, was 11.6% compared with 12.8% for 2003.

### *Cassa di Risparmio in Bologna*

At the end of the year, Cassa di Risparmio in Bologna operated through a network of 217 branches and a workforce of 2,171 employees. The structure includes 33 Sanpaolo operating points transferred on 15 November 2004 as part of the rationalization of the Group's distribution network. The process was completed on 31 January 2005 with the ceding to Sanpaolo of 21 operating points located outside the bank's reference territory. To give uniformity of comparison, the figures for 2003 are reported pro forma taking into account the transfer of the operating points executed in November 2004.

Integration into the Group of IT and the range of products offered has allowed a number of initiatives to be started on both the Private and Retail and the Companies Markets.

In particular, in relation to the Private and Retail Market:
- benefiting from the creation of specialist branches, the private segment has increased development of new cus-

*Cassa di Risparmio di Padova e Rovigo*

| | 2004 | 2003 pro forma (1) | Change 2004 / 2003 pro forma (%) | 2003 |
|---|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | | |
| Net interest and other banking income | 543 | 538 | +0.9 | 532 |
| Operating costs | -276 | -272 | +1.5 | -269 |
| - administrative costs | -293 | -288 | +1.7 | -311 |
| *- personnel* | *-171* | *-170* | *+0.6* | *-194* |
| *- other administrative costs* | *-104* | *-100* | *+4.0* | *-99* |
| *- indirect duties and taxes* | *-18* | *-18* | *-* | *-18* |
| - other operating income, net | 30 | 30 | - | 56 |
| - amortization | -13 | -14 | -7.1 | -14 |
| Operating income | 267 | 266 | +0.4 | 263 |
| Provisions and net adjustments to loans and financial fixed assets | -76 | -51 | +49.0 | -51 |
| Income before extraordinary items | 191 | 215 | -11.2 | 212 |
| Net extraordinary income/expense | 7 | -30 | n.s. | -30 |
| Income before taxes | 198 | 185 | +7.0 | 182 |
| Income taxes for the period | -85 | -84 | +1.2 | -83 |
| Change in reserve for general banking risks and income attributable to minority interests | - | - | - | - |
| Net income | 113 | 101 | +11.9 | 99 |
| Contribution to net income of the Group (2) | 113 | 121 | -6.6 | 119 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 976 | 944 | +3.4 | 782 |
| **RATIOS** (%) | | | | |
| RoE | 11.6 | 12.8 | | 15.2 |
| Cost / Income ratio | 53.4 | 53.2 | | 55.3 |
| | 31/12/2004 | 31/12/2003 pro forma (1) | Change 31/12/04-31/12/03 pro forma (%) | 31/12/2003 |
| **OPERATING DATA** (€/mil) | | | | |
| Customer financial assets | 21,382 | 20,726 | +3.2 | 15,363 |
| - direct deposits | 11,279 | 10,820 | +4.2 | 10,280 |
| - asset management | 4,912 | 5,003 | -1.8 | 4,048 |
| *- mutual funds and fund-based portfolio management* | *3,180* | *3,543* | *-10.2* | *2,875* |
| *- portfolio management* | *988* | *912* | *+8.3* | *882* |
| *- life technical reserves* | *744* | *548* | *+35.8* | *291* |
| - asset administration | 5,191 | 4,903 | +5.9 | 1,035 |
| Net asset management flows | -243 | 357 | | 344 |
| Net loans to customers excluding NPLs | 10,898 | 11,112 | -1.9 | 9,483 |
| **OPERATING STRUCTURE** | | | | |
| Employees | 3,203 | 3,186 | +0.5 | 2,809 |
| Domestic branches | 332 | 326 | +1.8 | 273 |

*(1) To give unity of comparison with 2004, figures for 2003 are reported taking into account the migration of the operating points in November 2004 and the transfer of labor contracts to Cardine Finanziaria (later incorporated in SANPAOLO IMI).*

*(2) After the posting of consolidation attributable to the Area which in 2003 mainly referred to the harmonization of the criteria of the attribution of the expenses connected with staff leaving incentives.*

tomers thanks to a broadening of the range of asset management and to the support of operative instruments available to customer managers that allow more effective financial planning;

- initiatives continued in the personal segment aimed at improving company profitability while respecting the

*Cassa di Risparmio in Bologna*

| | 2004 | 2003 pro forma (1) | Change 2004 / 2003 pro forma (%) | 2003 |
|---|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | | |
| Net interest and other banking income | 364 | 373 | -2.4 | 369 |
| Operating costs | -206 | -192 | +7.3 | -188 |
| - administrative costs | -219 | -205 | +6.8 | -213 |
| *- personnel* | *-122* | *-115* | *+6.1* | *-125* |
| *- other administrative costs* | *-83* | *-75* | *+10.7* | *-74* |
| *- indirect duties and taxes* | *-14* | *-15* | *-6.7* | *-14* |
| - other operating income, net | 24 | 28 | -14.3 | 40 |
| - amortization | -11 | -15 | -26.7 | -15 |
| Operating income | 158 | 181 | -12.7 | 181 |
| Provisions and net adjustments to loans and financial fixed assets | -68 | -83 | -18.1 | -84 |
| Income before extraordinary items | 90 | 98 | -8.2 | 97 |
| Net extraordinary income/expense | -8 | -18 | -55.6 | -17 |
| Income before taxes | 82 | 80 | +2.5 | 80 |
| Income taxes for the period | -37 | -39 | -5.1 | -41 |
| Change in reserve for general banking risks and income attributable to minority interests | - | 10 | n.s. | 10 |
| Net income | 45 | 51 | -11.8 | 49 |
| Contribution to net income of the Group (2) | 45 | 60 | -25.0 | 59 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 777 | 760 | +2.2 | 609 |
| **RATIOS** (%) | | | | |
| RoE | 5.8 | 7.9 | | 9.7 |
| Cost / Income ratio | 59.3 | 54.9 | | 55.7 |
| | 31/12/2004 | 31/12/2003 pro forma (1) | Change 31/12/04-31/12/03 pro forma (%) | 31/12/2003 |
| **OPERATING DATA** (€/mil) | | | | |
| Customer financial assets | 17,119 | 18,768 | -8.8 | 16,158 |
| - direct deposits | 6,973 | 7,432 | -6.2 | 6,875 |
| - asset management | 5,314 | 5,679 | -6.4 | 4,810 |
| *- mutual funds and fund-based portfolio management* | *2,691* | *3,063* | *-12.1* | *2,452* |
| *- portfolio management* | *1,519* | *1,541* | *-1.4* | *1,473* |
| *- life technical reserves* | *1,104* | *1,075* | *+2.7* | *885* |
| - asset administration | 4,832 | 5,657 | -14.6 | 4,473 |
| Net asset management flows | -474 | 397 | | 393 |
| Net loans to customers excluding NPLs | 9,473 | 9,758 | -2.9 | 8,608 |
| **OPERATING STRUCTURE** | | | | |
| Employees | 2,171 | 2,246 | -3.3 | 1,940 |
| Domestic branches | 217 | 212 | +2.4 | 184 |

*(1) To give unity of comparison with 2004, figures for 2003 are reported taking into account the migration of the operating points in November 2004 and the transfer of labor contracts to Cardine Finanziaria (later incorporated in SANPAOLO IMI).*

*(2) After the posting of consolidation attributable to the Area which in 2003 mainly referred to the harmonization of the criteria of the attribution of the expenses connected with staff leaving incentives.*

level of risk/return in keeping with the specific client. In terms of transactions, this has translated into the transfer of the volumes handled by asset administration to asset management, with a greater diversification of the portfolio risk;
- as far as the family sector is concerned, the creation of the role of "family manager", who is assigned a portfolio of customers, has given rise to more personal relations with the customers;
- initiatives continued in the small business sector with the aggregation of categories to improve market shares. Actions were also taken to widen Internet banking by strengthening the offer of products.

