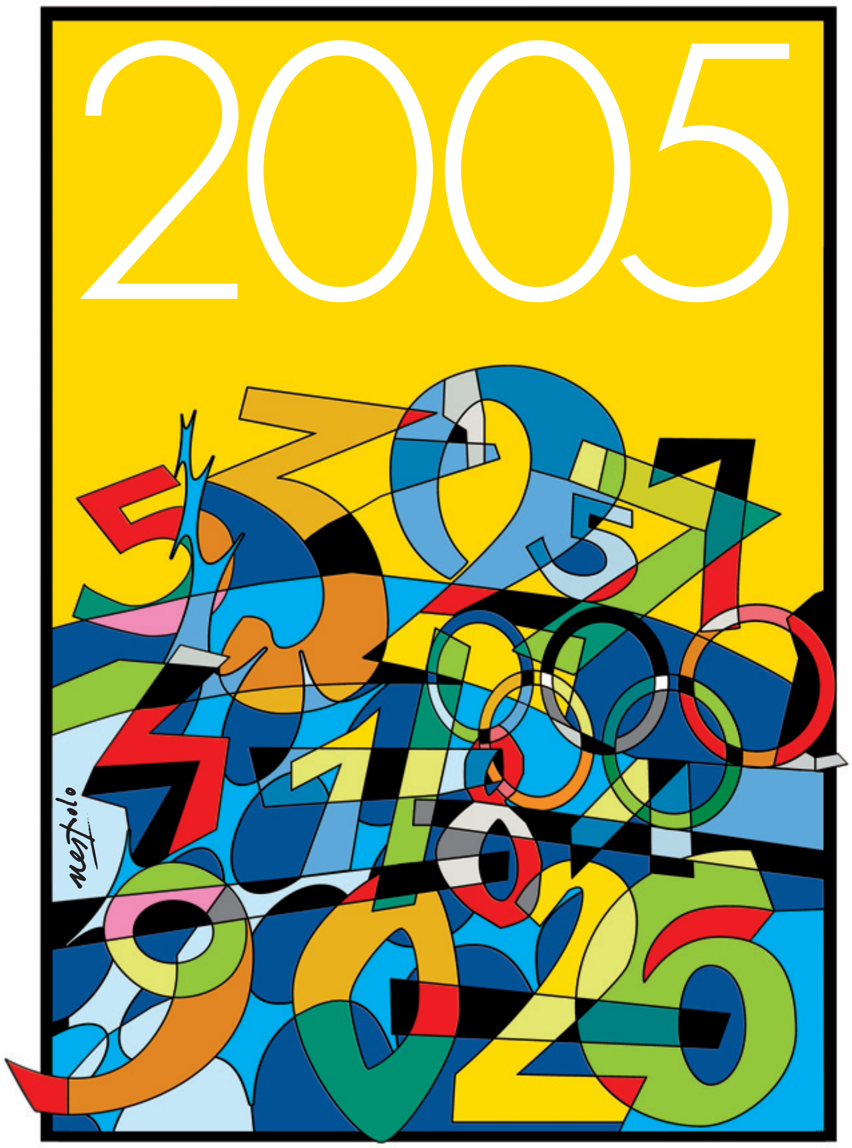
SANPAOLO IMI



ANNUAL REPORT 2005

PREPARED ACCORDING TO IAS/IFRS INTERNATIONAL ACCOUNTING STANDARDS

SANPAOLO IMI GROUP

2005 Annual Report

PREPARED ACCORDING TO IAS/IFRS INTERNATIONAL ACCOUNTING STANDARDS

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 5,239,223,740.80 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

THE 2005 ANNUAL REPORT HAS BEEN TRANSLATED FROM THAT ISSUED IN ITALY
FROM ITALIAN INTO ENGLISH SOLELY FOR THE CONVENIENCE OF INTERNATIONAL READERS

	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	Maurizio Dallocchio	*Chairman*
	Aureliano Benedetti	*Auditor*
	Gianluca Ferrero	*Auditor*
	Augusto Franchini	*Auditor*
	Paolo Mazzi	*Auditor*
	Carlo Pavesio	*Supplementary Auditor*
	Paolo Piccatti	*Supplementary Auditor*

General Manager	Pietro Modiano
Independent Auditors	PricewaterhouseCoopers S.p.A.

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EXTRAORDINARY MEETING
581 Unpaid increase of share capital, pursuant to Art. 2442 of the Civil Code, for a maximum of 168,418,756.02 euro, through allocation to capital of the valuation reserve pursuant to Art 7, para. 6 of D.Lgs 38/2005, with an increase in the nominal value of shares; subsequent modification of Article 6 of the Articles and By-Laws; related and consequent decisions

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Agenda of the Shareholders' Meeting

TURIN

1st calling for the ordinary and extraordinary meetings: 27 April 2006
2nd calling for the ordinary and extraordinary meetings: 28 April 2006

ORDINARY MEETING

1. Financial statements as of 31 December 2005, reports of the Board of Directors and the Board of Statutory Auditors; increase of the statutory reverse by 38,317,524.05 euro through utilization of issue premiums; allocation of net income; consolidated Group financial statements as of 31 December 2005

2. Authorization for the purchase and sale of own shares, also for the payment plans for employees of the Company and its subsidiary companies

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

4. Modification of the Shareholders' Meeting Regulations

EXTRAORDINARY MEETING

1. Unpaid increase of share capital, according to Art. 2442 of the Civil Code, for a maximum of 168,418,756.02 euro, through allocation to capital of the valuation reserves according to Art 7, para. 6 of D.Lgs 38/2005, with an increase in the nominal value of shares; subsequent modification of Article 6 of the Articles and By-Laws; related decisions

Letter to the Shareholders

Shareholders,

2005 has been a year of change for your Bank. With the completion of the complex integration that followed the mergers and acquisitions of recent years, not only has the Group accelerated its growth curve, seen in a record profit of 1,983 million euro, but also, and above all, it has begun a series of strategic initiatives aimed at further operational growth and a rise in the creation of value for you, the Shareholders. In more detail, the new Three-year Plan was started which sets challenging targets for 2008 and has as its basis the development of the model of "National Bank for Territories" – an innovative organization on the domestic banking scene for which we have high hopes of return in terms of both economic income and the quality of service offered to our customers. The reorganization of the "Savings and Assurance Management" sector also continued with the program to list the recently founded Eurizon, the company which concentrates all the specialist subsidiaries operating in insurance and asset management and which will become the second pillar of the Group.

Coming back to the statements of 2005, which are analyzed in more detail in the Report on Operations, the excellent results that the Group has achieved in all compartments should be emphasized. All the economic margins grew solidly thanks to an increase in revenues, up 10.6% on the previous year, the continuation of a strict policy of containing costs and, finally, maintaining high standards of credit activities which led to an 18.5% reduction in provisions. Net profit rose by 57.9% compared to the previous year and reached a higher value than expected in the preceding Three-year Plan, thereby permitting the distribution of a dividend per share of 0.57 euro, corresponding, on the basis of the average listing for 2005, to a yield of 4.82%.

The Group's capacity for growth was confirmed also by the performance of operational volumes: not only did SANPAOLO IMI continue to be the reference point for asset management for Italian families, as proved by the positive trend in financial assets, but it also, and mainly, showed a steep rise in the issuing of loans. Backed by many years experience in financing to businesses, the Group exploited its capacity to evaluate creditworthiness and proceeded to select the most trustworthy counterparties, thereby relieving the Bank's of their traditional responsibility of the optimum placement of family savings, in order to reward those production activities that most merit financing. In the light of the peculiar make-up of the Italian economy, characterized by a high number of medium-/small-sized enterprises, this link between families and businesses has a specific national and, above all, local value. It is for this reason that SANPAOLO IMI has decided to aim at optimizing links with the territory and, as a result, its local structures who are charged with carrying out the role of "Territorial Banks" effectively. Thanks to the deeper understanding of local conditions, the Group has been able to wed traditional attention to the selection of counterparties with significant operational growth rates, such as those seen in 2005.

In the delicate transformation that the country is going through in terms of competition, it is now more than ever necessary to have the courage of responsibility and assign the levers of governance to those with ability, merit and skill. It is people who make the difference. Diverse organizational models are therefore needed, able to bring sectors together, activate economies of scale and unify the production and distribution networks, at the same time as preserving their identity, roots, sense of belonging and economies of being close to the territory. Innovation must come through people. This is the spirit and substance of SANPAOLO IMI.

The "National Bank for Territories", the central theme in the drawing-up of the Three-year Plan, was born in this spirit and out of these considerations. But its roots can be found in the history – past and recent – of the Group as it has developed through successive aggregations of regional and provincial banks marked by the deep local rooting that is still a distinctive feature of the Group today. Recognition and optimization of these characteristics led to the choice of a model centered on a streamlined chain of command capable of providing quick interaction between Management and territory, the latter under a single presidium. The new model – which differs from the highly divisional model adopted by the majority of other banks – has made it necessary to strengthen the quality of Central Functions, especially for strategic activities and operative support and marketing.

We are convinced that the adopted model is the best for the current operations of SANPAOLO IMI, a Group covering the entire country – and with a widespread foreign network present in 34 countries – but which has to respond to, and serve, a variety of territories made up of a vast number of enterprises and local economic systems that constitute a great source of wealth for our country. The SANPAOLO IMI Group means to use these levers to bring changes to the relations between the Bank, businesses and families in the context of an authentic and mature model of a relating bank able to promote growth and the financial consolidation of small- and medium-sized Italian companies in the pursuit of new competitive levels: a major factor in the development of the whole Italian system.

We also strongly believe that the new organizational model could be especially effective in the case of any consolidation of the Italian loans market which is still marked by important medium-sized banking institutions with strong territorial roots – consolidations and aggregations recently backed by the Governor of the Bank of Italy. Thanks to the extension of the Territorial Bank model, diverse banking institutions could come to make up a large national Group whilst still maintaining many of their distinguishing elements and without weakening, but rather strengthening, the economies gained by being close to the territorial systems. This organizational model would be a force for aggregations in the whole Italian system, made up of a number of economic areas (South, Center, North West and North East) that are multi-centric and scattered.

At Group level, our ambitions are embedded in the objectives set for 2008, in line with the leading European operators, in terms of profitability and operative efficiency. These objectives should be met ensuring the respect of standards of excellence typical of the Group as regards solidity of capital and quality of the loan portfolio.

Strategic initiatives started during 2005 also included continuation of the redesign of the "Savings and Assurance Management" area with the concentration in a single company of the specialized "product factories" and the activities linked to the professional management of savings and assurance so as to ensure maximum efficiency and product innovation in a sector that is also now open to international competition. In the past year, this sector was characterized by a major strengthening of the managerial base and the founding of a company, Eurizon, to which Assicurazioni Internazionali di Previdenza and Banca Fideuram have been transferred to create a leading operator in the production of financial instruments as well as in distribution and non-banking advisory services. This process continued in the first months of 2006 with the inclusion within the perimeter of Sanpaolo IMI Asset Management and its subsidiaries operating in fund management and other financial products placed by the banking network.

Consequently, the SANPAOLO IMI Group is now divided into two large compartments. The first is banking with its dual poles of the Territorial Bank's close proximity to local economies and the wider international scope of the areas and companies active in wholesale banking and in Central Eastern Europe. The second compartment is insurance and savings management which is today a major player on the domestic scene with significant opportunities for expansion also in the light of the recently started procedure to list Eurizon. It is clear that these activities have mutual synergies; at the same time, they are marked by very different markets and distinct regulatory processes. The former require deep commitment to improving the efficiency and effectiveness of distribution and customer relations on the one hand and, on the other, the specialist abilities and efficient sizing of the product factories. With regard to regulations, the need is arising in Europe for the progressive separation of commercial distribution from financial management to render both compartments more autonomous and responsible in the interests of better customer service. These are all elements of effort and innovation coherent with the new dispositions of Basel 2 and the Directives on Financial Conglomerates.

The Group is therefore preparing the best possible response to imminent and future challenges, relying on the consolidated relations with its customers, having invested heavily in human resources at every level and creating a differentiated organizational and business model tailored to meeting competition and the forecast system trends. Here, too, we believe our model can equally accommodate further growth in internal and external lines. In fact, with Eurizon, it is able to consider foreign partners and, at the same time, offer other Italian bodies the chance to access specialist services of an international standard.

Finally, and still on the subject of challenges, I cannot ignore the recently concluded Winter Olympic and Paralympic Games Turin 2006 in which SANPAOLO IMI was an active participant, providing not just financial assistance – in the form of commercial investment – but also operative and logistic support. The universally acclaimed success of the event shows that Italy can and must be an international venue to promote sport and culture and an especially fertile ground for the optimization and success of economic and business initiative. In this context, it is the responsibility of the SANPAOLO IMI Group to be an increasingly important, incisive and determining player. To face this challenge – its personal challenge – positively, and after the significant growth in internal and external lines, the Group must aspire to an even more important role on the domestic and European market. The start of the project to establish a new Group Management Center is a further step in this direction. The underlying values of our model of National Bank for Territories are fundamental to pursuing these ambitious aims, by exploiting the capacity of our personnel to work as a team and the optimization of the historical traditions of all the geographical areas in which we operate.

Turin, 23 March 2006

The Chairman

Key figures

	31/12/2005	31/12/2004 (1)	Change 31/12/2005 - 31/12/2004 (%)
CONSOLIDATED BALANCE SHEET (€/mil)			
Total assets	263,258	248,418	+6.0
Loans to customers (excluding NPLs)	138,427	125,143	+10.6
Shareholdings	819	839	-2.4
Group net shareholders' equity	13,483	12,035	+12.0
CUSTOMER FINANCIAL ASSETS (€/mil)			
Total financial assets (2)	401,838	376,381	+6.8
- direct deposits	165,230	158,760	+4.1
- indirect deposits	262,232	238,793	+9.8
- asset management	157,990	144,813	+9.1
- asset administration	104,242	93,980	+10.9
LOAN RISK RATIOS (%)			
Doubtful loans / Loans to customers	2.4	2.8	
Non-performing financing / Loans to customers	0.8	0.9	
Problem and restructured financing / Loans to customers	0.8	1.1	
Financing due/overdue by more than 180 days / Loans to customers	0.8	0.8	
EQUITY SOLVENCY RATIOS (%) (3)			
Core tier 1 ratio	6.6	6.7	
Tier 1 ratio	7.2	7.4	
Total risk ratio	9.2 (4)	11.3	
SHARES			
Number of shares (thousands)	1,871,151	1,863,457	+0.4
Listing for the period (€)			
- average	11.836	9.826	+20.5
- low	10.201	8.799	+15.9
- high	13.420	11.072	+21.2
Market capitalization (€/mil)	24,719	19,753	+25.1
Dividend per share (€)	0.57	0.47	+21.3
Dividend per share / Average annual listing (%)	4.82	4.78	
Book value per share (€) (5)	7.22	6.48	+11.4
OPERATING STRUCTURE			
Employees (6)	43,666	43,184	+1.1
Domestic branches	3,172	3,126	+1.5
Foreign branches and representative offices	136	131	+3.8
Financial planners	4,151	4,317	-3.8
	2005	2004 (7)	Change 2005 / 2004 (%)
CONSOLIDATED STATEMENT OF INCOME (€/mil)			
Net interest income	3,795	3,683	+3.0
Net commissions	3,476	3,254	+6.8
Total operating income	8,402	7,599	+10.6
Net adjustments to loans	-489	-539	-9.3
Net adjustments to other financial assets	-1	-62	-98.4
Net operating income	7,912	6,998	+13.1
Operating costs	-4,790	-4,816	-0.5
Pre-tax operating profit	3,023	1,971	+53.4
Net profit	1,983	1,256	+57.9
Net profit per share (€) (8)	1.06	0.68	+55.9
Diluted net profit per share (€) (8)	1.06	0.68	+55.9
MAIN RATIOS (%)			
RoE (9)	17.2	11.9	
Cost / Income ratio (10)	57.0	63.4	

(1) IAS compliant balance (cf full IAS) including the impact of transition to IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).
(2) Including netting between direct deposits and asset management.
(3) Solvency ratios at 31/12/2005 have been calculated on the basis of general principles issued by the Supervisory Body, in line with the indications of the Basel Committee and the CESB (Committee of European Banking Supervisors). For purposes of comparison, values as of 31/12/2004 have been calculated pro forma and IAS compliant.
(4) A program is underway to place subordinated loans in order to bring the total risk ratio above 10%; a first tranche has already been placed for 750 million euro, bringing the ratio to 9.7%.
(5) Net shareholders' equity / Number of shares in circulation.
(6) Including atypical contracts.
(7) Pro forma figures reconstructed on a homogeneous basis, including an estimate of the impact of IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).
(8) Calculated on the basis of IAS 33.
(9) Net profit / Net shareholders' equity at the end of the period (excluding profit).
(10) Personnel costs, other administrative costs and amortization / Total operating income.