During the year, the Companies Market took actions to strengthen existing relations and develop new ones:
- using the Group's commercial campaigns, products were offered specifically aimed at SME, for example the Confidi guaranteed assisted loan and funding for research and development;
- in relation to the New Basel Agreement on capital, the process of bringing customer ratings in line with Group standards was completed. Consultancy services were also offered to companies to favor the spread of the new valuation policies.

The bank showed a decrease in customer financial assets over the 12 month period (-8.8%), attributable to the trend in direct and indirect deposits. This drop is influenced by the transfer of the institutional management of Noricum Vita, following the rationalization of the Group's organization. Loans to customers were down 2.9% on the beginning of the year due to a decrease in short-term financing, compared to the substantial stability of medium- and long-term financing.

Operating income fell by 12.7% compared with the previous year, mainly due to an increase in the operative costs of the IT integration in April. Despite fewer adjustments and extraordinary expense, net income was 45 million euro, a fall of 11.8% compared with 2003. RoE was 5.8% compared with 7.9% for the previous year.

### *Cassa di Risparmio di Venezia*

Cassa di Risparmio di Venezia has 134 branches and 1,337 employees.

In January 2005, as part of the rationalization of the distribution network of the Group, Cassa di Risparmio di Venezia acquired 10 Sanpaolo operating points in the province of Venice (8 branches, 1 companies branch and 1 treasury outlet), with 74 resources.

Integration of the bank into the SANPAOLO IMI Group was completed in the year through the adoption of the Parent Bank's organizational model and IT procedures. The range of products offered was also increased to guarantee better response to the needs of the various customer segments.

In operating terms, the bank showed a decrease of 6.2% in customer financial assets over the 12 months, attributable to the trend in asset management (-26.1%) influenced by the transfer of the institutional management of Adriavita to third parties, following the rationalization of the Group's shareholdings. Asset administration rose by 3.7%. Loans to customers fell by 4.1% over the year due to a decrease in short-term loans only partly compensated by a rise in medium-/long-term financing.

Operating income for the year, down by 12.7%, was penalized, despite a mildly positive trend in revenues, by increased operating costs (+11%) linked with the IT integration in March. This, together with higher provisions for risks and charges, led to a 30.2% decrease in net income. RoE reached 9.9% compared with 16.6% in 2003.

### *Friulcassa*

At the end of 2004, Friulcassa, the bank with a widespread presence in the region of Friuli Venezia Giulia, operated through a structure comprising 136 branches and 1,117 employees.

At the end of January 2005, as part of the rationalization of the Group's distribution network, Friulcassa acquired 10 Sanpaolo operating points in the region (8 branches, 1 company branch and 1 company detached team) with 61 employees.

2004 was a particularly active year for Friulcassa in order to achieve:
- organizational and IT integration with the Group, completed in June 2004;
- adoption of the new distribution model and reorganization of the operative units of the network and the central structure in order to operate with the new commercial policies of the Group starting in 2005.

At the end of 2004 customer financial assets were slightly down for the year (-0,7%) owing to the reduction of indirect deposits (-4%), only partly compensated by the rise in direct deposits (+3%). Loans to customers decreased (-6,7%) due to the downward trend of short-term loans as well as medium-/long-term ones.

The bank's net interest and other banking income was 163 million euro, slightly down on the previous year. Net

*Cassa di Risparmio di Venezia*

| | 2004 | 2003 pro forma (1) | Change 2004 / 2003 pro forma (%) | 2003 |
|---|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | | |
| Net interest and other banking income | 240 | 238 | +0.8 | 238 |
| Operating costs | -151 | -136 | +11.0 | -136 |
| - administrative costs | -156 | -142 | +9.9 | -154 |
| *- personnel* | *-91* | *-89* | *+2.2* | *-101* |
| *- other administrative costs* | *-55* | *-43* | *+27.9* | *-43* |
| *- indirect duties and taxes* | *-10* | *-10* | *-* | *-10* |
| - other operating income, net | 13 | 14 | -7.1 | 26 |
| - amortization | -8 | -8 | - | -8 |
| Operating income | 89 | 102 | -12.7 | 102 |
| Provisions and net adjustments to loans and financial fixed assets | -29 | -10 | +190.0 | -10 |
| Income before extraordinary items | 60 | 92 | -34.8 | 92 |
| Net extraordinary income/expense | -1 | -11 | -90.9 | -11 |
| Income before taxes | 59 | 81 | -27.2 | 81 |
| Income taxes for the period | -29 | -38 | -23.7 | -38 |
| Net income | 30 | 43 | -30.2 | 43 |
| Contribution to net income of the Group (2) | 30 | 51 | -41.2 | 51 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 302 | 307 | -1.6 | 307 |
| **RATIOS** (%) | | | | |
| RoE | 9.9 | 16.6 | | 16.6 |
| Cost / Income ratio | 64.8 | 59.5 | | 61.4 |
| | 31/12/2004 | 31/12/2003 | Change 31/12/04-31/12/03 (%) | |
| **OPERATING DATA** (€/mil) | | | | |
| Customer financial assets | 7,506 | 8,004 | -6.2 | |
| - direct deposits | 4,429 | 4,427 | +0.0 | |
| - asset management | 1,568 | 2,122 | -26.1 | |
| *- mutual funds and fund-based portfolio management* | *1,195* | *1,348* | *-11.4* | |
| *- portfolio management* | *14* | *424* | *-96.7* | |
| *- life technical reserves* | *359* | *350* | *+2.6* | |
| - asset administration | 1,509 | 1,455 | +3.7 | |
| Net asset management flows | -607 | 124 | | |
| Net loans to customers excluding NPLs | 3,325 | 3,466 | -4.1 | |
| **OPERATING STRUCTURE** | | | | |
| Employees | 1,337 | 1,331 | +0.5 | |
| Domestic branches | 134 | 131 | +2.3 | |

*(1) To give unity of comparison with 2004, figures for 2003 are reported taking into consideration the transfer of labor contracts to Cardine Finanziaria (later incorporated into SANPAOLO IMI).*

*(2) After the posting of consolidation attributable to the Area, which in 2003 mainly referred to the harmonization of the criteria of the attribution of the expenses connected with staff leaving incentives.*

income was penalized by greater analytical adjustment to loans and showed a reduction of 18.2%. Profitability also decreased and reached 7.1%.

## Banca Popolare dell'Adriatico

Banca Popolare dell'Adriatico operates in the central

*Friulcassa*

| | 2004 | 2003 pro forma (1) | Change 2004 / 2003 pro forma (%) | 2003 |
|---|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | | |
| Net interest and other banking income | 163 | 165 | -1.2 | 165 |
| Operating costs | -111 | -110 | +0.9 | -110 |
| - administrative costs | -114 | -112 | +1.8 | -113 |
| *- personnel* | *-66* | *-65* | *+1.5* | *-66* |
| *- other administrative costs* | *-41* | *-39* | *+5.1* | *-39* |
| *- indirect duties and taxes* | *-7* | *-8* | *-12.5* | *-8* |
| - other operating income, net | 9 | 9 | - | 10 |
| - amortization | -6 | -7 | -14.3 | -7 |
| Operating income | 52 | 55 | -5.5 | 55 |
| Provisions and net adjustments to loans and financial fixed assets | -17 | -15 | +13.3 | -15 |
| Income before extraordinary items | 35 | 40 | -12.5 | 40 |
| Net extraordinary income/expense | -2 | -1 | +100.0 | -1 |
| Income before taxes | 33 | 39 | -15.4 | 39 |
| Income taxes for the period | -15 | -18 | -16.7 | -18 |
| Change in reserve for general banking risks and income attributable to minority interests | - | 1 | n.s. | 1 |
| Net income | 18 | 22 | -18.2 | 22 |
| Contribution to net income of the Group (2) | 17 | 28 | -39.3 | 28 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 238 | 231 | +3.0 | 231 |
| **RATIOS** (%) | | | | |
| RoE | 7.1 | 12.1 | | 12.1 |
| Cost / Income ratio | 69.8 | 68.4 | | 68.6 |
| | 31/12/2004 | 31/12/2003 | Change 31/12/04-31/12/03 (%) | |
| **OPERATING DATA** (€/mil) | | | | |
| Customer financial assets | 6,178 | 6,219 | -0.7 | |
| - direct deposits | 3,067 | 2,977 | +3.0 | |
| - asset management | 1,422 | 1,478 | -3.8 | |
| *- mutual funds and fund-based portfolio management* | *1,017* | *1,029* | *-1.2* | |
| *- portfolio management* | *185* | *272* | *-32.0* | |
| *- life technical reserves* | *220* | *177* | *+24.3* | |
| - asset administration | 1,689 | 1,764 | -4.3 | |
| Net asset management flows | -111 | 87 | | |
| Net loans to customers excluding NPLs | 2,406 | 2,580 | -6.7 | |
| **OPERATING STRUCTURE** | | | | |
| Employees | 1,117 | 1,112 | +0.4 | |
| Domestic branches | 136 | 134 | +1.5 | |