Group structure

SANPAOLO IMI GROUP

CENTRAL FUNCTIONS

SANPAOLO IMI
- Governance, support and control functions
- Shareholdings
  - Santander Central Hispano *(Spain; 2.2%)*
  - Ixis Asset Management Group *(France; 12%)*
  - Ixis Corporate & Investment Bank *(France; 2.5%)*
  - Banque Palatine *(France; 40%)*
  - Cassa di Risparmio di Firenze *(18.7%)*
  - Cassa dei Risparmi di Forlì *(38.3%)*
  - Banca delle Marche *(7%)*
  - Other shareholdings
- Finance
- Macchina Operativa Integrata (Integrated Operating Vehicle)

BANKING

RETAIL & PRIVATE
- Sanpaolo IMI-Retail & Private
- Cassa di Risparmio di Padova e Rovigo-Retail & Private
- Cassa di Risparmio in Bologna-Retail & Private
- Cassa di Risparmio di Venezia-Retail & Private
- Friulcassa-Retail & Private
- Banca Popolare dell'Adriatico-Retail & Private
- Sanpaolo Banco di Napoli-Retail & Private
- Neos Banca *(99.5%)*
- Farbanca *(22.7%)*

CORPORATE
- Sanpaolo IMI-Companies
- Cassa di Risparmio di Padova e Rovigo-Companies
- Cassa di Risparmio in Bologna-Companies
- Cassa di Risparmio di Venezia-Companies
- Friulcassa-Companies
- Banca Popolare dell'Adriatico-Companies
- Sanpaolo Banco di Napoli-Companies
- Sanpaolo Leasint
- Sanpaolo IMI-Large Groups
- Sanpaolo IMI-International
  - Sanpaolo IMI Bank Ireland *(Ireland)*
  - Sanpaolo IMI Internazionale
- Banca IMI
- Banca OPI
  - Fin. OPI
- Sanpaolo IMI Private Equity

OTHER ACTIVITIES
- IMI Investimenti
- GEST Line

SAVINGS AND ASSURANCE

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)*

ASSICURAZIONI INTERNAZIONALI DI PREVIDENZA (A.I.P.)
- Fideuram Assicurazioni
- Sanpaolo Life *(Ireland)*
- Egida
- Universo Servizi

ASSET MANAGEMENT AND INTERNATIONAL PRIVATE BANKING

ASSET MANAGEMENT (1)
- Sanpaolo IMI Asset Management
  - Sanpaolo IMI Asset Management *(Luxembourg)*
  - Sanpaolo IMI Alternative Investments

INVESTMENT MANAGEMENT ADVISORY AND INTERNATIONAL PRIVATE BANKING
- Sanpaolo Bank *(Luxembourg)*
  - Sanpaolo Bank Suisse *(Switzerland)*
  - Sanpaolo Immobiliere
- Sanpaolo Fiduciaria

(1) On 24 January 2006 the concentration of Sanpaolo IMI Asset Management into the Savings and Assurance sector was decided. Once completed, the shareholdings in Banca Fideuram, A.I.P. and Sanpaolo IMI Asset Management will be responsible to Eurizon Financial Group.

Consolidated financial statements and reports

RECLASSIFIED CONSOLIDATED FINANCIAL STATEMENTS

REPORT ON GROUP OPERATIONS

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

ATTACHMENTS

Reclassified consolidated financial statements

RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME

RECLASSIFIED CONSOLIDATED BALANCE SHEET

Reclassified consolidated statement of income (1)

	2005 (€/mil)	2004 (2) (€/mil)	Change 2005 / 2004 (%)
A. Net interest income	3,795	3,683	+3.0
B. Net commissions	3,476	3,254	+6.8
C. Income from credit disposals, assets held to maturity and repurchase of non-hedged financial liabilities	58	-13	n.s.
D. Dividends and income from other financial assets and liabilities	526	264	+99.2
E. Profits (losses) on equity shareholdings	116	82	+41.5
F. Income from insurance business	431	329	+31.0
TOTAL OPERATING INCOME	**8,402**	**7,599**	**+10.6**
G. Net adjustments to loans	-489	-539	-9.3
H. Net adjustments to other financial assets	-1	-62	-98.4
NET OPERATING INCOME	**7,912**	**6,998**	**+13.1**
I. Personnel costs	-2,839	-2,841	-0.1
L. Other administrative costs	-1,514	-1,525	-0.7
M. Net adjustments to tangible and intangible assets	-437	-450	-2.9
- Operating costs (I+L+M)	**-4,790**	**-4,816**	**-0.5**
N. Other net income (expenses)	74	41	+80.5
O. Impairment of goodwill	-47	-58	-19.0
P. Profits (losses) from disposals of investments	17	3	n.s.
Q. Net provisions for risks and charges	-143	-197	-27.4
PRE-TAX OPERATING PROFIT	**3,023**	**1,971**	**+53.4**
R. Taxes for the period	-948	-743	+27.6
S. Profits (losses) on groups of discontinued operations	-35	76	n.s.
T. Profit attributable to minority interests	-57	-48	+18.8
NET PROFIT	**1,983**	**1,256**	**+57.9**
Net profit per share (€)	1.06	0.68	+55.9
Diluted net profit per share (€)	1.06	0.68	+55.9

(1) The consolidated reclassified statement of income aims to present management economic margins. The contribution of the Group's insurance companies to "Total operating income" is summarized in "Income from insurance business".

(2) Pro forma figures reconstructed on a homogeneous basis, including an estimate of the impact of IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

Quarterly trend in the reclassified consolidated statement of income (1)

	2005					2004 (2)				
	Fourth quarter (€/mil)	Third quarter (€/mil)	Second quarter (€/mil)	First quarter (€/mil)	Quarterly average (€/mil)	Fourth quarter (€/mil)	Third quarter (€/mil)	Second quarter (€/mil)	First quarter (€/mil)	Quarterly average (€/mil)
A. Net interest income	977	956	942	920	949	903	919	931	930	921
B. Net commissions	919	935	850	772	869	844	803	823	784	814
C. Income from credit disposals, assets held to maturity and repurchase of non-hedged financial liabilities	2	13	38	5	15	-21	-	4	4	-3
D. Dividends and income from other financial assets and liabilities	102	207	166	51	132	43	28	120	73	66
E. Profits (losses) on equity shareholdings	28	11	65	12	29	27	16	24	15	21
F. Income from insurance business	129	120	118	64	108	85	80	65	99	82
TOTAL OPERATING INCOME	**2,157**	**2,242**	**2,179**	**1,824**	**2,102**	**1,881**	**1,846**	**1,967**	**1,905**	**1,901**
G. Net adjustments to loans	-132	-128	-142	-87	-122	-153	-82	-155	-149	-135
H. Net adjustments to other financial assets	3	-1	-2	-1	-	50	-	-32	-80	-16
NET OPERATING INCOME	**2,028**	**2,113**	**2,035**	**1,736**	**1,980**	**1,778**	**1,764**	**1,780**	**1,676**	**1,750**
I. Personnel costs	-772	-698	-672	-697	-710	-744	-696	-703	-698	-710
L. Other administrative costs	-435	-354	-369	-356	-379	-413	-369	-386	-357	-380
M. Net adjustments to tangible and intangible assets	-130	-105	-104	-98	-109	-136	-108	-108	-98	-113
- Operating costs (I+L+M)	-1,337	-1,157	-1,145	-1,151	-1,198	-1,293	-1,173	-1,197	-1,153	-1,203
N. Other net income (expenses)	23	8	32	11	19	31	-4	11	3	10
O. Impairment of goodwill	-46	-1	-	-	-12	-58	-	-	-	-15
P. Profits (losses) from disposals of investments	4	-	13	-	4	-	3	-	-	1
Q. Net provisions for risks and charges	-10	-23	-75	-35	-36	-104	-27	-42	-24	-49
PRE-TAX OPERATING PROFIT	**662**	**940**	**860**	**561**	**757**	**354**	**563**	**552**	**502**	**494**
R. Taxes for the period	-146	-297	-280	-225	-237	-85	-215	-226	-217	-186
S. Profits (losses) on groups of discontinued operations	-33	-7	-6	11	-9	33	-4	-4	51	19
T. Profit attributable to minority interests	-9	-21	-13	-14	-14	-10	-11	-15	-12	-12
NET PROFIT	**474**	**615**	**561**	**333**	**497**	**292**	**333**	**307**	**324**	**315**

(1) The consolidated reclassified statement of income aims to present management economic margins. The contribution of the Group's insurance companies to "Total operating income" is summarized in "Income from insurance business".

(2) Pro forma figures reconstructed on a homogeneous basis, including an estimate of the impact of IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

Reclassified consolidated balance sheet

	31/12/2005 (€/mil)	31/12/2004 (1) (€/mil)	Change 31/12/2005 - 31/12/2004 (%)
ASSETS			
A. Cash and cash equivalents	1,107	1,364	-18.8
B. Financial assets (other than credit and assets held to maturity)	77,402	78,230	-1.1
C. Assets held to maturity	2,535	1,818	+39.4
D. Loans to banks	28,836	24,908	+15.8
E. Loans to customers	139,507	126,280	+10.5
F. Hedging derivatives	435	1,569	-72.3
G. Changes in fair value of assets in hedged portfolios (+/-)	-	-	-
H. Shareholdings	819	839	-2.4
I. Insurance reserves attributable to reassures	29	25	+16.0
L. Tangible assets	2,177	2,328	-6.5
M. Goodwill	756	766	-1.3
N. Other intangible assets	252	289	-12.8
O. Tax assets	2,728	3,789	-28.0
P. Non-current assets and groups of assets being disposed	220	-	n.s.
Q. Other assets	6,455	6,213	+3.9
Total assets	**263,258**	**248,418**	**+6.0**
LIABILITIES AND SHAREHOLDERS' EQUITY			
A. Due to banks	35,682	28,293	+26.1
B. Due to customers	92,306	86,380	+6.9
C. Securities issued	46,985	50,989	-7.9
D. Financial liabilities held for trading	11,342	13,588	-16.5
E. Financial liabilities evaluated at fair value	25,939	21,391	+21.3
F. Hedging derivatives	730	1,941	-62.4
G. Provision for financial liabilities of generically hedged items (+/-)	-35	18	n.s.
H. Tax liabilities	860	1,106	-22.2
I. Liabilities on groups of assets being disposed	164	-	n.s.
L. Other liabilities	10,573	9,790	+8.0
M. Provisions for risks and charges	2,883	2,700	+6.8
N. Technical reserves	22,113	19,983	+10.7
O. Minority interests	233	204	+14.2
P. Group net shareholders' equity	13,483	12,035	+12.0
Total liabilities and shareholders' equity	**263,258**	**248,418**	**+6.0**

(1) IAS compliant balance (cf full IAS) including the impact of transition to IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

Quarterly trend in the reclassified consolidated balance sheet

	2005			2004 (1)
	31/12 (€/mil)	30/9 (€/mil)	30/6 (€/mil)	31/12 (€/mil)
ASSETS				
A. Cash and cash equivalents	1,107	870	1,016	1,364
B. Financial assets (other than credit and assets held to maturity)	77,402	90,678	91,190	78,230
C. Assets held to maturity	2,535	2,175	1,660	1,818
D. Loans to banks	28,836	29,937	26,165	24,908
E. Loans to customers	139,507	138,289	132,443	126,280
F. Hedging derivatives	435	653	855	1,569
G. Changes in fair value of assets in hedged portfolios (+/-)	-	-	-	-
H. Shareholdings	819	813	796	839
I. Insurance reserves attributable to reassures	29	25	23	25
L. Tangible assets	2,177	2,221	2,248	2,328
M. Goodwill	756	761	762	766
N. Other intangible assets	252	256	259	289
O. Tax assets	2,728	3,188	3,299	3,789
P. Non-current assets and groups of assets being disposed	220	-	-	-
Q. Other assets	6,455	6,478	6,910	6,213
Total assets	**263,258**	**276,344**	**267,626**	**248,418**
LIABILITIES AND SHAREHOLDERS' EQUITY				
A. Due to banks	35,682	44,193	39,963	28,293
B. Due to customers	92,306	95,499	89,907	86,380
C. Securities issued	46,985	47,005	48,072	50,989
D. Financial liabilities held for trading	11,342	13,561	14,214	13,588
E. Financial liabilities evaluated at fair value	25,939	25,373	25,096	21,391
F. Hedging derivatives	730	1,103	874	1,941
G. Provision for financial liabilities of generically hedged items (+/-)	-35	11	34	18
H. Tax liabilities	860	1,412	1,261	1,106
I. Liabilities on groups of assets being disposed	164	-	-	-
L. Other liabilities	10,573	10,162	11,378	9,790
M. Provisions for risks and charges	2,883	2,620	2,627	2,700
N. Technical reserves	22,113	22,135	21,709	19,983
O. Minority interests	233	218	196	204
P. Group net shareholders' equity	13,483	13,052	12,295	12,035
Total liabilities and shareholders' equity	**263,258**	**276,344**	**267,626**	**248,418**

(1) IAS compliant balance (cf full IAS) including the impact of the transition to IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

Report on Group Operations

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The international context

Although the world economy in 2005 slowed in comparison with 2004, it did grow at a rate of over 4%, driven by the performance of the USA and many of the Asian countries including China and India. After a temporary deceleration in the first months of 2005, global exchange volumes started moving again at the end of the year with signs of strengthening in the eurozone and Japan and a softening in US expansion.

Despite tension in the crude oil markets driving up consumer prices in many countries, on a global level base inflation trends (excluding energy and foodstuffs) remained limited. The high price of energy products did not translate into wage rises and expectations for medium-term inflation have stayed calm.

In the United States, despite the sharp braking in production in the fourth quarter, the restrictive monetary policy and climatic troubles, GDP in 2005 increased by 3.5%, sustained by consumption and investments. On the one hand, the increase in the disposable income of households – benefiting in recent years also from the rise in net wealth due to re-evaluation of real estate – has contributed to maintaining consumption at high levels. On the other hand, the trend in earnings and financial stocks has supported investments by companies.

Price performances (3.4% average inflation in 2005) was affected by the increase in energy products. This tension was seen more in the second half of the year, driven also by production price. As a result, the monetary policy of the Federal Reserve (Fed) was continued for longer than the markets initially expected. As of December 2005, the policy rate had been gradually brought to 4.25%. All the same, long-term rates followed a different trend, defined by Alan Greenspan, chairman of the Fed, as "enigmatic". Despite an increase in monetary rates, in the first half the ten-year benchmark rates fell from 4.5% to 4%, with a visible shrinking in forward premiums, only to rise again to 4.5% in the second half of the year.

The trend to limit aversion to risk by international operators led to only modest rises in the spread of US corporate debt securities, despite the difficulties encountered by some specific companies (General Motors). On the other hand, in Europe and the emerging economies there was still a downward trend. Reductions in the spread for European companies was very limited whereas the sovereign issuers in emerging countries recorded more significant improvements in financing conditions. The EMBI+ spread fell by 46%, on an equal footing with the increase in the rating of many of the countries comprising the index.

Solid growth in the United States and progressive rises in interest rates by the Fed were the biggest drivers behind the dollar's strengthening against the major currencies of the yen and euro during 2005. The dollar/euro exchange rate opened the year at around 1.30 and closed at 1.19. However, the increasing discrepancies in public balances and current account continued to be a major factor in the vulnerability of the American currency in the medium term.

In Japan, the upturn in internal demand was the main factor sustaining production which grew 2.8% during the year. Consumption and investments were supported by the progressive improvement of the labor market and the good performance of profits, respectively. Recovery of internal demand was accompanied by the positive contribution of foreign demand, stimulated by the real depreciation of the yen.

The past year saw a greater autonomy of emerging countries from the cyclic phases of the more mature economies, thanks to strong demand for raw materials and manufactured goods, coupled with a favorable trend in domestic demand. Large flows of foreign capital into these economies, partly originating from other emerging countries (in particular, OPEC and some Asian countries that have amassed considerable currency reserves in recent years) ensured favorable financing conditions and gave rise to, in some cases extraordinary, rises in local financial market indices.

In 2005, Latin America recorded a real expansion rate of just under 4%, influenced in the first part of the year by the impact on consumption and investments of restrictive monetary policies, especially in Brazil and Mexico. Outlook for growth in the principal countries of the region improved after the summer with a new tone of expansion in monetary policies and the adoption of slacker fiscal policies in the run-up to political elections. The growth in international reserves, the counterweight to broad trade surpluses, allowed the governments of Brazil and Argentina to repay their debt to the IMF before the deadline.

On the other hand, decreased demand from the EMU gave rise to a slowing down of the economic growth rate in many Eastern European countries. The process of adapting to Maastricht parameters does not seem to have taken significant steps forward, particularly in Hungary which has difficulties with its public accounts, and Latvia and Estonia where overheating of internal demand has kept inflation way off convergence values. Finally, greater macro-economic stability and the government's commitment to reform have allowed Turkey to start talks to join the EU.

With the exception of China and India where growth continued to be exceptionally lively, there was a slight deceleration in Asia compared with 2004. The large jump in oil prices and the high level of consumption of imported goods overloaded trade balances and reduced surpluses in the foreign sector. Energy subsidies in some countries of the area – namely Indonesia, Malaysia, Thailand and India – only partially reined in inflation which was the origin of the change in monetary policy in many Central Banks. Modifications introduced by China in its exchange regime, represented by the adoption of a broad basket of reference currencies and the widening of the permitted daily fluctuation, led to only a modest revaluation of the yuan since July 2005.

There were differing trends in economic development in the Middle East and North Africa in 2005. Oil producing and exporting countries in general further benefited from the exceptional performance of the oil market. In contrast, some North African countries were penalized by the weakening of demand from the European Union, the main trade partner, and the liberalization of the exchange of textile goods at the beginning of 2005. The area continues to suffer from geo-political risks linked to Iran's nuclear program, the difficult political situation in Iraq, and the delicate Palestinian question.

The eurozone and Italy

Overall, there was a recovery in growth in the eurozone during the year, although there were big differences between countries. Depreciation of the euro and historically favorable financing conditions were behind a positive trend in exports, and a gradual upturn in investments, especially in the second half. In general, internal demand remained muted due to the still modest contribution of consumption. During the year, and despite a recovery in the second half, growth in the EMU stayed at around 1.3%, lower than expectations.

Of the countries in the Union, Germany and Italy showed the lowest growth with weakness of internal demand having the biggest influence on the trend for GDP in the two countries. On the other hand, France and Spain recorded more lively trends, reflected in the good performance of household consumption, supported by the rise in real-estate wealth and an increase in employment.

Public balances throughout the area were stable at around 3% of GDP with an overall trend towards re-entering Maastricht parameters.

Inflation in 2005 accelerated slightly to 2.2% from the 2.1% of 2004, mainly driven by oil prices. In December, the ECB, anxious over the risks to prices and the financial stability of the area caused by the persistent tensions on the oil markets, the tangible rise in real-estate values in some countries and the continuing increase in liquid aggregates, began a phase of restrictive monetary policy, raising the policy rate from 2% to 2.25%.

Quarterly production in Italy in the last year was anomalous. Overall, there was zero GDP growth, although the cyclical outlook and the indicators of household and company confidence showed an improvement during the year. GDP performance was negatively influenced by foreign demand, a drop in gross fixed investments and a stagnation of family consumption, whilst a positive contribution came from the change in stocks, residential investments by households and an increase in public spending.

In terms of added value, there was a positive contribution from services and construction alongside the negative influence of industry in the strictest sense. Although the annual average for industrial production was negative (-0.8%), overall it showed a trend for recovery from the lows seen at the beginning of 2005. At sectorial level, positive trends were seen in refineries (linked to the oil cycle), in metals, glass and ceramics (driven by building) and the metal-machine working sector (favored by the upturn in demand in goods for investment), accompanied at the end of the year by signs of recovery in the transport sector. On the contrary, negative trends were still seen in the chemicals sector and in Made in Italy consumer products (textiles and clothing, leather and shoes).

The competitive difficulties experienced by some typical Italian specialized sectors were reflected in the poor performance of exports in real terms (+0.3%), despite the continuing expansion of international trade. The parallel rise in average unit values for exported goods could, however, portend a gradual repositioning of companies in production areas with higher added value.

At territorial level, of the four macro-divisions of Italy, the North East seems to have performed significantly above the average, thanks to a particular liveliness, surfacing from territorial surveys, of manufacturing and construction companies, whilst the South, as shown in the disappointing performance of the labor market, would seem to have recorded a diminishing in production.

From the information available so far, the financial balance of Public Administration is estimated to have deteriorated from 3.4% in 2004 to 4.1% in 2005, due especially to the slowing down of revenues linked to the weakness of the economic cycle. At the same time, a rise is estimated for the ratio between public debt and GDP, equal to 108.5% in 2005 compared with 106.5% in 2004.

The rate of inflation in 2005 was 1.9%. The inflationary effects of the energy sector were counterbalanced by the contained trend of prices for non-energy goods.

Banking industry

There was intense activity in the Italian banking industry during 2005. The upward trend in total loans (+7.7%) was well above growth in nominal GDP and was supported by the liveliness of sectors connected to the real estate market and service companies, the latter being influenced by some major operations in extraordinary finance.

During the year, household loans remained healthy (+11.7%), driven by residential mortgages (+17.4%) and consumer credit (+16.3%). The rise in property values and the continuation of expansive monetary conditions generally favored the growth in family debt. All the same, this remained at levels below the eurozone average.

Loans to companies (+5.1%) experienced only moderate growth over 2004, with big differences between the various compartments. The new flows were mainly directed towards services for sales, construction and public works. An important contribution was made during the year by the financing of merger and acquisition operations, especially in the communications sector. Loans to industry in the strictest sense were more limited (the trend in December showed a figure of +0.5%), due partly to the persistent subdued tone of the industrial cycle and partly to a continuing positive performance of self-financing by companies that, faced with a still moderate growth in investments, limited external financial requirements also for 2005.

At territorial level, the available data show a strong rise in loans in the various macro-areas, with the exception of the North West where the less pronounced change was the result of the drop in amounts issued to financial and insurance companies.

In 2005, division of loans by duration again showed a clear difference between the medium-/long-term (+10.8%) and the short-term (+0.5%) that can be explained by the rise in family residential mortgages, by the performance of liquid assets and by the ongoing process of restructuring company debt by due date.

Despite the continuing subdued tone of the cycle, during 2005 net non-performing loans recorded a significant drop on an annual basis (-32.8% in December), in line with the improvement of the quality of banking credit indicated by the main risk ratios and partly attributable to securitization operations carried out in the final part of the year.

The performance of banking deposits registered a brisk acceleration during the year (+7.9%), thanks to the contribution, on the one hand, of the growth in company current accounts, which supported the performance of overall deposits (+7.3%), and, on the other, the demand for banking bonds (+8.8%) which remained lively despite a slight deceleration.

In 2005, the rates of banking interest on liabilities performed in parallel to the different trend in reference rates on the monetary and bond market. Alongside the increase in current account and overall deposit rates, there was a slight drop in the banking bond rate. A fall in rates was also recorded for loans, for both financial companies and, to a greater extent, households. These performances led to a fall at the end of the year of 18 basis points in the short-term banking spread for households and companies.

Securities brokerage

The main international share indices closed the year on an upturn. While the positive performance of stock exchanges continued to reflect the good performance of company earnings, it also benefited from the continuing favorable trend in long-term rates. The performance of the indices was especially positive in the fourth quarter, coinciding with the fall in oil prices after the maximum levels in the summer.

Overall, the S&P500 gained 3%, Nikkei 40.2%, DJ Euro Stoxx 23% and Mibtel 13.8%. The differences in the performances are less marked if the appreciation of the dollar against the euro (15.2%) and the yen (14.4%) between January and December 2005 is taken into account.

At sectorial level in the United States, the biggest gains were made in the energy, utilities, pharmaceutical and financial compartments, whilst drops were seen in the sectors of durable consumer goods and telecommunications. In the eurozone, the performance of the financial, industrial and raw materials sectors was particularly positive, whereas the telecommunications compartment recorded a slight fall.

The good performance of prices raised stock market capitalization of Italian companies listed in the domestic market to 677 billion euro, equal to around 49% of GDP (from the 581 billion in 2004, equal to 43% of GDP). There were 15 new quoted companies during the year (8 in 2004). The flow of investments into the Italian market, channeled through Public Offers, amounted to 6.8 billion euro (12 billion in 2004) through 18 transactions (the same as the previous year). Funds obtained by listed companies through capital increases rose to 12 billion euro (compared to 3.3 billion in 2004), associated to 23 operations (28 in 2004). The average daily value of shares exchanged increased to 3.7 billion euro (as against 2.9 billion in 2004).

Asset management

The evolution of asset management enjoyed the positive effects of a broad revaluation of share prices in 2005.

Portfolio management and the insurance-pensions compartment continued to grow at significant rates. Mutual funds saw a solid rise in capital (+8.8%), rising to 585 billion euro in December 2005. Appreciation of the amounts (7.2%) made an important contribution to the growth, especially in those categories of funds with higher share content.

All the same, during the year, a positive contribution to the rise in the amounts of capital in mutual funds also came from the net inflow of new capital (+8.4 billion). Overall, investments were still guided by a prudent approach. The performance of deposits in fact favored bond funds, while equities showed a negative trend although they did begin to recover in the second part of the year.

On the basis of the available data, there has been an appreciable rise in the other major compartments of asset management, portfolio management and life insurance.

Action points and initiatives in the year

2005 was an important year for the SANPAOLO IMI Group: on the completion of the process to integrate and rationalize the Group banks, the growth objectives for 2006-2008 were defined with the formation of the Industrial Plan, approved by the Board of Directors on 25 October 2005.

The objectives of the 2006-2008 Plan, that can be summarized as achieving an RoE of 18% and a cost/income ratio of 52% in 2008, will be pursued by exploiting the historical strong points of the Group such as the high quality of assets, solid capital, close control of costs and the reputation of the brand, together with capitalizing on the potential resulting from the completion of the transition phase, with an operational development based on increasing market shares, broadening the customer base and the introduction of strategic products in sectors with a high growth potential. Achieving the growth outlined in the Plan will allow SANPAOLO IMI to realize its potential to the full and acquire a leadership on the domestic market in terms of sustainable growth, income and profitability.

With reference to banking activity, the Plan provides for the deployment of the Group's competitive power over the three years through exploitation of the territorial bank model, generated by the strong local roots of the operating points and strengthened by the consolidation of relations between the managers of local structures and central functions.

In order to optimize the business model, the growth strategies have been centered on four basic levers. The first two, pertaining to the 20 territorial areas/directorates of the network banks in which the Group is present in the country, are composed of increasing revenues deriving from the convergence of all operating units in the levels of best practice already achieved within the Group, and broadening the customer base through the ability to relate and attract. The other levers, overseen by the central structures, concern competitive initiatives for products and segments under development and the strengthening of the distribution model. With regard to products, the range of offers for household customers will be simplified and particular support will be given to high-potential compartments such as long-term savings, consumer credit, financial products for businesses and products for the protection of people and capital. The strengthening of the distribution model is centered on the opening of 246 new operating points foreseen in the 2006-2008 branch plan and on the "lean bank" project. The latter is aimed at creating instruments and procedures that streamline the administrative activities of the managers of the operating points, favoring the incisiveness of the commercial proposals offered to customers and at intensifying the use of the multi-channel infrastructure.

These objectives will be pursued with the aid of a contained and flexible organization: there is only one level between the General Manager and the branch managers made up of area managers/directors of the network banks who have made a major contribution to the Plan and are responsible for the achievement of its objectives and who therefore take on the role of "territorial bankers". This structure allows for the development of a relating bank, improving the relations with customers and local communities who are at the center of ever-increasing attention.

In line with the objectives of the Plan, 2005 saw the beginning of some projects aimed at increasing the capacity to generate revenue and at improving efficiency through the optimization of the use of human and financial resources.

With regard to the former, projects were started focused on the following themes:

- strengthening of the role of issuing loans to both retail customers, through an increase in the market share for residential mortgages and consumer credit, and to corporate customers, with especial attention to the small- and medium-sized enterprises (SME) segment, maintaining the high quality of the loan portfolio. The development of financing transactions will be accompanied by a maximization of cross-selling and an intensification of advisory and assistance services for companies with good creditworthiness and public authorities and entities;
- consolidation of the leadership in asset management through the optimization of customer investments on the basis of the specific risk/return profile, product innovation and extra-captive offer;
- reaching a leading position in the insurance compartment, taking advantage of the resizing and multi-business capabilities of the Savings and Assurance Pole and exploiting the opportunities of market development linked in particular to the protection of savings and private assurance.

Projects for optimizing the utilization of human and financial resources centered on:

- defining a branch operating model aimed at improving interaction with customers and the productivity of the network, strengthening the front office in terms of numbers of employees and training;
- increasing cost management activities with the aim of using resources more efficiently, through a review of cost-management processes and related responsibilities at Group level.

The structural reorganization of the Group, approved on 5 July 2005 following the progress of the integration processes and in preparation of the formulation of the Industrial Plan, has confirmed the organization by business lines, focused on specialization in activities in the sectors of "Banking", divided into Retail & Private and Corporate, "Savings and Assurance", and "Asset Management and International Private Banking". These Sectors are accompanied by the central functions of governance, support and control. It should be noted that in January 2006, it was decided to concentrate the activities of savings and assurance and asset management in Eurizon Financial Group.

The main initiatives taken in the year are described hereafter for each Business Sector.

Banking

The plan to rationalize the Group distribution network was continued from the beginning of 2005. It involves the transfer of operating points between commercial banks based on the principle that the branches within a reference territory with a specific historical brand should belong to the bank holding that brand. In January 2005, nine Cassa di Risparmio di Padova e Rovigo operating points and 21 Cassa di Risparmio in Bologna operating points were transferred to Sanpaolo and 10 Sanpaolo operating points were transferred to Cassa di Risparmio di Venezia and a further 10 to Friulcassa. In the second half of the year, the spread of the Sanpaolo network organizational and commercial model to other banking networks was completed.

A second wave of migration is expected to be completed in the first half of 2006 and will involve the banks in the North East and Emilia as well as the branches of Banca Popolare dell'Adriatico and the Parent Bank in the territorial re-ordering of the Adriatic region.

A further phase is foreseen for 2007 with the integration of the Group's distribution networks in Romagna with those of Cassa dei Risparmi di Forlì, an operation that falls under the Romagna project jointly run by SANPAOLO IMI and the Fondazione Cassa dei Risparmi di Forlì. On 29 December 2005, SANPAOLO IMI acquired a further share of the capital of Cassa dei Risparmi di Forlì, equal to 8.5%, for an outlay of 65.7 million euro. The investment brings the Group's overall interests to 38.3% and follows the exercising of a put option by the Fondazione provided for in the contract drawn up on 29 November 2000 between the Fondazione, SANPAOLO IMI and Cassa di Risparmio di Firenze. With the conferral of the branches in the Romagna area in 2007, SANPAOLO IMI will acquire control of Cassa dei Risparmi di Forlì. The realization of this project, that is in line with the national territorial bank model, is aimed at strengthening the Group's competitive position in the area and creating a single presidium in the area.

Retail & Private

Some initiatives were taken during the year to ease access to loans for the small business segment. A program was set up to support investments aimed at promoting the competitivity and excellence of quality of products and services with the support of the major Guarantee consortia. The project is characterized by the offer from the retail branches of specific medium-term financing for wide-ranging and new goals, and prompt and streamlined response. Assistance will also be available through agreements with leading consultancy operators and university faculties. Moreover, the Group has established agreements with the aggregations of categories aimed at improving mutual collaboration and easing access of the segment to financing.

In order to increase market shares in the retail and private sector, a boost was given to innovative activities in the compartments of residential mortgages and consumer credit.

With reference to residential mortgages, the range of offers has been broadened with the launch of a mortgage financing the purchase of property up to 100%. The offer of this product was made possible through an agreement with Genworth Financial, a leading American insurance company specialized in the sector of real-estate mortgages for residential use, which provides specific insurance coverage from credit risks exceeding 80% of the value of the property. Moreover, an agreement was defined with Banca Fideuram for the placement of residential mortgages to private clients through financial planners. The agreement will strengthen the distribution capacity of the Group with cross selling of products previously exclusively placed by the operating points.

In the area of consumer credit, the growing trend for family debt and the continuing growth potential of this compartment have suggested some actions on Neos Banca (formerly Finemiro Banca), the company that, together with its subsidiaries, is active in consumer banking. The group's identity was renewed in July through its new name, followed by a simplification and rationalization of the organizational structure which was concluded in September. Finally, the strategic importance assigned to the compartment led to the acquisition of the 2.7% share in Neos Banca held by Cassa di Risparmio di San Marino. The transaction brought SANPAOLO IMI's overall investment to 99.5%, further containing the dispersion of the value of the business generated in the bank by the Group.