*(1) To give unity of comparison with 2004, figures for 2003 are reported taking into account the transfer of labor contracts to Cardine Finanziaria (later incorporated into SANPAOLO IMI).*

*(2) After the posting of consolidation attributable to the Area which in 2003 mainly referred to the harmonization of the criteria of the attribution of the expenses connected with staff leaving incentives.*

Adriatic area through a network of 137 branches and 1,126 employees.

Following the adoption of the Group's organization and commercial model, the territorial network benefited from the opening of 4 company branches and 2 private branches.

Integration with the Group required significant efforts by the employees in relation to the organizational and IT

*Banca Popolare dell'Adriatico*

| | 2004 | 2003 pro forma (1) | Change 2004 / 2003 pro forma (%) | 2003 |
|---|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | | |
| Net interest and other banking income | 161 | 165 | -2.4 | 165 |
| Operating costs | -108 | -113 | -4.4 | -113 |
| - administrative costs | -115 | -120 | -4.2 | -126 |
| *- personnel* | *-65* | *-70* | *-7.1* | *-76* |
| *- other administrative costs* | *-42* | *-42* | *-* | *-42* |
| *- indirect duties and taxes* | *-8* | *-8* | *-* | *-8* |
| - other operating income, net | 11 | 12 | -8.3 | 18 |
| - amortization | -4 | -5 | -20.0 | -5 |
| Operating income | 53 | 52 | +1.9 | 52 |
| Provisions and net adjustments to loans and financial fixed assets | -18 | -16 | +12.5 | -16 |
| Income before extraordinary items | 35 | 36 | -2.8 | 36 |
| Net extraordinary income/expense | 3 | -24 | n.s. | -24 |
| Income before taxes | 38 | 12 | n.s. | 12 |
| Income taxes for the period | -18 | -10 | +80.0 | -10 |
| Net income | 20 | 2 | n.s. | 2 |
| Contribution to net income of the Group (2) | 20 | 13 | +53.8 | 13 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 241 | 248 | -2.8 | 248 |
| **RATIOS** (%) | | | | |
| RoE | 8.3 | 5.2 | | 5.2 |
| Cost / Income ratio | 69.2 | 70.6 | | 71.6 |
| | 31/12/2004 | 31/12/2003 | Change 31/12/04-31/12/03 (%) | |
| **OPERATING DATA** (€/mil) | | | | |
| Customer financial assets | 5,378 | 5,821 | -7.6 | |
| - direct deposits | 2,558 | 2,571 | -0.5 | |
| - asset management | 1,726 | 1,870 | -7.7 | |
| *- mutual funds and fund-based portfolio management* | *1,264* | *1,324* | *-4.5* | |
| *- portfolio management* | *41* | *153* | *-73.2* | |
| *- life technical reserves* | *421* | *393* | *+7.1* | |
| - asset administration | 1,094 | 1,380 | -20.7 | |
| Net asset management flows | -189 | 189 | | |
| Net loans to customers excluding NPLs | 2,380 | 2,479 | -4.0 | |
| **OPERATING STRUCTURE** | | | | |
| Employees | 1,126 | 1,096 | +2.7 | |
| Domestic branches | 137 | 133 | +3.0 | |

*(1) To give unity of comparison with 2004, figures for 2003 are reported taking into account the transfer of labor contracts to Cardine Finanziaria (later incorporated into SANPAOLO IMI).*

*(2) After the posting of consolidation attributable to the Area which in 2003 mainly referred to the harmonization of the criteria of the attribution of the expenses connected with staff leaving incentives.*

changes and to broadening of the range of products offered to customers.

The positive effects of integration were seen at the end of the year, in particular in personal loans, leasing and the loans of the Domus line, expressly tailored for private and retail customers.

At the end of December 2004, customer financial assets fell by 7.6% on an annual basis, mainly as a result of a reduction in indirect deposits, negatively affected by the transfer of the insurance company Noricum Vita business following the aforementioned restructuring of Group operations. Loans to customers decreased due to the downward trend of short- and medium-/long-term loans.

Despite the fall in net interest and other banking income, operating income grew by 1.9% thanks to a reduction in personnel costs, attributable to a decrease in the average number of employees as a result of using the "Fund for staff in the banking industry". This, together with fewer extraordinary expenses, mainly connected with staff leaving incentives, accounted for in 2003, led to net income of 20 million euro, compared with 2 million in the previous year. As a result, profitability expressed in terms of RoE was 8.3% compared with 5.2% in 2003.

### *Sanpaolo Banco di Napoli*

Sanpaolo Banco di Napoli is the SANPAOLO IMI Group bank appointed to control the regions of mainland Southern Italy. Established in 2003, and concentrating all the Sanpaolo and Banco di Napoli branches operating in Basilicata, Calabria, Campania, and Apulia into a single company, this represents the most important credit organization in Southern Italy, with a distribution network consisting of 748 operating points, of which 688 branches and 60 other operating points, serving over a 1.2 million private and retail customers and around 15,000 companies. The latter figure reflects the reclassification of the small business customer segment with its transfer from the Companies Market to the Private and Retail Market.

In 2004 Sanpaolo Banco di Napoli followed its objective to consolidate its role as reference bank to households and small- and medium-sized companies in the South of Italy, making use of the advantage of having strong local roots and belonging to a leading national and European Group.

The integration of its IT system and the organizational and commercial distribution structure was completed in 2003. This initiative continued in 2004 with the strengthening of the level of services the network can provide to its customers. Staff training was significant: during the year around 44,000 days were spent in training, in addition to almost 45,000 days spent on training in 2003. In order to facilitate integration, training was accompanied by a rotation of directors, managers and other personnel between branches from the historical Sanpaolo and Banco di Napoli brands: this exchange involved a total of over 900 resources, in addition to almost 500 who were transferred in 2003.

The availability of a fully integrated distribution network, specialized by type of customer served, allowed new products, services and commercial initiatives specifically designed by the Group structures dedicated to companies and private and retail customers, tailored to the needs of this territory, to be made immediately available to customers in Southern Italy.

In the context of the Private and Retail Market, which is serviced by 718 dedicated operating points, initiatives included the following:

- the strengthening of the network destined to private banking operations: in line with the development plan, 11 new openings were made in 2004, bringing the number of operating points specializing in serving this type of customer to 13;
- the spread of multi-channel infrastructures: during the year 72,200 new contracts were entered into, bringing the total number of customers subscribing to this service at the end of the year to 132,700; the average monthly number of customers using the services also grew considerably, increasing by more than 80% since the beginning of the year;
- the relaunching of activities for small business customers: the operational development continued through the growth in the number of resources dedicated to this type of customer and the spread of specialists to provide advisory services and assistance to the local manufacturers and businesses.