With reference to the Turin 2006 Olympic Winter Games, SANPAOLO IMI initiated a number of commercial activities aimed at exploiting the role played by the Group as Main Sponsor, such as the offer of Olympic-themed credit, pre-paid and revolving cards, ticketing and a greater presence in the Olympic areas through a strengthening of the service, carried out also through the creation of temporary branches.

Corporate

Confirming the importance given to developing transactions with the SME segment, collaboration projects continued in 2005 with Guarantee consortia aimed at consolidating existing relations and acquiring new customers with a medium/high credit standing. With regard to medium-term financing for technological innovation in businesses, the initial plafond of 250 million euro allocated at the beginning of July 2004 for applied research was increased to 500 million euro, and some new actions were taken to increase the cost limits of projects to be financed, extending the offer to larger businesses, and to rationalize issuing of loans. Furthermore, a new product was defined in October that provides financial support for organic plans for investment in technology for businesses purchasing new technologies on the market. The financing methods are similar to those foreseen for applied research.

The Group's initiatives in the international compartment mainly pursued the objective of supporting the development abroad of Italian businesses in direct investment and commercial trade.

With regard to the Mediterranean Basin, a representative office was opened in Casablanca to support Italian enterprises there, strengthening the presence in the North African zone where the commercial agreements drawn up in 2004 with Banque Marocaine du Commerce Extérieur (BMCE) and Banque Internationale Arabe de Tunisie (BIAT, in which the Group has a shareholding of 5.6% through Sanpaolo IMI Internazionale) are operational. In Asia, a commercial agreement has been signed with ICICI Bank, one of the most important in India, and a representative office has been opened in Dubai as a reference point for Italian enterprises working in the Persian Gulf and with the further aim of developing relations with banking institutions in the area.

With regard to Eastern Europe, on 7 December 2005, SANPAOLO IMI stipulated an agreement to acquire 80% of Banca Italo Albanese (BIA) from Gruppo Capitalia and the Albanian Finance Ministry, equal holders of the capital under sale. The transaction, which is subordinate to the required authorization of the competent Supervisory Bodies, will be completed for a value of around 41 million dollars, plus the profit maturing up to closing. In this way, the Group aims to consolidate its presence in the area where it already has investments in Hungary with Inter-Europa Bank (85.9%), Romania through Sanpaolo IMI Bank Romania (98.6%) and Slovenia through Banka Koper (63.9%).

Finally, SANPAOLO IMI has subscribed to the Global Trade Finance Program of the International Finance Corporation (IFC) in Washington that aims to promote development of trade with emerging and developing countries. To achieve this aim, the IFC acts through the subscribing banks, offering guarantees of payment for supplies to countries with a high risk profile. As a member of the program, SANPAOLO IMI has a partial or total coverage of the risks underwritten with banks in emerging markets for the import/export of goods and services and may extend customer risk coverage in new markets, including especially complex transactions.

With regard to investment banking, Banca IMI strengthened its role on the Italian market, intensifying its corporate finance and structured finance activities and participating in major operations such as the acquisition of a shareholding in Wind by the Weather/Sawiris group and the placement of the shares of Fondo Immobili Pubblici (public real-estate assets), the largest real-estate mutual fund in Italy. In the second half of the year, Banca IMI, in accordance with the guidelines of the three-year Plan of the SANPAOLO IMI Group, defined some initiatives to maximize integration and synergies of its activities within the Group. In more detail, the bank must use its specialist activities to support the bodies responsible for the customer segments, not only in the offer of financial services to businesses but also in the creation of financial products for households. It will have the job of selectively developing its activities on financial markets, exploiting the critical mass of customer dealing flows. It must also take the opportunities offered by international markets to make the most of its distinctive competences. In February 2006, Banca IMI drafted its three-year plan, setting out the actions necessary to achieve the described objectives, in confirmation of its designated role of investment bank within the Group.

In the sector of Public Authorities and Entities, dedicated to the development of relations with the reference organizations and institutions, commercial presidiums were set up in April 2005 with the goal of improving the competitive position with regard to the reference customers, characterized by an increasing administrative and financial decentralization and growing competition on revenue margins. These presidiums, distributed around the country and entirely dedicated to the subject customers, are responsible for the direct starting-up of origination activities or for the support of operating points in their promotional functions. This action implemented the agreement stipulated at the end of 2004 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 financing and bridging loans for medium-/long-term transactions for Banca OPI; short-term loans for the Group banking networks).

Other Banking initiatives

The agreements concerning the FIAT group and Italenergia Bis (IEB) underwent significant changes during the period.

On 20 September 2005, the integral debt conversion was completed of the loan of three billion euro to the FIAT group to which SANPAOLO IMI, together with other banks, had subscribed in July 2002 for a share equal to 400 million euro. The conversion was effected at the share price of 10.28 euro, bringing SANPAOLO IMI's overall share in FIAT up from 1.14% to 4.39% of ordinary capital. On 20 January 2006, the Group placed the entire share of capital deriving from the "convertible facility" on the market at the share price of 7.70 euro. As a result, the Group continues to own, through IMI Investimenti, a share of 0.84% of the ordinary capital of FIAT, deriving from the stable investments preceding the issuing of the above-mentioned loan.

During 2005, the Group ceded its 12.48% investment in IEB held through IMI Investimenti. On 1 September 2005, SANPAOLO IMI, together with Banca Intesa and Capitalia, executing the sale options related to EDF – Electricité de France foreseen in the contracts drawn up in 2002, ceded to the company entirely controlled by EDF IEB shares and warrants and Edison shares. Capital ceded by the Group totaled 7.82% of IEB and 0.97% of Edison, for an overall total of 387.7 million euro. On 9 September 2005, on the basis of the Framework Agreement with FIAT of May 2002, SANPAOLO IMI ceded the 4.66% share (held by IMI Investimenti) to another company controlled by EDF for a sum of 223.3 million euro, together with related warrants, at the same time as the closing of sale options between FIAT and EDF. Finally, at the end of October 2005, the Group had gained a total of 28.7 million euro thanks to the sale of its share of Edison warrants, recognized by EDF as the property of the three banks, following the definition of a deal between the parties aimed at the complete and immediate resolution of all residual pending items.

Savings and Assurance

With the aim of strengthening the rationalization of the Group's insurance activities and further increasing their industrial value, economic weight and market relevance, the Savings and Assurance sector was set up during the year. On 5 July 2005 the Board of Directors of SANPAOLO IMI decided to concentrate the insurance activities of Assicurazioni Internazionali di Previdenza (A.I.P.) and the asset gathering activities of Banca Fideuram in the Sector. On 10 November 2005, the investments previously held by SANPAOLO IMI in A.I.P. and Banca Fideuram were transferred to New Step, a newly-founded company reporting directly to the Parent Bank, which later took the name Eurizon Financial Group.

The new Pole gathers together the Group's competences in the production and distribution of insurance and financial products, able to meet the needs of savings protection, personal assurance and defense of assets. The aims of this organizational and company reconfiguration may be defined as:

- strategic positioning with greater visibility and perception of the value of asset gathering and management of insurance and pension savings;
- focusing of existing structures and activities, characterized by related competences and mutual opportunities for exploitation, with the creation of a large and highly efficient production/distribution platform;
- strategic options linked to growth opportunities for external business lines in the context of the ongoing aggregations.

The corporate reorganization has also worked to ensure the single companies, A.I.P. and Banca Fideuram, positive strategic and business returns. In particular, both:

- confirm the current mission and business model – leadership in asset management for the reference customers for Banca Fideuram and excellence in the insurance business for A.I.P. – opening up new development opportunities through a better exploitation of respective know-how;
- benefit from the contiguity/similarity of production and distribution, maximizing speed of action on behalf of the customer;
- improve their respective position through direct affiliation to a conglomerate with an integrated strategy focused on asset management and assurance.

In reference to Egida, the group's casualty insurance company 50% controlled by A.I.P., on 25 October 2005 the Board of Directors of SANPAOLO IMI authorized A.I.P. to exercise the call option for the remaining 50% of the company capital held by Reale Mutua. The acquisition of total control of Egida will lay the foundations for the development of the casualty business that will be an important growth area in the Industrial Plan of the new Pole.

In order to strengthen business in the Savings and Assurance sector further, on 24 January 2006, the Board of Directors of SANPAOLO IMI decided to concentrate Sanpaolo IMI Asset Management, a company totally controlled by the Parent Bank, in Eurizon Financial Group. The objective of the operation is to consolidate the organizational model based on the distinction between product factories, concentrated in the Pole, and the banking distribution networks. The Board of Directors also authorized the start of the activities necessary for the market listing of Eurizon, with which the company will be able to access capital markets directly, helping the development of products with high capital absorption, and to create the conditions to exploit future possibilities for growth by external lines or partnerships.

Asset Management and International Private Banking

The Sector brings together the business lines of Asset Management, dedicated to developing wealth management for private and institutional clients, and Investment Management Advisory and International Private Banking, aimed at developing advisory services for high-standing network customers and the presidium, through the companies falling within its perimeter, of international private banking.

With the goal of obtaining ever-higher levels of efficiency in asset management, in the last part of 2005 the merger by incorporation took place of Sanpaolo IMI Institutional Asset Management, the SGR specialized in management and advisory services for institutional customers, into Sanpaolo IMI Asset Management which already held total control. The merger will lead to a single presidium of business processes, with a better operational streamlining as well as synergies of purpose and cost obtained by the integration of management, commercial and product development structures.

Central Functions

With regard to banking investments, on 28 September 2005, the Board of Directors of SANPAOLO IMI decided to exercise the call option held with Ente Cassa di Risparmio di Firenze for 10.8% of the capital of the bank Cassa di Risparmio di Firenze. The Group's call option is the result of agreements signed in November 1999 with Ente Cassa di Risparmio di Firenze and BNP Paribas which provided for such option should the Ente choose not to renew the trust agreement. The exercise of the option was in any case contested by the Ente, meaning the sale could not be perfected, pending the arbitrator's award initiated by SANPAOLO IMI in accordance with the agreements.

In the second half of 2005, the SANPAOLO IMI Group stipulated a shareholders' agreement with five other banks with shareholdings in SI Holding, which totally controls CartaSì, the Italian leader in the credit card sector, in order to take control of SI Holding. On 27 January 2006, the banks in the agreement had subscriptions to the sale offer for a total number of shares equal to almost 46% of the share capital of SI Holding. Following the completion of the purchase, and pending the necessary authorization, the overall investment of the pool of banks will total 70% of the capital. With this transaction, the banks of the agreement intend to keep CartaSì within the interbank framework and give continuity to the service offered. At the same time, the service will be rationalized and made more efficient.

Consolidated results

The consolidated results for 2005 must be considered in the light of the changes brought about by the introduction of international accounting standards (IAS/IFRS) that the Group has applied since the 2005 Half Year Report. These standards, issued by the International Accounting Standards Board (IASB) and approved by the European Commission, have had a profound impact on the criteria for drawing up the report, beginning a process of standardizing the financial information for European businesses that is the first step in the creation of an integrated market. In order to provide the most consistent comparison, information for 2004 has been reconstructed pro forma and full IAS.

Application of the new accounting standards has led to a modification of the perimeter of consolidation: the most important change is the line by line consolidation of the insurance companies, previously reported in the financial statements according to the net shareholders' equity method. The revenue entries of the insurance compartment, partially not homogeneous with banking activities, have therefore been grouped in a specific item. Minor effects are related to the change from proportional consolidation to line by line consolidation of Banka Koper and evaluation by net equity of Cassa dei Risparmi di Forlì and Allfunds Bank, previously consolidated proportionally. Finally, the Fideuram Wargny grouping, ceding of which is foreseen by the end of 2006, has been synthetically consolidated in the profits on groups of discontinued operations.

Summary of results

In 2005, the SANPAOLO IMI Group showed a sharp rise in the main income margins compared with 2004, reclassified on a homogeneous basis, with a growth in revenues in the second half of the year.

Total operating income, representing revenue and including income from insurance business, increased by 10.6% thanks to the favorable trend of the major components, in the light of a growth of 3.8% and 9.5% in the first six and nine months, respectively. Net operating income, that benefited from a reduction in net adjustments, rose by 13.1% compared to 2004. The growth in pre-tax operating profit was 53.4%, thanks also to containment of operating costs and a fall in provisions for risks and charges.

Net profit for 2005 was 1,983 million euro, a rise of 57.9% compared to the 1,256 million of the previous year reconstructed pro forma. The significant rise in profit was reflected in an increase in annualized RoE, calculated relating the net profit to net shareholders' equity at the end of the period (excluding profit), which rose from the 11.9% of 2004 to 17.2%.

Net interest income

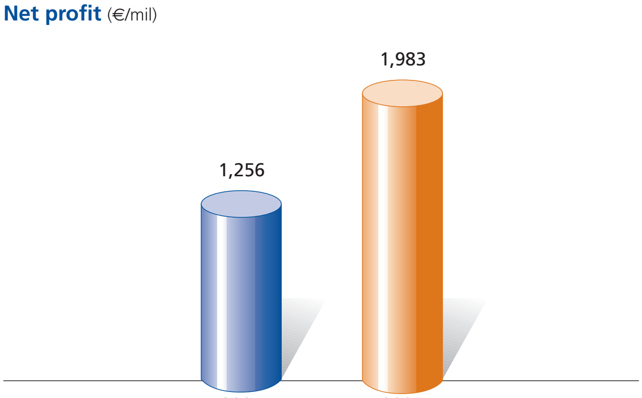
Net interest income, equal to 3,795 million euro, increased by 3% compared to 2004. Concentrating on the analysis of the banking core business, with the exclusion of atypical components characterized by greater volatility attributable to the investment banking activities of Banca IMI, percentage growth rose to 4.9%. Therefore, the positive performance of income represented an interruption in the downward trend seen during 2004.

In order to determine the net interest income of the core banking business, average amounts and rates have been analyzed excluding investment banking activities.

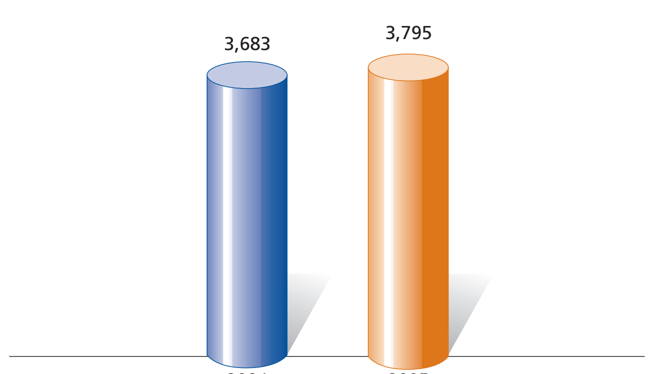
The main growth factor is attributable to the contribution of volumes dealt, only partly diminished by the negative effect on prices following the reduction of the spread and the different mix of assets. On average, the Group's interest-earning assets rose by 10.5% compared to 2004. All the main components contributed to the increase: loans to customers (+5.6%), making up around three-quarters of interest-earning assets, securities (+29.8%) and other interest-earning assets, including repurchase agreements (+25.6%). Average amounts of interest-bearing liabilities showed a rise of 10.6%, due to the rise in customer deposits (+11.2%), driven by deposits and securities, and other interest-bearing liabilities (+8.9%).

The total spread, equal to 2.09%, fell 12 basis points compared to 2004, while the spread related to customer transactions was

Net profit (€/mil)



Net interest income (€/mil)



down 16 basis points. The reduction should be seen in the context of a market characterized by excessive supply of loans by the system that has fueled levels of competition and, at the same time, the liquidity of companies that has led to an increase in the more costly corporate deposits.

After being basically stable in the first nine months of the year, money market rates began to rise in the last quarter as a result of expectations of a tightening of European monetary policy. The ECB took concrete action in December by raising the official rate, which had been set at 2% since June 2003, by 25 basis points. In average terms, during 2005 three-month Euribor rose by 7 basis points compared to the previous year.