The demand by private and retail customers for asset management products also continued, notably in relation to the bancassurance sector.

Activities in the Companies Market, serviced by 30 dedicated operating points, are focused on small-sized companies which characterize the entrepreneurial fabric of Southern Italy.

To that end, specific initiatives were undertaken in collaboration with the Parent Bank to develop lasting relations with the customers and meet all their needs:

- a program was extended to the entire business network aimed at reaching a level of excellence in the service whose key points are speed of reply, decentralization of the decision process and strengthening of the commercial instruments supporting the customer manager;

*Sanpaolo Banco di Napoli*

| | 2004 | 2003 pro forma (1) | Change 2004 / 2003 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest and other banking income | 961 | 911 | +5.5 |
| Operating costs | -613 | -636 | -3.6 |
| - administrative costs | -647 | -667 | -3.0 |
| *- personnel* | *-360* | *-361* | *-0.3* |
| *- other administrative costs* | *-254* | *-275* | *-7.6* |
| *- indirect duties and taxes* | *-33* | *-31* | *+6.5* |
| - other operating income, net | 34 | 31 | +9.7 |
| - amortization | - | - | - |
| Operating income | 348 | 275 | +26.5 |
| Adjustments to goodwill and merger and consolidation differences | -73 | -73 | - |
| Provisions and net adjustments to loans and financial fixed assets | -73 | -75 | -2.7 |
| Income before extraordinary items | 202 | 127 | +59.1 |
| Net extraordinary income/expense | 3 | 2 | +50.0 |
| Income before taxes | 205 | 129 | +58.9 |
| Income taxes for the period | -96 | -67 | +43.3 |
| Change in reserve for general banking risks and income attributable to minority interests | - | - | - |
| Net income | 109 | 62 | +75.8 |
| Contribution to net income of the Group (2) | 154 | 108 | +42.6 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 1,282 | 1,228 | +4.4 |
| **RATIOS** (%) | | | |
| RoE (cash) | 12.0 | 8.8 | |
| Cost / Income ratio | 65.0 | 70.8 | |
| | 31/12/2004 | 31/12/2003 pro forma (1) | Change 31/12/04-31/12/03 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Customer financial assets | 38,891 | 37,393 | +4.0 |
| - direct deposits | 16,140 | 15,525 | +4.0 |
| - asset management | 16,165 | 15,267 | +5.9 |
| *- mutual funds and fund-based portfolio management* | *10,765* | *10,908* | *-1.3* |
| *- portfolio management* | *734* | *793* | *-7.4* |
| *- life technical reserves* | *4,666* | *3,566* | *+30.8* |
| - asset administration | 6,586 | 6,601 | -0.2 |
| Net asset management flows | 541 | 1,617 | |
| Net loans to customers excluding NPLs and loans to SGA | 8,299 | 8,344 | -0.5 |
| **OPERATING STRUCTURE** | | | |
| Employees | 5,727 | 5,813 | -1.5 |
| Domestic branches | 688 | 688 | - |

*(1) To give unity of comparison with 2004, figures for 2003 are reported considering the company, created on 1 July 2003, as operative for all of 2003.*

*(2) After the posting of consolidation represented by the reversal of adjustments to goodwill.*

- a new financial product was launched dedicated to SME investing in research and development;
- activities continued to spread the regional and national financial instruments to promote productive development in the territory;
- commercial action was intensified to support foreign exchange and company services;
- considerable impulse was given to Internet dealing: in confirmation of the expressed needs of local businesses, Internet banking contracts grew by 80% compared to the previous year.

Customer financial assets grew 4% on an annual basis, benefiting from the good performance of direct deposits, especially current and deposit accounts and asset management, supported by a rise in life technical reserves (+30.8%), in both the traditional forms and the index linked configurations. Loans showed a loss of 0.5%, concentrated on short-term relations, which dropped 14.7% against a rise of 10.8% in medium-/long-term loans. Excluding loans within the Group and those to institutional customers, the aggregate rose by over 5%.

The income results of Sanpaolo Banco di Napoli for 2004 were higher than those recorded in the reconstructed pro forma statement for the previous year:

- operating income showed an annual growth of 26.5%, made possible by the 5.5% increase in revenues, driven by commissions, and the 3.6% reduction in operating costs, in particular other administrative costs;
- net income, which also benefited from minor net adjustments to loans, increased by 75.8%;
- RoE, calculated on the contribution to consolidated net income, excluding the effect of adjustments to goodwill, was 12%;
- the cost to income ratio was 65%, a considerable improvement on the 70.8% of 2003.

## Asset Management

### Sanpaolo IMI Asset Management

Sanpaolo IMI Asset Management provides asset management products and services both to the Group's internal distribution networks and to institutional investors. The company heads the Group companies operating in mutual funds and portfolio management. Due to the establishment of Insurance, the insurance companies (Sanpaolo Vita and Sanpaolo Life) converged into Assicurazioni Internazionali di Previdenza, while the total split of Sanpaolo IMI Wealth Management led to all shareholders in non-core companies (Sanpaolo Bank (Luxembourg), Allfunds Bank) being assigned to the Parent Group, as described in "Action points and initiatives in the year".

In 2004, the Area took initiatives aimed at rationalizing its corporate structure. In particular:

- Banca IMI and IMI Bank (Luxembourg) acquired total shareholding of Obiettivo SGR, a company operating in

*Sanpaolo IMI Asset Management*

| | 2004 | 2003 pro forma (1) | Change 2004 / 2003 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest and other banking income | 183 | 184 | -0.5 |
| Operating costs | -92 | -105 | -12.4 |
| - administrative costs | -98 | -109 | -10.1 |
| *- personnel* | *-40* | *-43* | *-7.0* |
| *- other administrative costs* | *-57* | *-65* | *-12.3* |
| *- indirect duties and taxes* | *-1* | *-1* | *-* |
| - other operating income, net | 12 | 15 | -20.0 |
| - amortization | -6 | -11 | -45.5 |
| Operating income | 91 | 79 | +15.2 |
| Adjustments to goodwill and merger and consolidation differences | - | -7 | n.s. |
| Provisions and net adjustments to loans and financial fixed assets | -5 | -7 | -28.6 |
| Income before extraordinary items | 86 | 65 | +32.3 |
| Net extraordinary income/expense | 2 | - | n.s. |
| Income before taxes | 88 | 65 | +35.4 |
| Income taxes for the period | -14 | -19 | -26.3 |
| Change in reserve for general banking risks and income attributable to minority interests | - | -1 | n.s. |
| Net income | 74 | 45 | +64.4 |
| Contribution to net income of the Group (2) | 75 | 49 | +53.1 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 162 | 157 | +3.2 |
| **RATIOS** (%) | | | |
| RoE | 46.3 | 31.2 | |
| Cost / Income ratio | 53.3 | 60.3 | |
| | 31/12/2004 | 31/12/2003 pro forma (1) | Change 31/12/04-31/12/03 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Assets under management | 103,871 | 100,142 | +3.7 |
| **OPERATING STRUCTURE** | | | |
| Employees | 449 | 508 | -11.6 |

*(1) To give unity of comparison with 2004, figures for 2003 are reported taking into account the demerger of the insurance companies effective as of 1 January 2003.*

*(2) After the posting of consolidation attributable to the Area, mainly represented by the reversal of adjustments to goodwill on Group companies.*

the pure hedge funds market, later merged by incorporation into Sanpaolo IMI Alternative Investments SGR;
- the acquisition by Banca IMI and IMI Bank (Luxembourg) of the remaining 15% of Sanpaolo IMI Institutional Asset Management SGR was finalized, raising shareholding to 100%;
- after the acquisition of the entire shareholding, the merger by incorporation of Eptafund SGR into Sanpaolo IMI Asset Management SGR was completed.

Sanpaolo IMI Asset Management also took actions to strengthen the commercial offer and increase the penetration of the Group banking networks by these products, especially through:
- the activation of a new possibility to participate in the "Profilo Protetto" capital management scheme, with 100% hedging of the capital;
- the placement of Valore Equilibrio Classe RD, which envisages a regular distribution of revenues;
- the launch of the marketing of the new hedge fund called Brera Equity Hedge, which expands the Brera HF Selection range.

During the year, following the merger by incorporation of Eptafund SGR, Sanpaolo IMI Asset Management made some changes to the rationalization and restructuring of the range of funds offered which resulted in the new range becoming operative at the beginning of November.

At the end of December 2004, assets under management were 103.9 billion euro, up 3.7% on an annual basis.

In 2004, Sanpaolo IMI Asset Management registered an operating income of 91 million euro, a rise of 15.2% compared with the previous year, benefiting from a reduction in operating costs (-12.4%). Net income reached 74 million euro, an increase of 64.4%. Profitability expressed in terms of RoE was 46.3% compared with 31.2% for 2003.

## Investment Banking

### Banca IMI

Banca IMI, the Group's investment bank, covers securities dealing both on its own account and for customers, the raising of risk and debt capital for companies, as well as corporate finance consultancy.

In 2004, with reference to corporate finance and capital markets, Banca IMI carried out the following operations:

- in relation to stock placements, as a member of the

*Banca IMI*

| | 2004 | 2003 pro forma (1) (2) | Change 2004 / 2003 pro forma (%) | 2003 |
|---|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | | |
| Net interest and other banking income | 199 | 245 | -18.8 | 254 |
| Operating costs | -140 | -143 | -2.1 | -149 |
| - administrative costs | -131 | -131 | - | -137 |
| *- personnel* | *-73* | *-71* | *+2.8* | *-74* |
| *- other administrative costs* | *-57* | *-59* | *-3.4* | *-62* |
| *- indirect duties and taxes* | *-1* | *-1* | *-* | *-1* |
| - other operating income, net | 2 | 2 | - | 2 |
| - amortization | -11 | -14 | -21.4 | -14 |
| Operating income | 59 | 102 | -42.2 | 105 |
| Provisions and net adjustments to loans and financial fixed assets | -1 | -4 | -75.0 | -5 |
| Income before extraordinary items | 58 | 98 | -40.8 | 100 |
| Net extraordinary income/expense | 19 | -1 | n.s. | - |
| Income before taxes | 77 | 97 | -20.6 | 100 |
| Income taxes for the period | 6 | -32 | n.s. | -33 |
| Change in reserve for general banking risks and income attributable to minority interests | - | -2 | n.s. | -2 |
| Net income | 83 | 63 | +31.7 | 65 |
| Contribution to net income of the Group (3) | 70 | 65 | +7.7 | 66 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 467 | 416 | +12.3 | 390 |
| **RATIOS** (%) | | | | |
| RoE | 15.0 | 15.6 | | 16.9 |
| Cost / Income ratio | 70.6 | 58.7 | | 59.0 |
| **OPERATING DATA** (€/mil) | | | | |
| Banca IMI SpA trading volumes | | | | |
| - trading | 621,157 | 705,250 | -11.9 | 705,250 |
| - sales | 167,718 | 211,620 | -20.7 | 211,620 |
| - repurchase agreements | 1,912,896 | 1,922,541 | -0.5 | 1,922,541 |
| - placements | 5,649 | 9,392 | -39.9 | 9,392 |
| | 31/12/2004 | 31/12/2003 pro forma (1) | Change 31/12/04-31/12/03 pro forma (%) | 31/12/2003 |
| **OPERATING STRUCTURE** | | | | |
| Employees | 560 | 562 | -0.4 | 608 |
| Branches | 1 | 1 | - | 1 |

*(1) To give unity of comparison with 2004, figures for 2003 are reported taking into account the disposal of IMI Bank (Luxembourg) and Obiettivo SGR as of 1 January 2003.*

*(2) Comparison of the principal economic figures is affected by the new regulations that are reflected in net interest and other banking income and in tax charges, with no significant effects on net income.*

*(3) After the posting of consolidation attributable to the Area.*

group management, it took part in the public offer of Terna shares; as a member of the group management for the public offer and global manager for the institutional offer, it participated in the third tranche of Enel shares; it acted as co-global coordinator and joint lead manager for the public offer and joint bookrunner for the institutional offer for the Geox IPO; on an international level, it took part, as co-manager, in the institutional offer of General Electric and Genworth Financial ordinary shares;
- with reference to capital increases, it acted as coordinator and sole underwriter for the capital increase of Buzzi Unicem; it carried out a private placement of 5.6% of the share capital of Lottomatica and 6.6% of the share capital of Isagro; it also executed a further four tranches of the capital increase for Mondo TV and two tranches of the capital increase of Buongiorno Vitaminic;
- in the debt market, it performed the role of leader manager and bookrunner in 39 issue operations. In particular, it took part in the placement of inflation-linked BTP bonds; acted as lead manager and bookrunner for issues by Enel and General Electric; sole lead manager and bookrunner for a private placement in Greece; joint lead manager and bookrunner for the senior issue of Banca Antonveneta, Islandsbanki, AngloIrish Bank, Cassa di Risparmio di Rimini, Cassa dei Risparmi di Forlì, Mediocredito del Trentino Alto Adige, Banca delle Marche, Veneto Banca, Landsbanki Islands; for a subordinate issue by SANPAOLO IMI and Unibanca; for the High Yield issue of IT Holding; for the inaugural issue of Comune di Napoli and the issue of Regione Friuli Venezia Giulia. It also acted as arranger for the Euro Medium Term Note Programme of Cassa di Risparmio di Bolzano.

As regards corporate finance advisory, Banca IMI:
- concluded the assistance to Edison in the disposal of Edison T&S and the related network of high-pressure gas transportation to the Clessidra fund and the evaluation of ISE; it assisted Smat of Turin and Amga of Genoa in the purchase from Italgas of majority shares in Acque Potabili; Finmeccanica in the disposal of a share in ST Microelectronics to Cassa Depositi e Prestiti; SIA in setting up a joint venture with GL Trade; Ipse 2000 in evaluating its activities; Cassa di Risparmio di Firenze and Cassa di Risparmio di Genova in acquiring Cassa di Risparmio di La Spezia and Cassa di Risparmio di Carrara, respectively; IT Holding in respect of the disposal of the Romeo Gigli and Gentry di Portofino brand names; Manuli in the context of the inverse merger of FinM into Manuli; and it acted as advisory for the rating of Comune di Catania;
- with regard to current transactions, it continued to provide advisory services to the FIAT group and to the Albanian Government in the privatization of the fixed telecommunication and energy sectors.

In the area of structured finance activities, the bank:
- as part of the process of the privatization of public real estate assets, was assigned by the Ministry of the Economy and Finance to structure and place the FIP (Fondo Immobili Pubblici) fund that will be the biggest closed-and investment fund of the italian market. During the structuring phase, completed at the end of the year, the bank subscribed to a bridge financing for the fund and some of its shares in view of the subsequent placement of both;
- completed the structuring of risk coverage of the share portfolio of IMI Investimenti;
- received anticipated reimbursement of the financing of Wide Design;
- disposed of a parcel of Dyckerhoff shares.

In the securitizations sector, the bank brought SPLIT 2 onto the market, securitized the leasing rates issued by Sanpaolo Leasint and effected the SCIC 2 operation.

In 2004, Banca IMI posted a net income of 83 million euro, up 31.7% on the previous year. It should be highlighted that the different treatment of taxation on dividends collected from shares including those from ordinary trading activities, has influenced the comparison with the principal economic volumes for the period, affecting the comparison of the figures. The new regulations in respect of this treatment which are reflected in net interest and other banking income, reducing the gross revenues and the amount booked, did not have any significant effect on net income. Profitability reached 15% compared with 15.6% for 2003.