Total operating income

Total operating income, expressed in the revenues including income from insurance management, totaled 8,402 million euro, a rise of 10.6% compared to the previous year. Growth was sustained by the performance of the above-mentioned net interest income, the rise in commissions (+6.8%) and the strong growth

Net interest income

	2005 (€/mil)	2004 (1) (€/mil)	Change 2005 / 2004 (%)
Interest income and similar revenues	7,463	7,226	+3.3
Interest expenses and similar charges	-3,668	-3,543	+3.5
Net interest income	**3,795**	**3,683**	**+3.0**
of which: Banca IMI	*71*	*132*	*-46.2*
Net interest income excluding investment banking	**3,724**	**3,551**	**+4.9**

(1) Pro forma figures reconstructed on a homogeneous basis, including an estimate of the impact of IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

Analysis of average amounts and interest rates (1)

	2005		2004		Change 2005 / 2004	
	Average amounts (€/mil)	Average rate (%)	Average amounts (€/mil)	Average rate (%)	Change in average amounts (%)	Difference in rates (points %)
Interest-earning assets	202,973	n.s.	179,496	n.s.	+13.1	n.s.
- interest-earning assets excluding investment banking	171,214	4.14	154,941	4.22	+10.5	-0.08
- loans to customers (excluding repurchase agreements)	*126,429*	*4.64*	*119,724*	*4.72*	*+5.6*	*-0.08*
- securities	*17,533*	*2.93*	*13,512*	*3.06*	*+29.8*	*-0.13*
- other interest-earning assets	*27,252*	*2.62*	*21,705*	*2.21*	*+25.6*	*+0.41*
- interest-earning assets from investment banking	31,759	n.s.	24,555	n.s.	+29.3	n.s.
Non interest-earning assets	64,578		63,467		+1.8	
Total assets	**267,551**		**242,963**		**+10.1**	
Interest-bearing liabilities	196,146	n.s.	172,617	n.s.	+13.6	n.s.
- interest-bearing liabilities excluding investment banking	164,841	2.05	149,026	2.01	+10.6	+0.04
- direct customer deposits (excluding repurchase agreements)	*125,018*	*1.89*	*112,444*	*1.81*	*+11.2*	*+0.08*
- due to customers	*76,899*	*1.10*	*70,580*	*1.02*	*+9.0*	*+0.08*
- securities issued	*48,119*	*3.15*	*41,864*	*3.14*	*+14.9*	*+0.01*
- other interest-bearing liabilities	*39,823*	*2.53*	*36,582*	*2.62*	*+8.9*	*-0.09*
- interest-bearing liabilities from investment banking	31,305	n.s.	23,591	n.s.	+32.7	n.s.
Non interest-bearing liabilities	58,646		58,611		+0.1	
Shareholders' equity	12,759		11,735		+8.7	
Total liabilities and shareholders' equity	**267,551**		**242,963**		**+10.1**	

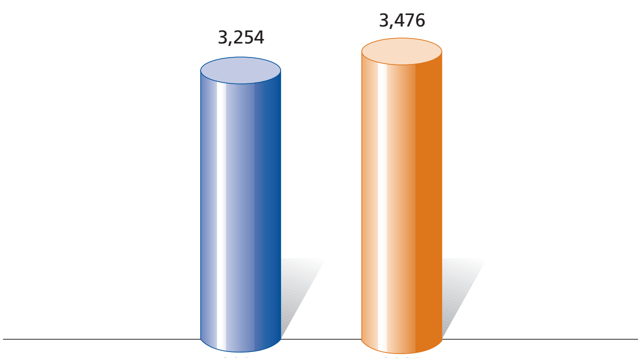
(1) Excluding accruals and changes in assets and liabilities subject to hedging by derivative instruments.

in dividends and income from other financial assets and liabilities (+99.2%), as well as in profits on equity shareholdings (+41.5%) and income from insurance business (+31%).

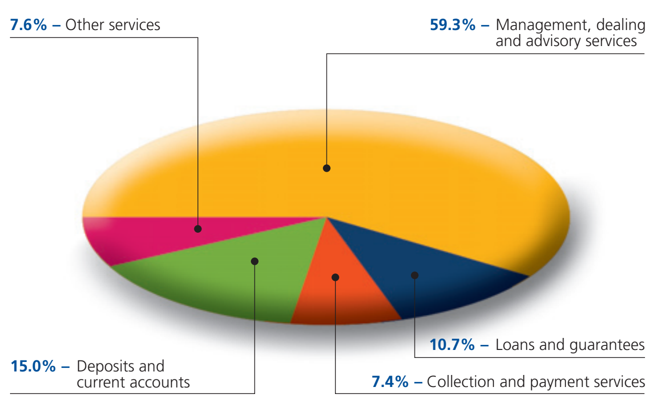
Net commissions amounted to 3,476 million euro compared to the 3,254 million in 2004. Commissions from management, dealing and advisory services, making up over 60% of the total, rose by 10.8% compared to 2004 due to commissions on asset management (+10.9%) and securities dealing and safekeeping, and currency dealing (+10.1%), a compartment that benefited from advisory fees linked to the Wind transaction. The performance of the aggregate was also favored by the trend of financial markets: the Comit index rose by 13.8% since the end of 2004, continuing the positive trend seen in the previous two years. Endogenous growth factors included a change in the mix of asset management attributable to the orientation of customers towards products with a higher share value, particularly fund-based portfolio management and insurance. There was in fact a re-conversion of the assets accumulated on the money compartment towards products with a higher added value, in terms of both portfolio management and protection of capital and security.

Loans and guarantees and collection and payment services respectively rose by 4.8% and 4.1%, attributable to the growth of transactions that also benefited from the broadening of the range of offers with products increasingly meeting the customer requirements for streamlining and flexibility. Changes in commissions generated by other areas were more contained. In more detail, in the residual aggregate of other commissions, there was the acquisition of commissions on tax collection for 60 million euro in the

Net commissions (€/mil)



Break-down of commissions in 2005



Total operating income

	2005 (€/mil)	2004 (1) (€/mil)	Change 2005 / 2004 (%)
Net interest income	3,795	3,683	+3.0
Net commissions	3,476	3,254	+6.8
- management, dealing and advisory services	2,062	1,861	+10.8
- asset management	*1,800*	*1,623*	*+10.9*
- securities dealing and safekeeping, and currency dealing	*262*	*238*	*+10.1*
- loans and guarantees	372	355	+4.8
- collection and payment services	256	246	+4.1
- deposits and current accounts	520	528	-1.5
- other services	266	264	+0.8
Income from credit disposals, assets held to maturity and repurchase of non-hedged financial liabilities	58	-13	n.s.
Dividends and income from other financial assets and liabilities	526	264	+99.2
Profits (losses) on equity shareholdings	116	82	+41.5
Income from insurance business	431	329	+31.0
Total operating income	**8,402**	**7,599**	**+10.6**

(1) Pro forma figures reconstructed on a homogeneous basis, including an estimate of the impact of IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

second half of the year, following the legal regulation of fixed public contributions in the sector which reversed the annual downward trend on an annual basis seen in the first nine months.

Income from credit disposals, assets held to maturity and repurchase of non-hedged financial liabilities, totaling 58 million euro, includes the positive effects (22 million) of the pro soluto disposal by the Group of non-performing financing lower than 50,000 euro for a total declared loan of 278 million euro and a net value of 37 million euro. The caption also includes the collection by Banca OPI of penalties for the early repayment of mortgages (17 million euro). The income for 2005 is to be compared with the negative total of 13 million recorded in 2004, attributable to the annulment of bonds issued.

Dividends and income from other financial assets and liabilities include current income from transactions in financial instruments, realized or evaluated at fair value, and profits and losses on the available portfolio for sales and dividends. The latter include figures related to the minority interest of the Group in the available for sale portfolio and also trading securities of the investment banking activities of Banca IMI. The caption also includes the price differentials for the repurchase of own shares, generally made above par due to the fall in rates, and the effect of the closing of the relative hedge derivatives.

Dividends and income from other financial assets and liabilities amounted to 526 million euro, almost double the 264 million recorded in 2004. This significant increase is attributable to the typical operations of Banca IMI in corporate finance, amongst which participation in the Wind transaction - the biggest leveraged buy-out in Europe -, and the equity capital markets in the wake of the positive tone of international stock markets. Considerable support came from commercial banks through the issuing of derivative contracts for business customers. The results for the year also include some one-off components: the conversion of the FIAT loan and the Italenergia Bis (IEB) transaction. The former produced a positive differential of 51 million compared to the negative evaluation of 167 million in the embedded derivative made on the first application of IAS/IFRS on 1 January 2005, to which must be added 2 million for the re-evaluation of the position listed in the trading portfolio as at 31 December 2005. The sale of FIAT shares, completed in January 2006, gave rise to a further capital gain of 11 million euro that will be recorded in the 2006 accounts. The disposal of investments in IEB generated a capital gain of 116 million following the execution of the put option by the banks holding equity in the company and the exercise of the rights inherent in the Edison warrants still in the portfolio.

Profits on shareholdings evaluated at net shareholders' equity, equal to 116 million euro, rose by 41.5% compared to the previous year due to the capital gain on disposals of Esatri and some other interests in the private equity compartment.

Income from the insurance business related to the life and casualty companies headed by Assicurazioni Internazionali di Previdenza includes net premiums and charges related to losses, net commissions and the proceeds from financial instruments and investments. The income amounted to 431 million euro, an increase of 31% compared to 2004. The growth is mainly attributable to the favorable trend in financial management due to the realization of capital gain in the portfolio of available for sale securities. At the end of the year, the evaluation reserve for available for sale financial assets totaled 91 million euro, against the 94 million at the beginning of the year.

Net operating income

Net operating income in 2005 increased by 13.1% compared to the preceding year, totaling 7,912 million euro.

This growth benefited from the decrease in net adjustments to loans (-9.3%) and other financial assets (-98.4%) which in 2004 discounted maturing losses on some shareholding investments. The resizing of adjustments to doubtful loans confirms the improvement of the risk profile for the Group's loan portfolio which also allowed a recovery in some uncertain positions. In fact, adjustments to doubtful loans fell from 469 million euro in 2004 to 299 million, including the write-down of some major exposures. On the other hand, general adjustments to inherent credit risks in the performing portfolio rose from 70 to 190 million euro, linked also to the current state of the economic cycle.

There were virtually no net adjustments to other financial assets in 2005 as there were no significant losses in the securities, bond and equities portfolios. In 2004, however, there were some write-downs mainly attributable to Hutchison 3G Italia (now 3 Italia); in 2005, investment in this company was not re-evaluated given the uncertainty of the economic value of the initiative after the postponement of its listing.

Net operating income

	2005 (€/mil)	2004 (1) (€/mil)	Change 2005 / 2004 (%)
Total operating income	8,402	7,599	+10.6
Net adjustments to loans	-489	-539	-9.3
Net adjustments to other financial assets	-1	-62	-98.4
Net operating income	**7,912**	**6,998**	**+13.1**

(1) Pro forma figures reconstructed on a homogeneous basis, including an estimate of the impact of IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

Pre-tax operating profit

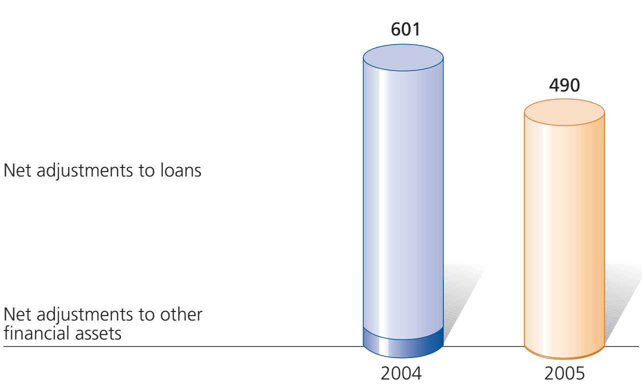
Pre-tax operating profit totaled 3,023 million euro, an increase of 53.4% over 2004. The performance benefited from the positive trend in revenues, the reduction in operating costs, from the reduced impact of provisions for risks and charges and the positive evolution of other net income and profits from disposals of investments.

Containment of costs in 2005 led to a decrease of 0.5% in operating costs which amounted to 4,790 million euro.

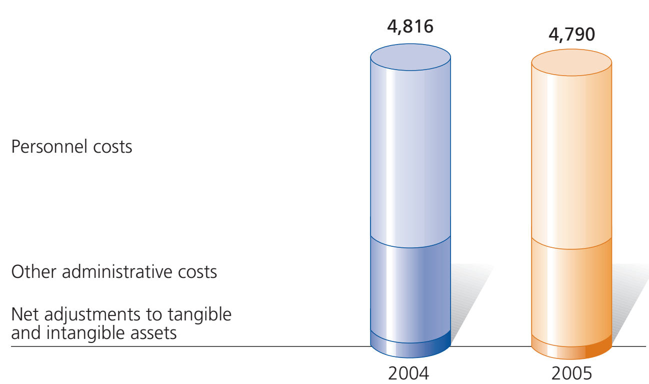
Personnel costs, totaling 2,839 million euro, remained stable compared to the same period in 2004. A positive contribution came from the rationalization and turnover of the staff carried out in the preceding two years through staff leaving incentive plans, also using the Fund for staff in the banking industry, which led to significant savings in terms of fixed costs through the departure of long-service personnel and their partial replacement by new, young employees. The efficiency of these actions has led to the absorption of the ordinary dynamics of payroll, the rises caused by the national collective labor contract, renewed in February 2005, the effect of turnover in the year and greater provisions for incentive charges connected to the positive trend in the results. On average, there were no significant changes in the number of employees of the Group (-0.2% compared to 2004). It should be noted that, in accordance with the new accounting standards, personnel costs include atypical labor contracts, the cost of employee stock options, remuneration of Members of the Board, net provisions for fixed-term insurance funds, retirement allowance and provisions for service bonuses, but exclude personnel costs for projects which are amortized on a three-year basis commencing on the conclusion of the reference project.

Other administrative costs (net of related recoveries), fell by 0.7% compared to 2004 and amounted to 1,514 million euro. The trend was positively influenced by the integration of the commercial banks and the subsequent concentration in the Parent Bank of cost management and contracts with suppliers, to the advantage above all of the IT and logistics areas. General expenses and utilities, due to a reduction in telephone costs which more than compensated for the increase in energy charges, and indirect personnel costs also decreased, the latter thanks to lower charges for mobility sustained in 2004 in support of migration. On the other hand, there was an

Net adjustments to loans and other financial assets (€/mil)



Operating costs (€/mil)



Pre-tax operating profit

	2005 (€/mil)	2004 (1) (€/mil)	Change 2005 / 2004 (%)
Net operating income	7,912	6,998	+13.1
Operating costs	-4,790	-4,816	-0.5
- personnel costs	-2,839	-2,841	-0.1
- other administrative costs	-1,514	-1,525	-0.7
- net adjustments to tangible and intangible assets	-437	-450	-2.9
Other net income (expenses)	74	41	+80.5
Impairment of goodwill	-47	-58	-19.0
Profits (losses) from disposals of investments	17	3	n.s.
Net provisions for risks and charges	-143	-197	-27.4
Pre-tax operating profit	**3,023**	**1,971**	**+53.4**

(1) Pro forma figures reconstructed on a homogeneous basis, including an estimate of the impact of IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

increase in promotion and advertising expenses due to the Olympic Winter Games Turin 2006 for which SANPAOLO IMI was Main Sponsor; these expenses spiraled in the last quarter of the year as the games drew nearer to their fixture for February 2006. Professional and insurance fees also grew, due to an increase in mortgage and land survey charges determined by the 2005 Budget Law on mortgage information, professional fees linked to strategic and mandatory projects and commercial development, as well as premiums related to insurance coverage, especially affecting the steady growth of products placed with customers.

The 2.9% decrease in net adjustments to tangible and intangible assets in comparison to the previous year is attributable to better management of investments by the commercial banks in the IT sector following concentration in the Parent Bank.

The cost/income ratio of the Group fell from the 63.4% in 2004 to 57%, an improvement of 6.4 percentage points due mainly to the favorable performance in revenues.

The increase in other net income, which totaled 74 million euro against the 41 million for 2004, must be seen in relation to income and reimbursement of services rendered to third parties, as well as to the recovery of tax arrears under risk and other out-of-period income. Impairment of goodwill, totaling 47 million euro, is almost totally attributable to the write-back of goodwill on the investment in Cassa dei Risparmi di Forlì. The rise in profits from the disposal of investments, equal to 17 million euro against 3 million in 2004, is due to the disposal of property and computers to third parties.

Net provisions for risks and charges fell by 27.4% compared to the previous year and reached 143 million euro. The decrease was caused by the release of funds at the Parent Bank exceeding the evaluation of probable outlay risks connected to the re-negotiation of subsidized loans and legal disputes. The recovery amply compensated for the rise in amounts allocated to cover legal disputes and risks connected to defaulted securities placed in previous years, and the presidium of disputes arising from the disposal of investment. The subsidiary A.I.P. also made provisions for liabilities of an indefinable amount represented by bonuses to be awarded to employees on the achievement of certain objectives and to subscribers to financial products that hold the investment for the established duration.

Net profit

Net profit for the year, after deduction of taxes and the share attributable to minority interests, amounted to 1,983 million euro, a rise of 57.9% compared to 2004. The result benefited from the IEB transaction, equal to a total of 136 million euro.