### Sanpaolo IMI Private Equity

Sanpaolo IMI Private Equity is responsible for the private equity activity of the Group, with the strategic goal of strengthening and consolidating its presence in this sector, mainly through the promotion and management of closed-end investment funds dedicated to equity investment in small- and medium-sized companies.

The company, which performs sectorial sub-holding functions, heads two SGRs in Italy authorized to manage closed-end investment funds (Sanpaolo IMI Fondi Chiusi SGR and Sanpaolo IMI Investimenti per lo Sviluppo SGR), as well as an advisory company to support their activity, while the subsidiaries instrumental to the management of international law closed-end investment funds and the merchant banking activity are located abroad.

During 2004, Sanpaolo IMI Fondi Chiusi SGR continued the activities aimed at the launch of the two new multiregional closed-end funds, Centro Impresa and Nord Ovest Impresa, dedicated to investments in small- and medium-sized companies in their respective areas of competence. The final closing took place on 16 February 2005 with overall subscriptions of 180 million euro, of which 100 million attributable to Fondo Centro Impresa and 80 million to Fondo Nord Ovest Impresa. The existing portfolio of fund investments (Cardine Impresa and Eptasviluppo) remained unchanged during the year and the company continued monitoring and establishing value for the subsidiaries with the support of the Alcedo advisory company.

At the beginning of 2004, the subsidiary NHS Mezzogiorno SGR, to which the "Fondo di Promozione del Capitale di Rischio per il Mezzogiorno" ("Risk capital fund for Southern Italy") refers, changed its name to Sanpaolo IMI Investimenti per lo Sviluppo SGR in order to maximize the value of its belonging to the Group, also with a view to expanding operations to the promotion of initiatives for the economic development of the territory, while maintaining its primary interest in the South. In this respect, at the beginning of 2005 the company obtained credit from Mediocredito Centrale for the management of anticipated finances (ex law 388/2000), for risk capital operations for southern companies with development plans, co-investing with Fondo Mezzogiorno. At the end of 2004, the SGR completed the third tranche of investment in the Fondo Mezzogiorno, entering the share capital of Conserve Mediterraneo, the new company set up to acquire Cirio/De Rica, with investments of 10 million euro, equal to a share of 18.2% of the share capital of the new company that is 51% controlled by the industrial partner Conserve Italia.

As regards the activity of foreign-law funds, during 2004 the management activities of the SIPEF I fund carried out by Sanpaolo IMI Capital Partners, headquartered in Guernsey, were transferred to the Luxembourg subsidiary Sanpaolo IMI Equity Management. Sanpaolo IMI Capital Partners was put into liquidation at the end of the year with the aim of ceasing all off-shore activities.

Consistent with the strategic policy of gradually disposing of directly held stakes, the Dutch subsidiary LDV Holding continued its sales activities and during the year ceded its shareholding in Merloni Termosanitari to IMI Investimenti, in the mechanical hardware business Raco, of Friuli, to another private equity fund, as well as in the subsidiary Telefuturo.

With reference to the income results, Sanpaolo IMI Private Equity, together with its subsidiaries, recorded a loss of 15 million euro for 2004, owing to major adjustments to the merchant banking portfolio that was transferred to the company on its creation in 2002 following the ceding of the former NHS.

### IMI Investimenti

IMI Investimenti manages the major industrial shareholdings with particular reference to the amount, the impact in terms of "significant exposures" and the strategic importance attributed by the Group.

During 2004, in the context of the plan to reallocate the shareholdings within the Group, in which IMI Investimenti plays the dual role of buyer and seller, some assets have been acquired from other Group companies, such as the 7.42% shareholding in Merloni Termosanitari, 7.35% in Infracom, 7.25% in Sitcom and a further 0.76%, in addition to the existing shareholding of 1.21%, in Fincantieri. Payment of 1.5 million euro has been made to the share capital of Synesis Finanziaria, following the definition of the price adjustment procedure. In the year, holdings in Serene S.p.A. were ceded to the other two shareholders, Edison and British Gas. The sale of the shareholding in SAGAT to other companies of the Group is still being completed.

With regard to the activities of the dealing portfolio, the ENI share parcel was completely disposed of.

During the year, Enel shares were subscribed to for 11 million euro in the context of the placement on the market of the third tranche of the share capital whose value at the end of the year was 12 million.

As far as the FIAT parcel of shares is concerned, that is among the shares available for sale, it is worth noting the partial sale on the market, executed through the drawing up of a premium sales agreement and exploiting the rise in shares.

The economic performance for 2004 was again penalized by the adjustments made during the year, in particular to the shareholdings in the vehicle companies investing in Hutchison 3G Italia. The initiative, which is still in the start-up phase in an innovative and highly competitive sector, is beginning to show considerable commercial success, thanks also to the current favorable market attitude towards the services offered by the UMTS.

## Personal Financial Services

### Banca Fideuram

Banca Fideuram has a network of 4,313 financial planners and 89 branches in Italy and operates using its own specialized companies dedicated to asset management services.

During 2004 the bank undertook initiatives aimed mainly at rationalizing its structure:

*Banca Fideuram*

| | 2004 | 2003 pro forma (1) | Change 2004 / 2003 pro forma (%) | 2004 normalized (2) |
|---|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | | |
| Net interest and other banking income | 676 | 588 | +15.0 | 610 |
| Operating costs | -333 | -338 | -1.5 | -333 |
| - administrative costs | -320 | -321 | -0.3 | -320 |
| *- personnel* | *-143* | *-147* | *-2.7* | *-143* |
| *- other administrative costs* | *-156* | *-151* | *+3.3* | *-156* |
| *- indirect duties and taxes* | *-21* | *-23* | *-8.7* | *-21* |
| - other operating income, net | 25 | 26 | -3.8 | 25 |
| - amortization | -38 | -43 | -11.6 | -38 |
| Operating income | 343 | 250 | +37.2 | 277 |
| Adjustments to goodwill and merger and consolidation differences | -16 | -7 | +128.6 | -16 |
| Provisions and net adjustments to loans and financial fixed assets | -28 | -30 | -6.7 | -28 |
| Income before extraordinary items | 299 | 213 | +40.4 | 233 |
| Net extraordinary income/expense | -4 | -7 | -42.9 | -4 |
| Income before taxes | 295 | 206 | +43.2 | 229 |
| Income taxes for the period | -53 | -36 | +47.2 | -53 |
| Change in reserve for general banking risks and income attributable to minority interests | 1 | 1 | - | 1 |
| Net income | 243 | 171 | +42.1 | 177 |
| Contribution to net income of the Group (3) | 176 | 129 | +36.4 | 128 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 734 | 697 | +5.3 | 441 |
| **RATIOS** (%) | | | | |
| RoE | 24.0 | 18.5 | | 29.0 |
| Cost / Income ratio | 51.1 | 59.3 | | 56.4 |
| | 31/12/2004 | 31/12/2003 | Change 31/12/04-31/12/03 (%) | 31/12/2004 normalized (2) |
| **OPERATING DATA** (€/mil) | | | | |
| Customer financial assets | 61,092 | 59,517 | +2.6 | 61,092 |
| - direct deposits | 3,868 | 3,581 | +8.0 | 3,868 |
| - asset management | 46,323 | 44,573 | +3.9 | 46,323 |
| *- mutual funds and fund-based portfolio management* | *32,308* | *31,736* | *+1.8* | *32,308* |
| *- portfolio management* | *601* | *593* | *+1.3* | *601* |
| *- life technical reserves* | *13,414* | *12,244* | *+9.6* | *13,414* |
| - asset administration | 10,901 | 11,363 | -4.1 | 10,901 |
| Net asset management flows | 434 | 3,560 | | 434 |
| Assets under management (stock) | 59,469 | 58,129 | +2.3 | 59,469 |
| Assets under management (net inflow) | -798 | 1,204 | | -798 |
| **OPERATING STRUCTURE** | | | | |
| Employees | 1,824 | 1,871 | -2.5 | 1,824 |
| Financial planners | 4,313 | 4,543 | -5.1 | 4,313 |
| Domestic branches | 89 | 88 | +1.1 | 89 |

*(1) To give unity of comparison with 2004, figures for 2003 are reported taking into account the demerger of the insurance business in the last month of the year.*

*(2) Figures for 2004 are reported taking into account the demerger of the insurance business for the entire year.*

*(3) Related to the stake held by SANPAOLO IMI and after the posting of consolidation attributable to the Area.*

- on 19 November 2004, and with effect from 30 November, the spin off of Fideuram Vita to SANPAOLO IMI was approved as part of the project to reorganize the Group's insurance activities, as described in greater detail in the chapter "Action points and initiatives in the year";
- the development plan for the private banking activities, as well as the reorganization, of the French subsidiaries Fideuram Wargny continued.

Actions in 2004 were also aimed at improving customer understanding and developing products through increasing the range of offers.

At the end of December 2004, the customer financial assets of Banca Fideuram were 61.1 billion euro, up 2.6% over the 12 months. The strategy to reconvert the assets under administration, aimed at increasing the weight of asset management, continued. Asset management volumes were 46.3 billion euro, up 3.9% compared to the end of December 2003. This trend is attributable to the positive effect in performance, together with a net flow of 0.4 billion euro. Worth noting in the context of the latter is the influence of the particularly positive fund-based portfolio management, to the detriment of the mutual funds, and the continuing positive trend in life policies, mainly unit linked.

Net income for the year was 243 million euro, up 42.1% compared with the previous year. This result was generated mainly by the growth of net interest and other banking income (+15%) and by the containment of operating costs (-1.5%). The favorable trend in revenues is attributable to the increase in recurrent net commissions, owing to the growth in the average volumes, to the improvement in the product mix and to the profit from insurance companies valued using the equity method. In this respect, it should be pointed out that figures for 2004 and, for unity of comparison, for 2003 pro forma, include the incomes for 11 months of the insurance companies. Profitability was 24% compared with 18.5% for 2003.

## Insurance

### A.I.P.

Operational since 1 December 2004, A.I.P. is the company comprising all the Group's insurance companies that operated autonomously, but under coordination, for most of 2004.

The main initiatives taken during the year were:

- constant support with products and services to the distribution structures of the Group as well as external networks through Sanpaolo Vita and Fideuram Vita;
- innovation of the product and personalization of the offer; both directly and through Sanpaolo Life, Sanpaolo Vita has created 20 new products (4 index linked and 16 in the first and fifth branches). 30 existing products, both traditional and unit linked, were updated;
- transformation, by Fideuram Vita, of traditional policies into unit linked, already begun in the previous year: the characteristics of convertible policies were divided into further segments so as to aim the operation at the cases of greatest interest to the customer;
- in the casualty sector, the offer developed through Egida and Fideuram Assicurazioni was focused on personal protection products, sold in combination with personal loans and retail mortgages, and on policies related to the home and civil responsibilities connected to real estate. Activities for insurance coverage in the automobile sector were also started, at the moment limited to employees of the SANPAOLO IMI Group.

Net income for the year, which includes for one month the incomes of the companies demerged from Banca Fideuram at end November 2004, reached 151 million euro (+65.9% compared with 2003 reported on equal terms). The growth of net income is the result of the positive trend in managed volumes, to which a deposit of premiums for 7 billion euro contributed (+12.3% compared to the previous year). In terms of product type, 2004 saw the expansion of both first branch traditional policies (+24%) and index and unit linked policies (+22.1%). In order to report the results for A.I.P. in its new configuration after the merger, figures for 2004 normalized, comprising income for Fideuram Vita for the entire year and not just the month of December, are also posted. Net income, reported on the base of the new operating area, would have been 216 million euro and profitability, measured in terms of RoE, 21.9%.

*A.I.P.*

| | 2004 | 2003 pro forma (1) | Change 2004 / 2003 pro forma (%) | 2004 normalized (2) |
|---|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | | |
| Premiums issued | 7,028 | 6,260 | +12.3 | 8,553 |
| - of which: life branch | 7,022 | 6,255 | +12.3 | 8,539 |
| Income before taxes | 203 | 147 | +38.1 | 295 |
| Net income | 151 | 91 | +65.9 | 216 |
| Contribution to net income of the Group | 151 | 91 | +65.9 | 216 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | | | | 987 |
| **RATIOS** (%) | | | | |
| RoE (3) | | | | 21.9 |
| | 31/12/2004 | 31/12/2003 pro forma (1) | Change 31/12/04-31/12/03 pro forma (%) | 31/12/2004 normalized (2) |
| **OPERATING DATA** (€/mil) | | | | |
| Life technical reserves | 38,782 | 31,557 | +22.9 | 38,782 |
| - traditional | 16,006 | 12,909 | +24.0 | 16,006 |
| - index and unit linked | 22,776 | 18,648 | +22.1 | 22,776 |
| Casualty technical reserves | 25 | 21 | +19.0 | 25 |

*(1) A.I.P. incorporated Sanpaolo Vita with accounting effect as of 1 January 2004 and Fideuram Vita as of 1 December 2004. A.I.P.'s statement of income for 2004 therefore includes Sanpaolo Vita results attributable to the entire year and for Fideuram Vita only for December. To give unity of comparison, a pro forma statement of income has been posted for 2003 that includes the results of A.I.P., as incorporating body, and Sanpaolo Vita, for the entire year and Fideuram Vita attributable only for December.*

*(2) Income for 2004 normalized is reported including the results of Fideuram Vita for the entire year.*

*(3) Profitability has been calculated for 2004 normalized as the average allocated capital reflects the new operating configuration.*

## Public Authorities and Entities

### Banca OPI

Banca OPI provides financial services to the public sector, with particular reference to the financing of infrastructure investments and public works.

In 2004 Banca OPI aimed to improve its market position in a scenario that saw, on the one hand, increasingly severe restrictions imposed on public borrowing and, on the other, the progressive increase in the number of competitors (banking and others) involved in offers.

In particular, the bank:
- issued new loans mainly concerning the domestic railway and road infrastructure, the public utilities sector (that confirmed the lively trend seen for some time in both technical investments and the growth of external lines), and a number of companies controlled by local bodies operating in urban transport, land recovery, support for developing the local economy and the recycling of urban solid waste;

*Banca OPI*

| | 2004 | 2003 pro forma (1) | Change 2004 / 2003 pro forma (%) | 2003 |
|---|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | | |
| Net interest and other banking income | 161 | 165 | -2.4 | 165 |
| Operating costs | -27 | -25 | +8.0 | -25 |
| - administrative costs | -28 | -28 | - | -28 |
| *- personnel* | *-13* | *-13* | *-* | *-13* |
| *- other administrative costs* | *-13* | *-11* | *+18.2* | *-11* |
| *- indirect duties and taxes* | *-2* | *-4* | *-50.0* | *-4* |
| - other operating income, net | 2 | 3 | -33.3 | 3 |
| - amortization | -1 | - | n.s. | - |
| Operating income | 134 | 140 | -4.3 | 140 |
| Provisions and net adjustments to loans and financial fixed assets | -26 | -10 | +160.0 | -78 |
| Income before extraordinary items | 108 | 130 | -16.9 | 62 |
| Net extraordinary income/expense | 196 | 9 | n.s. | 9 |
| Income before taxes | 304 | 139 | +118.7 | 71 |
| Income taxes for the period | -116 | -45 | +157.8 | -25 |
| Net income | 188 | 94 | +100.0 | 46 |
| Contribution to net income of the Group (2) | 75 | 93 | -19.4 | 100 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 791 | 710 | +11.4 | 686 |
| **RATIOS** (%) | | | | |
| RoE | 9.5 | 13.1 | | 14.6 |
| Cost / Income ratio | 17.8 | 16.7 | | 16.7 |
| | 31/12/2004 | 31/12/2003 | Change 31/12/04-31/12/03 (%) | |
| **OPERATING DATA** (€/mil) | | | | |
| Net loans to customers excluding NPLs | 18,845 | 18,693 | +0.8 | |
| Disbursements in the period | 3,860 | 5,209 | | |
| Investments in customer securities (stock) | 4,881 | 2,106 | +131.8 | |
| Subscriptions of securities issued by customers (flow) | 2,765 | 1,651 | | |
| **OPERATING STRUCTURE** | | | | |
| Employees | 149 | 156 | -4.5 | |