Other administrative costs (1)

	2005 (€/mil)	2004 (2) (€/mil)	Change 2005 / 2004 (%)
IT costs	399	423	-5.7
Property costs	299	290	+3.1
General expenses	205	231	-11.3
Professional and insurance fees	243	238	+2.1
Utilities	80	85	-5.9
Promotion, advertising and marketing expenses	132	101	+30.7
Indirect personnel costs	101	106	-4.7
Indirect duties and taxes	55	51	+7.8
Other administrative costs	**1,514**	**1,525**	**-0.7**

(1) Expenses are expressed net of their recoveries.
(2) Pro forma figures reconstructed on a homogeneous basis, including an estimate of the impact of IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

Net profit

	2005 (€/mil)	2004 (1) (€/mil)	Change 2005 / 2004 (%)
Pre-tax operating profit	3,023	1,971	+53.4
Taxes for the period	-948	-743	+27.6
Profits (losses) on groups of discontinued operations	-35	76	n.s.
Profit attributable to minority interests	-57	-48	+18.8
Net profit	**1,983**	**1,256**	**+57.9**

(1) Pro forma figures reconstructed on a homogeneous basis, including an estimate of the impact of IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

For the purposes of IRES and IRAP, the results of the IAS statement of income are usually recorded as taxes for the period. With regard to deferred credit and debit taxation, the IAS standards confirm the dispositions already present in Italian accounting standards; consequently, application of the new accounting standards has had no major tax effects compared with the past, in accordance with the neutrality of taxation that puts businesses using IAS financial statements on an equal standing to those continuing to apply national standards.

With a tax charge of 948 million euro, the tax rate of the SANPAOLO IMI Group was 31.4%, over six percentage points lower than that recorded in 2004, mainly as a result of the increase in the number of exempted proceeds, such as income from the disposal of investments, and the lack of non-deductible financial assets, such as adjustments to investments, shown in the previous year's accounts. Moreover, 2005 benefited from the reduced effect of non-deductible costs for IRAP mainly made up of personnel costs and adjustments to loans.

Among the profits on groups of discontinued operations (including activities which have been deemed excluded from the productive process), in 2005 a capital loss was synthetically recorded for the Fideuram Wargny grouping, whose disposal is foreseen by the end of 2006. In 2004, however, a capital gain was entered for the sale of the last share of Finconsumo and the property spin-off, net of the negative effect of the evaluation of Fideuram Wargny.

Quarterly evolution of the consolidated results

The results of the fourth quarter of 2005 confirm the growth in income seen in the second and third quarters. In more detail, total operating income, equal to 2,157 million euro – slightly less than that in the previous two quarters – was the highest for the year if one excludes the quarterly flows from non-recurring and/or one-off events such as the closure of the IEB transaction, the conversion of the FIAT loan, the disposal of investments in merchant banking transactions and the anomaly recorded in quarterly taxation commissions following the extension of licenses in September.

As far as operational aggregates are concerned, both customer financial assets and financing followed the growth trend seen in the third quarter. Particular mention should be made of the positive trend in short- and medium-/long-term financing to households and loans to companies, as well as the expansion of corporate and structured finance. The widespread recovery of the utilization and placement of financial assets was the driving force behind the growth in revenues, affecting net interest income and commissions.

Operating costs in the fourth quarter were higher than in the preceding quarters, not only because of the seasonal effects of the end of the year, but also because of the rise caused by promotional, sponsorship, merchandising and hospitality expenses for the "Turin 2006" Winter Olympics. In the final part of the year, personnel costs were affected by the provisions for the variable component of incentive systems, following the good performance of the economic results, and the trend in contractual rises. Adjustments showed a slight quarterly rise linked to an intensification of investments supporting the business and restyling of branches in the Olympic sites in the last part of the year.

Net profit in the fourth quarter was 474 million euro, lower than that shown in the second and third quarters, but above the 333 million euro recorded in the first quarter of 2005.

Embedded value of the life insurance business

Introduction

The Group's insurance business in concentrated 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 since 31 December 2005) and Fideuram Assicurazioni, as well as the insurance administrative-IT outsourcing company Universo Servizi.

During 2005, there was a reorganization of insurance and savings activities with the creation of the holding for the Savings and Assurance Pole, Eurizon Financial Group S.p.A., that directly controls both A.I.P. and Banca Fideuram and which, during 2006, will widen its perimeters with the addition of Sanpaolo IMI Asset Management.

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

The consolidated result of A.I.P., determined on the basis of IAS and including income from Group casualty management, contributed 228 million euro to Group income in 2005. Net income for the year generated in other Group companies related to insurance business, determined after associated costs, adjustments for deferred acquisition costs and taxes, and net of minority interests (mainly in Banca Fideuram), amounted to 181.5 million euro.

A more representative method of determining value and 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.

Embedded value is an actuarial estimate of the value of a company, calculated on a going-concern basis but excluding any value attributable to future new business.

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

Given the importance 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 arising from other Group companies, net of related costs, taxes and minority interests.

The summary presented is based on actuarial techniques typically used in traditional reporting of embedded value.

In any case, the Company is progressing with a development plan for the evaluation of the embedded value and the economic capital that will lead, in the coming months, to the preparation of a report in the style of European Embedded Value, in line with the standards laid down by the CFO Forum. Techniques of stochastic projection will enrich information on the embedded value, the characteristics of the insurance portfolio and the economic capital of the life business with the parallel clarification, of, for example, the cost of implicit guarantees (Financial Options and Guarantees).

Methodology and assumptions

Calculations at 31 December 2005 and 31 December 2004 have been carried out with the assistance and under the supervision of leading consulting actuaries. The evaluations are based on deterministic projections of future net flows founded on civil law for the technical insurance entries. Moreover, reconciliation has been carried out with the IAS results of A.I.P.'s consolidated financial statements by adjusting some shareholders' equity entries.

Inherent risks are accounted for through the use of a single discount rate and an explicit assumption for the level and cost of holding capital. Adoption of the CFO Forum standards will allow a recalculation of the discount rate and its breakdown into the typical risk components of the insurance business, highlighting the capital absorption for financial and insurance risks.

Adjusted shareholders' equity is based on the consolidated shareholders' equity of A.I.P., according to IAS, with adjustments in those components to be reported at fair value. The major adjustments concern: i) the write-off of the reserve for shadow accounting in that the surplus value of hedging assets for insurance products is already incorporated in the forecast for returns used for the development of liabilities; ii) elimination of intangible assets; iii) the write-off of those components differentiating costs and revenues (Deferred Acquisition Costs and Deferred Reserve) as they are already contained in the generation of the model with the timing of the effective cash flow; iv) the cost associated to the taxes payable in advance pursuant to D.L. 168/2004 and the evaluation of other inland revenue credit.

The value of the in-force business is calculated as the present value of the projected 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, calculating assets against technical reserves on the basis of financial statement values, adjusted to allow for the cost of holding an amount of free 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, 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, and include the equity risk premium to allow for the risk that the assumptions made in projecting future profits may not be borne out in practice.

In more detail, the reference economic background as at 31 December 2005 showed investment returns on 10-year BTPs of 3.50% (compared to 3.85% at 31 December 2004), while total returns on equities were set equal to 6% (6.35% in 2004). On this basis, a discount rate was set at 6.25% used for all business lines (6.6% at 31 December 2004). The risk premium between the discount rates and the 10-year government bond rate was therefore kept at 2.75%.

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

- for the segregated funds, the average rates (including only management/minimum deduction commissions) used were equal to 4.31% for the first five years and 3.85% for subsequent years (compared to 4.36% for the first five years and 3.51% for subsequent years in 2004). These rates allow for the emergence of unrealized gains and losses in the funds;
- for unit-linked funds, the projected rates of return, before all management charges , were set at 4.15% (4.29% in 2004) for Sanpaolo Life, whereas for A.I.P. the average rates considered were 4.1% (4.35% in 2004) for guaranteed funds and 4.45% (4.25% in 2004) for non-guaranteed funds.

Group embedded value and added value

As at 31 December 2005, the consolidated embedded value of the Group’s life insurance business, net of minority interests, was estimated at 2,648 million euro, an increase of 215 million euro compared to 31 December 2004. The value earnings in the year of the Group’s life insurance business amounted to 446 million euro and are determined as (i) the change in the embedded value in the year, plus (ii) dividends distributed by A.I.P. during 2005 and other capital movements, plus (iii) the life insurance business income generated during the year in other Group companies (net of costs, adjustments for deferred acquisition costs, taxes and minority interests), associated with distribution and asset management activities.

Embedded value of the life insurance business		*(€/mil)*
Embedded value at 31/12/2004	a	2,433
Embedded value at 31/12/2005	b	2,648
Change in embedded value in 2005	c=b-a	215
Dividends issued	d	50
Net profit generated by other group companies	e	181
Added value for the period	c+d+e	446
of which: added value from new sales and transformations		*328*

Operating volumes and organization

Assets managed on behalf of customers

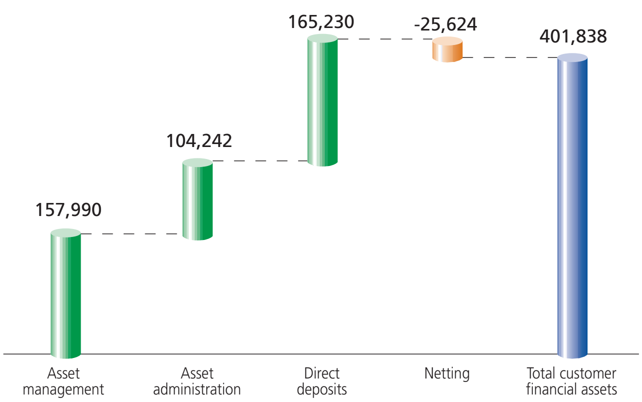
At the end of December 2005, customer financial assets amounted to 401.8 billion euro, up 6.8% from the beginning of the year. This increase is attributable to the positive trend in indirect deposits (+9.8%), in terms of both asset management and administration and, to a lesser extent, direct deposits (+4.1%).

The increase in indirect deposits benefited from the high number of placements and the positive performance of the financial markets. Customer demand, fueled by the good liquidity level of the system, tended toward professional management of assets, preferring higher added value products such as fund-based portfolio management and financial policies, products with defense of invested capital and limited risk, such as structured securities, and insurance products designed for personal and property protection. On the supply side, the network of branches and financial planners paid particular attention to providing investment advice, assisting customers in preparing a financial plan in line with their specific propensity for risk.

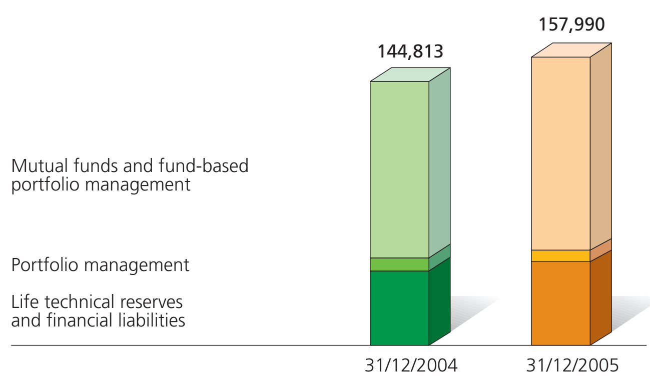
Asset management and administration

At the end of 2005, the volume of assets under management reached 158 billion euro, an increase of over 13 billion compared to the end of December 2004. Contributing to this increase was the revaluation of portfolios related to the positive performance of the

Break-down of customer financial assets as at 31/12/2005 (€/mil)



Asset management (€/mil)



Customer financial assets

	31/12/2005		31/12/2004 (1)		Change 31/12/05-31/12/04
	(€/mil)	%	(€/mil)	%	(%)
Asset management	157,990	39.3	144,813	38.4	+9.1
Asset administration	104,242	26.0	93,980	25.0	+10.9
Direct deposits	165,230	41.1	158,760	42.2	+4.1
Netting	-25,624	-6.4	-21,172	-5.6	+21.0
Customer financial assets	**401,838**	**100.0**	**376,381**	**100.0**	**+6.8**

(1) IAS compliant balance (cf full IAS) including the impact of the transition to IAS 32 and 39 (financial instruments) and IFRS (insurance contracts).

Asset management

	31/12/2005		31/12/2004 (1)		Change 31/12/05-31/12/04
	(€/mil)	%	(€/mil)	%	(%)
Mutual funds and fund-based portfolio management	106,219	67.2	97,920	67.6	+8.5
Portfolio management	5,879	3.7	6,044	4.2	-2.7
Life technical reserves and financial liabilities	45,892	29.1	40,849	28.2	+12.3
Asset management	**157,990**	**100.0**	**144,813**	**100.0**	**+9.1**

(1) IAS compliant balance (cf full IAS) including the impact of the transition to IAS 32 and 39 (financial instruments) and IFRS (insurance contracts).

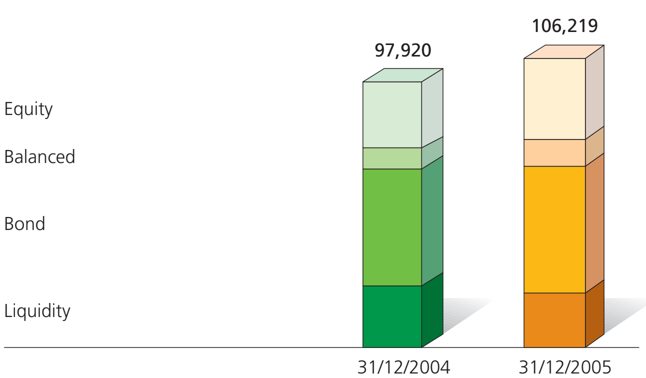
financial markets and net flow (+5.5 billion euro). The latter offset the considerable decrease recorded during the previous year, entirely attributable to mutual funds and portfolio management.

As regards the various products, mutual funds and fund-based portfolio management amounted to 106.2 billion euro, up 8.5% on an annual basis, a result which is attributable to the trend in subscriptions as well as to the positive performance in the securities markets. An important role was played by structured bonds in funds, issued by Banca IMI and placed by the banking networks of the Group: during 2005, seven tranches of these securities were issued, for a total of 2.1 billion euro.

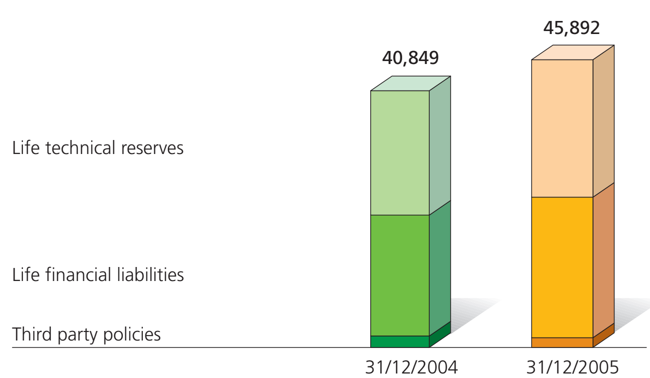
Growth in share prices triggered a gradual turn away from the more liquid forms of investment, directing savers toward products with greater added value and maintaining high diversification of the portfolio, aimed at limiting the risk profile adopted. The weight of equity and balanced funds grew over four percentage points, amounting to 37% at the end of December 2005. In the equity segment, flexible funds, characterized by managerial autonomy as regards the composition of the portfolio, were preferred by subscribers. In terms of the various types of low-risk funds, the impact of liquidity funds decreased, while bond funds stabilized, penalized by forecasts of a hike in interest rates. At the end of the year, the SANPAOLO IMI Group continued to rank first on the domestic market in terms of mutual funds, with a market share of 19.1%. The decline of seven-tenths of a point compared to the end of 2004 is attributable to the greater percentage of insurance products and third-party products within assets under management.

During the period, the life insurance sector continued to be the most dynamic component of the asset management segment.

Mutual funds and fund-based portfolio management (€/mil)



Life technical reserves and financial liabilities (€/mil)



Change in asset management

	2005 (€/mil)	2004 (1) (€/mil)
Net inflow for the period	5,476	-3,686
- mutual funds and fund-based portfolio management	2,561	-7,555
- portfolio management	-584	-1,647
- life policies	3,499	5,516
Performance effect	7,701	4,916
Change in asset management	**13,177**	**1,230**

(1) Pro forma data including the effects of changes in the area of consolidation, in application of the new accounting standards.

Mutual funds by type

	31/12/2005 (%)	31/12/2004 (1) (%)
Equity	27.7	24.8
Balanced	9.3	8.0
Bond	44.1	44.0
Liquidity	18.9	23.2
Total Group mutual funds	**100.0**	**100.0**

(1) The data have been reconstructed on the basis of the new criteria for fund classification adopted by Assogestioni as of January 2005.