*(1) To give unity of comparison with 2004, figures for 2003 are reported taking into account the new company regulations.*
*(2) After the posting of consolidation attributable to the Area which, in 2004, mainly referred to the reversal of extraordinary income in respect of the utilization of risk reserves accrued in previous years for tax purposes and, for 2003, the reversal of adjustments to loans carried out for exclusively tax purposes.*

- in project financing:
  - it performed the role of mandated lead arranger, together with a leading Austrian bank, for a project for the construction of a toll paying system for heavy vehicles on the Austrian road network. The arrangement was approved by 10 international banks;
  - it has been involved in the advisory and arranging activities for a number of projects, including the new seat of the Bologna Municipal Town Hall, the new School of Biotechnologies in Turin, the first trading lot of the Salerno-Reggio Calabria highway, the Pedemontana Veneta toll road and the Vallata hospital;
  - it has taken part in a number of projects abroad, including two in the highway sector, in Hungary and Croatia, one in the water purification sector in The Netherlands, and one in the waste treatment sector in Great Britain;
- it has carried out constant assistance and monitoring for new projects, for which it has completed a number of consultancy services for the application of proposals in ex Art. 37 b of Law 109/94, including: upgrading of the Niguarda Cà Granda hospital, the Alba-Bra hospital, Asti-Cuneo highway, the Padua GRA (ring road) road system, the Maggiore della Carità hospital in Novara;
- in financial advisory services for public entities, it completed the engagements in respect of the privatization of AMA International and Rimini Fiera and other mandates received from former municipal bodies in Central and Northern Italy;
- it subscribed a Rimini Fiera shareholding for around 1% of the share capital.

At the end of December 2004, total exposure for customer loans and securities amounted to 23.7 billion euro, an increase of 14.1% over the 12 months. This rise is mainly attributable to the aggregate of securities, given the increasing preference that local authorities and regional customers assign to the issue of own shares to financial brokers by way of subscription.

Net income reached 188 million euro, double the 94 million euro for the previous year. It benefited from the booking of 196 million euro extraordinary income, of which 184 million is attributable to the “fiscal clean-up” made in compliance with new company regulations. On the contrary, the increase in net adjustments is attributable, for a value of around 14 million euro, to the writing down of certain contracts included in the residual leasing portfolio. It should be noted that the contribution to the net income of the Group was affected by the elimination of the aforementioned extraordinary income, since the relative components had already been reversed in the Group’s consolidated financial statements. These events gave a profitability of 9.5%.

# Developments after the end of the year

## Economic background

In the early months of the year, trend indicators revealed continuing and considerable cyclical differences between the strong United States economy on the one hand and weak production in Japan and the euro zone on the other.

Overall, in 2005 the world economy should show a slower growth rate than in 2004. The main observers see several factors pointing in this direction: the performance of petrol prices that have recently risen to the highest levels of last year; the continuing tension in raw material markets; the political difficulties in the Middle East; and the resizing of expansion in US fiscal and monetary policies.

In the United States in February, the Federal Reserve, prompted by the favorable trend of cyclic indicators, increased the policy rate by another 25 basis points, taking it to 2.5%. In the euro zone, trend indicators have done nothing to remove the uncertainties about the difficult short-term evolution of the economy. Despite expressing fears about the high trend in liquidity and real estate prices in some countries of the zone, the ECB has kept the cost of money unchanged. In the early months, policy rates are expected to rise in the United States while the markets do not foresee increases in the euro zone before the end of the year.

In January 2005, there was a further acceleration in the overall income in the Italian loan sector (+7.3% on an annual basis), especially in current account deposits. The positive trend continued due in particular to the recovery of company loans (+7.1% on an annual basis).

Since the beginning of the year, share indexes have shown further rises in Europe and Japan but have fallen slightly in the United States. The basic indicators of the principal stock markets - ratios between prices and share income, the continuing modest levels of interest rates and the expected low volatility of indexes - still seem positive. However, the performance of share lists is still being conditioned by some risk factors, in particular a possible rise in petrol prices and the interest rates of the main central banks beyond expectations.

In a scenario characterized by overall growth in real estate markets, in the January-February two-month period, mutual funds have again benefited from positive net capital flows (+1.8 billion euro).

## Group performance and significant events after the end of the year

In a domestic scenario characterized by an economic recovery that is still weak, Group transactions, on the basis of the figures available at the beginning of the new year, were characterized by a positive trend in financial assets and a recovery in loans.

The stock of financial assets continued the positive trend of the end of the year, attributable especially to indirect deposits. In relation to asset management products, the upturn of the financial markets, the positive return of net deposits in mutual funds, after a year where disinvestment prevailed, and the sale of insurance products have determined an increase in portfolio stocks.

As regards lending activities, the beginning of the year has been characterized by an increase in loans, especially in relation to large corporate customers and public entities.

Income results appear to be growing compared with the previous year, thanks to the effectiveness of the steps taken to defend profit margins and the major placement of asset management in the first few months of the year.

## Future prospects

2005 is expected to see the full effects of the actions taken during the last year to strengthen the operative development of the Group.

In particular, income margins should benefit from the improvement in the competitive position of the companies sector, in connection to both existing customers and the acquisition of new ones. Other income will be developed through an improvement of the mix of operations with the retail customers of the commercial banks and the strengthening of cross-dealing initiatives.

As regards exogenous factors, the improvement in trust indicators for the companies sector and the consequent rise in production posted at the beginning of the year could give support to loans in the companies sector which was already showing signs of recovery in January. The positive trend seen in family loans should continue thanks to interest levels which are still low.

From the point of view of financial assets, forecasts for an even more positive market trend should push savers towards forms of investment that favor professional asset management and permit greater diversification of risk. The positive flow of asset management, in particular portfolio management, and the life insurance sector, confirms the strategic importance of the sector, strengthened by the organizational decisions of the Group.

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## AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE N° 58 DATED 24 FEBRUARY 1998

To the Shareholders of
Sanpaolo IMI SpA

1 We have audited the consolidated financial statements of Sanpaolo IMI SpA and its subsidiaries (the "Sanpaolo IMI Group") as of 31 December 2004. These consolidated financial statements are the responsibility of Sanpaolo IMI'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 and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. 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. We believe that our audit provides a reasonable basis for our opinion.

The responsibility for the audit of the financial statement of certain subsidiaries, representing 18 per cent of consolidated "Total assets", 3 per cent of consolidated "Net interest income", and 12 per cent of consolidated "Net interest and other banking income", rests with other auditors.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 8 April 2004.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P. IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel. 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 0817644441 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Manzoni 16 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 – **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel. 0458002561

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3 In our opinion, the consolidated financial statements of Sanpaolo IMI Group as of 31 December 2004 comply with the laws governing the criteria for their representation; accordingly, they give a true and fair view of the financial position and of the results of operations of the group.

Turin, 8 April 2005

PricewaterhouseCoopers SpA

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Signed by
Sergio Duca
(Partner)

"This report has been translated into the English language solely for the convenience of international readers. The original report was issued in accordance with Italian legislation."