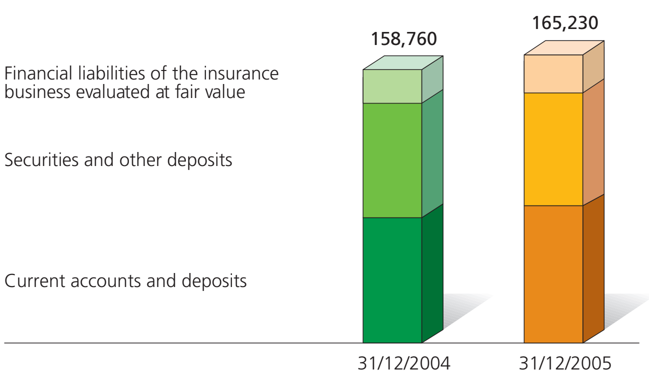
Net inflow recorded by the Group's distribution networks brought the insurance policies portfolio to 45.9 billion euro as of the end of December 2005, up 12.3% over the twelve months. During the year, customers opted for both traditional policies as well as index- and unit-linked policies with greater financial content.

Also worth noting is the increase in asset administration, attributable to increased volumes traded as well as to the performance effect. At the end of the period, volumes amounted to 104.2 billion euro, up 10.9% from the beginning of the year.

Direct deposits

At the end of December 2005, direct customer deposits amounted to 165.2 billion euro, up 4.1% on an annual basis. Growth during the period is mainly attributable to current accounts and deposits (+9.8%), commercial paper (87.9%) and certificates of deposit (+49.4%), the increase of which is a result of foreign currency securities issued by foreign branches. Positive development was also achieved by financial liabilities in the insurance sector evaluated at fair value (+16.4%), consisting of unit- and index-linked policies of a prevalently financial nature, grouped under deposits as per the provisions of the IAS. The events described widely compensated for the decrease in bonds, subordinated liabilities and repurchase agreements.

Direct customer deposits (€/mil)



An analysis of the Group's business sectors shows that Banking deposits, which represent almost two-thirds of the total aggregate figure, underwent a 9.4% increase, mainly as a result of the contribution by the Corporate business line (+16.9%), which benefited from the liquid assets of national and international operators. Foreign funding was supported by the aforementioned growth in foreign currency certificates of deposit. Deposits from the Savings and Assurance sector (+21.2%) were driven by the financial policies of A.I.P., while deposits of the Retail & Private business line showed a lower increase (+4.9%). The reduction recorded in Central Functions is mainly attributable to a reorganization of the Finance Group's funding, principally in the form of bonds.

As of 31 December 2005, the Group's share of direct deposits on the domestic market (calculated on harmonized figures defined in the countries of the eurozone) was equal to 10%, down three-tenths of a point with respect to the figure at the end of 2004, due to the maturity of bonds and subordinated liabilities.

Loans to customers

Loans to customers, including debt securities and non-performing loans, totaled 139.5 billion euro at the end of 2005, up 10.5% on an annual basis. Financing to customers (excluding non-performing financing) amounted to 138.1 billion euro, up 10.5% from the end of 2004. This performance benefited from the increase in both short-term financing (+8%) as well as medium-/long-term financing (+11.6%). Reorganization of the debt of bank customers toward technical forms with longer maturities continued, albeit with less intensity than observed in previous periods. The reasons behind the phenomenon include rates that are still very

Direct customer deposits (1)

	31/12/2005		31/12/2004 (2)		Change 31/12/05-31/12/04
	(€/mil)	%	(€/mil)	%	(%)
Current accounts and deposits	80,424	48.7	73,273	46.2	+9.8
Certificates of deposits	4,338	2.5	2,904	1.8	+49.4
Commercial paper	6,297	3.8	3,352	2.1	+87.9
Bonds	32,656	19.8	39,086	24.6	-16.5
of which: evaluated at fair value	*3,524*	*2.1*	*2,072*	*1.3*	*+70.1*
Subordinated liabilities	6,221	3.8	7,203	4.5	-13.6
Repurchase agreements and securities lending	10,545	6.4	11,664	7.4	-9.6
Financial liabilities of the insurance business evaluated at fair value	22,413	13.6	19,255	12.1	+16.4
Other deposits	2,336	1.4	2,023	1.3	+15.5
Direct customer deposits	**165,230**	**100.0**	**158,760**	**100.0**	**+4.1**

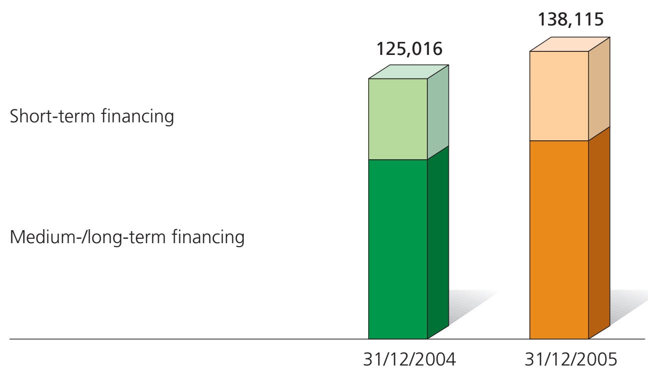
(1) Including accruals and value adjustments for fair value coverage.

(2) IAS compliant balance (cf full IAS) including the impact of transition to IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

favorable with respect to short-term debt and the reduced requirement by companies to finance the working capital associated with the selective recovery in long-term investments.

In the medium-/long-term financing segment, mortgage disbursements to households showed steady growth, confirming the positive performance of financing directed at the retail sector: net inflow for the period amounted to 4.9 billion euro, 19.9% greater than 2004. This trend was stimulated by the stability of interest rates at historically low levels and by the expansive trend of the real estate market, with prices still rising. At the same time, the credit policies of the Group have lengthened the average duration of mortgages and allowed an increase in the "loan to value" of

Financing to customers excluding NPF (€/mil)



Direct customer deposits by Business Sector

	31/12/2005 (€/mil)	31/12/2004 pro forma (€/mil)	Change 31/12/05-31/12/04 pro forma (%)
Banking	100,169	91,582	+9.4
- Retail & Private	60,160	57,369	+4.9
- Retail & Private-Commercial banks	*59,838*	*57,229*	*+4.6*
- Other companies	*322*	*140*	*+130.0*
- Corporate	35,674	30,519	+16.9
- Companies-Commercial banks	*13,541*	*12,163*	*+11.3*
- International	*5,653*	*3,436*	*+64.5*
- Large Groups	*1,071*	*871*	*+23.0*
- Public Authorities and Entities	*4,747*	*4,447*	*+6.7*
- Other companies	*10,662*	*9,602*	*+11.0*
- Other Activities	4,335	3,694	+17.4
Savings and Assurance	28,184	23,252	+21.2
Asset Management and International Private Banking	3,277	2,777	+18.0
Central Functions (1)	33,600	41,149	-18.3
Direct customer deposits	**165,230**	**158,760**	**+4.1**

(1) Includes deposits of Group Finance, mainly in bonds.

Loans to customers (1)

	31/12/2005		31/12/2004 (2)		Change 31/12/05-31/12/04
	(€/mil)	%	(€/mil)	%	(%)
Short-term financing	42,228	30.3	39,103	31.0	+8.0
Medium-/long-term financing	95,887	68.7	85,913	68.0	+11.6
Financing to customers excluding NPF	**138,115**	**99.0**	**125,016**	**99.0**	**+10.5**
Non-performing financing	1,080	0.8	1,137	0.9	-5.0
Financing to customers	**139,195**	**99.8**	**126,153**	**99.9**	**+10.3**
Debt securities held in the portfolio	312	0.2	127	0.1	+145.7
Defaulted debt securities	-	0.0	-	0.0	-
Debt securities	**312**	**0.2**	**127**	**0.1**	**+145.7**
Loans to customers	**139,507**	**100.0**	**126,280**	**100.0**	**+10.5**

(1) Including accruals and value adjustments for fair value coverage.
(2) IAS compliant balance (cf full IAS) including the impact of transition to IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

the loan, up to 100% of the property purchase price, as well as the addition of insurance products that offer protection from possible hikes in rates and increase the flexibility of repayment. This entire set of elements has made mortgages more attractive, and has also led to a higher degree of customer loyalty.

Regarding growth of loans to the public works and infrastructure sector, disbursed by Banca OPI, stock as of the end of December amounted to 20.8 billion euro, equal to a 7.6% growth from the beginning of the year.

The analysis of loans to customers by counterparty showed considerable growth in loans to households (+13.7%), to family businesses and non-financial companies (+13.1%), which include loans to municipal companies under Banca OPI. Loans to financial companies and other operators are also on the rise.

Loans to customers by counterparty (1)

	31/12/2005		31/12/2004 (2)		Change 31/12/05-31/12/04
	(€/mil)	%	(€/mil)	%	(%)
Financing to households	31,435	22.5	27,652	21.9	+13.7
Financing to family businesses and non-financial companies	81,028	58.1	71,615	56.7	+13.1
Financing to financial companies	12,543	9.0	11,346	9.0	+10.5
Financing to governments and public entities (3)	13,557	9.7	14,973	11.9	-9.5
of which: tax collection	*1,539*	*1.1*	*1,240*	*1.0*	*+24.1*
Other	632	0.5	567	0.4	+11.4
Financing to customers	**139,195**	**99.8**	**126,153**	**99.9**	**+10.3**
Debt securities	**312**	**0.2**	**127**	**0.1**	**+145.7**
Loans to customers	**139,507**	**100.0**	**126,280**	**100.0**	**+10.5**

(1) Including accruals and value adjustments for fair value coverage.
(2) IAS compliant balance (cf full IAS) including the impact of transition to IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).
(3) Excluding financing to municipal companies under Banca OPI, included in financing to non-financial companies.

Loans to customers (excluding NPLs) by Business Sector

	31/12/2005 (€/mil)	31/12/2004 pro forma (€/mil)	Change 31/12/05-31/12/04 pro forma (%)
Banking	133,130	118,815	+12.0
- Retail & Private	46,062	41,792	+10.2
- Retail & Private-Commercial banks	*41,359*	*37,875*	*+9.2*
- Other companies	*4,703*	*3,917*	*+20.1*
- Corporate	84,928	75,280	+12.8
- Companies-Commercial banks	*40,104*	*35,489*	*+13.0*
- International	*7,495*	*5,113*	*+46.6*
- Large Groups	*5,531*	*6,421*	*-13.9*
- Public Authorities and Entities	*20,757*	*19,285*	*+7.6*
- Structured Finance	*3,186*	*1,410*	*+126.0*
- Other companies	*7,855*	*7,562*	*+3.9*
- Other Activities	2,140	1,743	+22.8
Savings and Assurance	1,122	805	+39.4
Asset Management and International Private Banking	229	456	-49.8
Central Functions (1)	3,946	5,067	-22.1
Loans to customers excluding NPLs	**138,427**	**125,143**	**+10.6**

(1) Including loans of Group Finance.

Loans by Group Business Sector recorded a significant increase in the Banking segment (+12%). The largest loans were attributable to the Corporate business line (+12.8%), the actions of which were designed to reinforce support to the entrepreneurial system, helping companies to rebalance their financial structures. Particular attention was dedicated to the world of small and medium-sized enterprises, through products aimed at investment in research and development and in new technologies. The most favorable results were achieved in loans to companies, to public authorities and entities, in the international segment and in structured finance, while loans to large groups were down. The Retail & Private business line increased 10.2% in annual terms, attributable to steady performance in medium-/long-term loans, as a result of mortgages to households and consumer credit.

As of the end of December 2005, the Group's market share in the domestic market (calculated on harmonized figures defined in the countries of the eurozone) was equal to 10.1% for total loans, up one-tenth of a point compared to the end of 2004. In particular, the market share in medium-/long-term loans to households and non-financial resident companies was 9.5% and that in short-term loans was 8.8%.

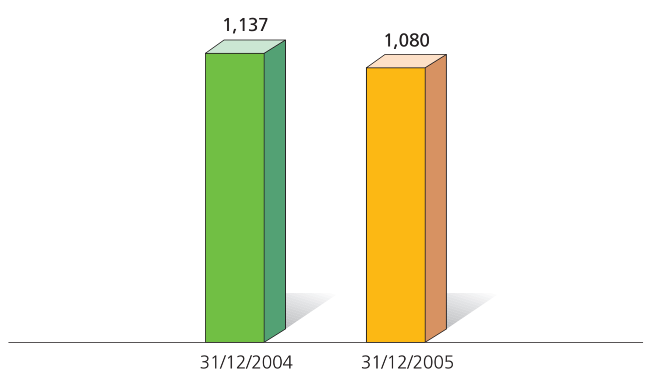
Quality of the loans portfolio

During 2005, the Group continued to focus on the quality of assets, by applying selective criteria when granting loans and through prudent provisioning policies across all commercial banks. Improvement in the quality of the loans portfolio is evidenced by the reduction in doubtful loans and in the lower impact of these on net loans to customers (decreasing from 2.8% at the end of 2004 to 2.4% at the end of 2005).

At the end of December 2005, net doubtful loans, which, in accordance with the new accounting standards, include loans due/overdue by more than 180 days, amounted to 3,383 million euro, down 4% over the twelve months. More specifically, as regards loans to customers:

- non-performing financing amounted to 1,080 million euro, down 5% compared to 1,137 million at the end of 2004, also thanks to the non-recourse sale of non-performing loans of less than 50,000 euro; the ratio of non-performing financing to loans to customers was 0.8%, down one-tenth of a point from the end of 2004. Coverage of these loans decreased to 75% from 75.3% at 31 December 2004;

Non-performing financing to customers (€/mil)

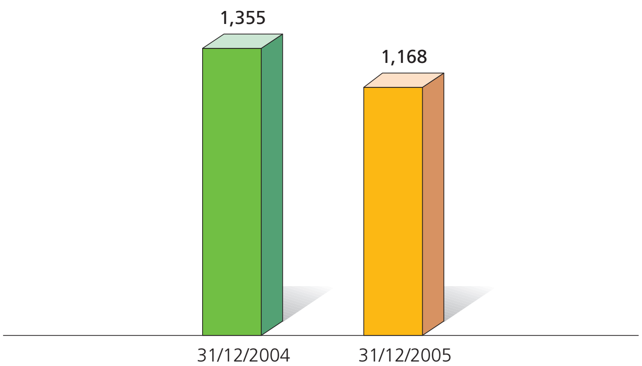


Qualitative analysis of the loan portfolio (1)

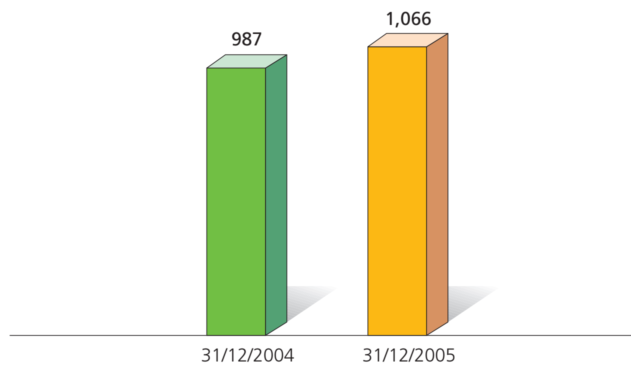
	31/12/2005		31/12/2004 (2)		Change 31/12/05-31/12/04
	(€/mil)	%	(€/mil)	%	(%)
Non-performing financing	1,080	0.8	1,137	0.9	-5.0
Problem and restructured financing	1,168	0.8	1,355	1.1	-13.8
Financing to countries at risk	17	0.0	26	0.0	-34.6
Financing due/overdue by more than 180 days	1,066	0.8	987	0.8	+8.0
Defaulted securities held in the portfolio	-	0.0	-	0.0	-
Doubtful loans - customers	**3,331**	**2.4**	**3,505**	**2.8**	**-5.0**
Performing financing	135,864	97.4	122,648	97.1	+10.8
Performing debt securities held in the portfolio	312	0.2	127	0.1	+145.7
Loans to customers	**139,507**	**100.0**	**126,280**	**100.0**	**+10.5**
Non-performing and problem financing - banks	-		-		-
Financing due/overdue by more than 180 days - banks	-		-		-
Financing to countries at risk - banks	47		19		+147.4
Defaulted securities held in the portfolio - banks	5		-		n.s.
Total doubtful loans - customers and banks	**3,383**		**3,524**		**-4.0**

(1) Including accruals and value adjustments for fair value coverage.
(2) IAS compliant balance (cf full IAS) including the impact of transition to IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

Problem and restructured financing to customers (€/mil)



Financing due/overdue by more than 180 days (€/mil)



- problem and restructured financing amounted to 1,168 million euro, down 13.8% on an annual basis. The impact of adjusted funds was 31.3%, compared to 31.1% at the end of December 2004;
- financing due/overdue by more than 180 days amounted to 1,066 million euro, up 8% from the beginning of the year, with a coverage ratio of 14.9%;
- non-guaranteed financing to countries at risk amounted to 17 million euro, compared to 26 million at the end of 2004, with a coverage ratio of 32%.

At the end of December 2005, general adjustments to the performing loans portfolio amounted to 1,066 million euro, up 19.1% over 2004. This correponds to 0.8% of performing loans, compared to 0.7% recorded at the end of the previous period.

Activities on financial markets

Treasury and financial management activities

The control of treasury activities and the management of financial risks of the domestic banking networks are carried out centrally by the Parent Bank's Treasury Department.

As regards treasury activities, the Parent Bank guarantees direct access to money markets, to spot and forward exchange rate markets and to securities markets, as well as to payment systems, and oversees the Group's liquidity policy. To access the medium-/long-term derivatives market, the Treasury of the Parent Bank is supported by the subsidiary Banca IMI, which carries out the service by exploiting the synergies obtainabled from its own market-making activities.

The financial risk management policies related to the banking books of the Group's banking networks (Asset and Liability Management) are discussed in Part E of the Consolidated Explanatory Notes.

With reference to the centralized management of liquidity, as of 31 December 2005, about 57% of interbank lending and 52% of interbank borrowing by the Parent Bank referred to infragroup financing and deposits. During the entire period under review, the Parent Bank maintained a debt imbalance with respect to the market. As a consequence the Parent Bank's Treasury operates on the market to collect the necessary liquidity under a strict policy of funding diversification.

Regarding medium- and long-term funding, also managed centrally, the Parent Bank raised a total of 5.8 billion euro during 2005, composed as follows:
- 2.7 billion euro through the placement of senior securities by way of the internal network and the Sanpaolo Banco di Napoli and Banca Fideuram networks;
- 3 billion euro through the placement of securities on international markets with Italian and foreign institutional investors, of which 1.1 billion euro subordinated (Lower Tier II for 500 million euro and Tier III for 550 million euro);
- 92 million euro through loans and deposits.

During the year, the Parent Bank transferred 4.2 billion euro in medium and long-term funding to other Banks and Companies of the Group, of which 3.9 billion euro senior and 265 million euro subordinated.

Banking networks other than Sanpaolo, on the other hand, independently collected 480 million euro on the domestic market, through the placement of senior securities with retail customers.

As part of its activities, the subsidiary Banca IMI issued structured bonds for 2.6 billion euro, placed through the Group's networks.

Regarding deposits from International Organizations, the Parent Bank and other Banks of the Group continued to use funds from loans previously issued by the EIB, especially those destined to finance Research and Development initiatives in Italy, as well as by KfW. During the year, Banca OPI independently collected 420 million euro from the EIB, with maturities of greater than 15 years.

As of 31 December 2005, the Group's securities portfolio amounted to 68.3 billion euro, up 4.7% from the figure at the end of 2004 (65.3 billion). This amount is broken down as follows: 38.8 billion euro in securities held for trading or carried at fair value, 25.7 billion euro in available for sale investments, 2.5 billion euro in held-to-maturity investments and 1.3 billion euro in securities classified under “loans and receivables”, of which 312 million relative to customers.

The securities portfolio of the Parent Bank, held for treasury requirements and investment purposes, amounted to 8.3 billion euro (net of Group securities), for an increase of 10.3% compared to 7.5 billion euro in December 2004. Excluding the equity component, the break-down is as follows: 4 billion euro in securities held for trading or at fair value, 2.3 billion euro in held-to-maturity investments, 0.8 billion euro in available for sale investments and 1.0 billion euro in securities reclassified under “loans and receivables”.

The break-down in the securities portfolio of the Parent Bank showed a prevalence of government bonds originating from EU countries, representing 59% of the total at the end of 2005, with a further share of 35% represented by securities issued by banks, financial institutions and international organizations, 4% by corporate bonds and the remaining 2% by OICR (Collective Savings Investments Organization) Funds. With the aim of maximizing profit opportunities, the portfolio maintained, through the component of securities eligible for Eurosystem monetary policy operations, the collateral suitable for managing e liquidity and, at the same time, for pledging transaction in customer repurchase agreements.

During 2005, the volume of securities traded by the Parent Bank on its own account was equal to 32 billion euro, while transactions involving repurchase agreements amounted to 270.5 billion euro, of which 128.4 billion euro were carried out on the MTS/PCT platform.

The insurance sector portfolio

As of 31 December 2005, the life and casualty insurance companies under Assicurazioni Internazionali di Previdenza showed

Interbank position, securities and derivatives

	31/12/2005		31/12/2004 (1)		Change
	(€/mil)	%	(€/mil)	%	31/12/05-31/12/04 (%)
Interbank					
Assets (2)	27,838	100.0	24,367	100.0	+14.2
- Parent Bank	15,829	56.9	12,625	51.8	+25.4
- Banca IMI	6,093	21.9	6,901	28.3	-11.7
- Others	5,916	21.3	4,841	19.9	+22.2
Liabilities	35,683	100.0	28,293	100.0	+26.1
- Parent Bank	19,786	55.4	11,293	39.9	+75.2
- Banca IMI	7,170	20.1	8,701	30.8	-17.6
- Others	8,727	24.5	8,299	29.3	+5.2
Securities (2) (3)	**68,319**	**100.0**	**65,271**	**100.0**	**+4.7**
- Parent Bank	8,294	12.1	7,517	11.5	+10.3
- Banca IMI	11,480	16.8	11,661	17.9	-1.6
- A.I.P.	39,927	58.4	38,472	58.9	+3.8
- Others	8,618	12.6	7,621	11.7	+13.1
Derivatives					
Hedging derivatives (notional)	57,434	100.0	75,604	100.0	-24.0
- Parent Bank	26,712	46.5	45,937	60.8	-41.9
- Banca IMI	-	-	-	-	-
- Others	30,722	53.5	29,667	39.2	+3.6
Dealing derivatives (notional)	1,219,569	100.0	742,828	100.0	+64.2
- Parent Bank	61,899	5.1	53,361	7.2	+16.0
- Banca IMI	1,130,132	92.7	675,733	91.0	+67.2
- Others	27,538	2.3	13,734	1.8	+100.5

(1) IAS compliant balance (cf full IAS) including the impact of transition to IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

(2) The figure does not include securities classified in loans & receivebles, reported among "Securities" (998 million euro at 31 December 2005 and 541 million at 31 December 2004).

(3) The figure includes debt and capital securities (including OICR quotas) classified in the various portfolios, except for "Other shareholding investments" described elsewhere in the Report.

financial assets of 46.6 billion euro, up 16% from the beginning of the year (the contribution to the consolidated Financial Statements of SANPAOLO IMI was 40.2 billion euro, +16% from the beginning of the year).

The investments, with respect to traditional policies and free capital, as well as unit and index-linked policies, were carried out on the basis of strict investment policies.

Available for sale investments comprised 41% of the securities portfolio, while securities evaluated at fair value comprised the remaining 59%.

In particular:
- available for sale securities, mainly for traditional policies and free capital, amounted to 19.2 billion euro and mainly consisted of bonds and other fixed-income securities, representing 95% of the total. The bond portfolio consisted of bonds issued by the Italian and foreign governments, International Organizations, national credit institutes and, to a lesser degree, corporate bonds distributed across a wide number of issuers, particularly companies of the euro zone. Shares, equal to one billion euro as of 31 December 2005, maintained an average impact of 5% throughout the period, in line with medium and long-term profit objectives of the Company;
- investments evaluated at fair value, equal to 27.4 billion euro, comprised index-linked policies for 39% and unit-linked policies for 56%. The remaining 5% mainly comprised securities to be liquidated for index-linked products reimbursed to customers and specific asset policies.

Brokerage activities

Brokerage activities within the Group are carried out mainly by Banca IMI, the investment bank of the Group and one of the leading Italian financial operators, with a strong presence in stock and bond placements, extraordinary finance transactions and securities trading.

Banca IMI carries out trading activities on its own account and on behalf of third parties across a wide range of financial products in regulated and over-the-counter markets, structures and realizes investment products for retail and institutional customers and provides risk management products for businesses and public authorities.

The securities portfolio of the subsidiary Banca IMI, as of 31 December 2005, amounted to 11.7 billion euro, in line with the 11.9 billion held at the end of 2004; of the former amount, 73.8% consisted of debt securities, 25.6% of shares in OICR Funds and the remaining 0.6% of equities. Short positions in securities amounted to 2.31 billion euro, down 5.7% compared to the value as of 31 December 2004 (2.45 billion).

Trading derivatives amounted to 1,277.46 billion euro, up 39.9% compared to 2004 (912.9 billion euro).

Operating results for the year show a significant contribution of Risk Management and Distribution activities, along with positive results in the major Equity and Corporate Finance activities, particularly as regards organization and completion of the largest leveraged buy-out carried out in Europe and the second largest worldwide.

More specifically, with respect to global markets:
- the fixed income & derivatives sector, despite a slight decline in trading in government bonds, confirmed the positive results of market-making activities in interest and exchange rate derivatives and of activities carried out to support product structuring;
- the equity sector showed improved performance over the previous period as regards equity funding, with a substantial increase in volumes and returns, as well as equity trading and market-making: in this context, mention should be made of the considerable increase in volumes traded in the ETF sector, in which Banca IMI, leader in Italy, is one of the leading European players;
- in addition to the stability in flows from retail and institutional customers, the results of the credit trading sector benefited from positive performance in primary activities and the strength of emerging markets; the sector also benefited from sales of long-term securities in asset swaps to international investors;
- global brokerage activities increased considerably, as a result of greater market volumes and thanks to the development of business with new international customers (the USA in particular).

As far as distribution activities are concerned, the fixed income sector benefited from steady demand from institutional investors seeking good returns in primary market transactions, as well as in the investment grade and high yield segments. In terms of asset-backed securities, significant interest was shown by institutional investors for the debt securitization transaction by Fondo Immobili Pubblici (F.I.P.), in which Banca IMI was one of the lead managers.

The corporate derivatives sector showed a prevalence of interest and exchange rate products to hedge the risks of mid corporate customers. In this customer segment, volumes amounted to a total of 2.7 billion euro in new interest rate derivative hedging transactions. In addition, the last quarter saw a recovery of business in the large corporate segment, especially as regards hedging transactions on medium- to long-term funding. In this context, Banca IMI balanced the derivatives brokerage business carried out by the banking network of the Group on behalf of corporate customers, with nominal values at the end of the period equal to 19.3 billion euro (15.2 billion euro at the end of 2004).

Placement and advisory business

At the Group level, the placement and advisory business is carried out by Banca IMI; the subsidiary Banca OPI also operates in this business with respect to Public Authorities and Entities.

During 2005, Banca IMI confirmed its status among the leading Italian operators in the primary debt market, occupying the role of lead manager & bookrunner in 60 bond issues, for a total of about 22.5 billion euro and with a significant presence in the transactions of foreign issuers.

With reference to retail investors, Banca IMI established and placed inflation-linked products, as well as products linked to the CMS ("Constant Maturity Swap") parameter and capped FRN (Floating Rate Note) issues, which satisfied the requirements of conservative investing.

In the equity sector, with positive performance in the international stock markets, the activities of equity capital markets in Italy showed an increasing level of transactions, confirming the trend seen in the last part of 2004. In this context, Banca IMI confirmed its traditional leadership in the market, both in terms of both placements and increases in capital for listed companies, including the IPOs of Safilo and Marr.

With respect to corporate finance activities, Banca IMI strengthened its role in the market, also thanks to marked recovery worldwide in terms of mergers & acquisitions, which brought Europe increasingly closer to the volumes and values of transactions carried out in the United States.

Banca OPI provides financing and financial assistance to Public Entities, Local Authorities, Public Utilities and infrastructural projects. In 2005, Banca OPI confirmed its leadership position in the Italian Public Sector, with an overall market share of over 20%, in an increasingly competitive market characterized by an increase in the number of banks present and by very aggressive pricing policies by competitors.

Total loans to customers, as of 31 December 2005, amounted to 25.6 billion euro, including 5.6 billion euro in the securities portfolio, for an increase of about 7.9% compared to 31 December 2004.

Regarding financing activities, total financial disbursements to customers during 2005 amounted to 6.3 billion euro, of which 1.5 in the form of subscription of securities issued by customers.

During 2005, Banca OPI gave an especial push to financial consulting services offered to customers, mainly involving debt restructuring programs and the related promotion of derivative products.

The year 2005 was also characterized by a significant focus on project finance activities in Italy and abroad. Total financing contracts stipulated exceeded 340 million euro, signifying a considerable increase compared to 2004.

The expansion of Banca OPI into international markets, with the availability of a dedicated structure from the end of 2004, was intensified during 2005, promoting, in collaboration with local Group offices, relationships and business with the bank's customers (regional entities, public companies and central administrations), particularly in Central-Eastern Europe.

Shareholdings

As of 31 December 2005, Group shareholdings amounted to 3,912 million euro, of which 819 million euro classified as "Equity investments" and 3,093 million euro as "Available for sale financial assets - Equities".

Shareholdings

	31/12/2005 (€/mil)	31/12/2004 (€/mil)	Change 31/12/05-31/12/04 (%)
Equity investments (1)	**819**	**839**	**-2.4**
Qualified investments	690	681	+1.3
Goodwill arising on application of the equity method	129	158	-18.4
Other equity investments (2)	**3,093**	**2,940**	**+5.2**
of which:			
- Santander Central Hispano	*1,524*	*1,249*	*+22.0*
- IXIS Asset Management Group S.A.	*216*	*192*	*+12.5*
- Banca d'Italia	*185*	*185*	*-*
- Borsa Italiana	*134*	*74*	*+81.1*
- Banca delle Marche S.p.A.	*92*	*92*	*-*
- IXIS Corporate & Investment Bank	*91*	*86*	*+5.8*
- Azimut S.p.A.	*71*	*65*	*+9.2*
- FIAT S.p.A.	*67*	*54*	*+24.1*
- Banco del Desarrollo	*62*	*45*	*+37.8*
- Parmalat S.p.A.	*62*	*-*	*n.s.*
- Istituto per il Credito Sportivo	*50*	*19*	*+163.2*

(1) The list is given in the Explanatory Notes (Part B - Section 10).
(2) Included in the caption "Available for sale financial assets - Equity".

Equity investments

This item comprises "significant" investments, which are those held in companies in which the Group exercises significant influence and in non-consolidated subsidiaries, and amounted to 819 million euro as of 31 December 2005, of which 122 referring to goodwill (positive differences in shareholders' equity). With respect to the value as of 31 December 2004, this item decreased by 20 million euro, essentially as a result of the disinvestments in the private equity sector, only partially offset by purchases made by the Parent Bank and by the valuation of goodwill.

The main transactions concluded during the period, in addition to what is described in the chapter "Action points and initiatives in the year" include:

- acquisition of a further 8.5% share of Cassa dei Risparmi di Forlì, with a disbursement of about 65.7 million euro, which, when added to the share already held, brings the total share of SANPAOLO IMI to 38.3%. The investment is a result of exercising a put option by Fondazione Cassa dei Risparmi di Forlì. These shareholdings were adjusted for a net amount of 45.7 million euro, in order to bring the value to fair value;
- adherence to the option for conversion of the 2004 dividend of investee company Banque Palatine (previously Banque Sanpaolo) into shares, which resulted in the subscription of newly issued shares for a value of 10.5 million euro;
- acquisition of a 20% share in Turkish brokerage company Global Menkul Degerler A.S. by Banca IMI, for 3.1 million euro;
- disposal, as part of Private Equity activities, of the 27.1% investment in Carpine - holding company of the Argenta group - to the Advent Private Equity Fund, for 21.9 million euro, achieving a capital gain of 11.9 million euro;
- disposal, again as part of Private Equity activities, of the 20% investment in AEFFE, by exercising a put option with respect to the majority industrial shareholders, as per the shareholders' agreement. Exercising of the option corresponded to 58.4 million euro, with a capital gain of 31.3 million;
- sale to the majority shareholder of the 31.5% share held in Esatri, company of the Intesa group active in the tax sector, for 20 million euro and resulting in a capital gain of about 12.5 million.

Other shareholdings

The Group's remaining shareholdings are classified under "Available for sale financial assets – Equities".

This component amounted to 3,093 million euro as of 31 December 2005, for a net increase of 153 million euro compared to the value at the end of 2004.

The main transactions completed during the period include:

- adherence to the Arrangement Proposal set forth by the Extraordinary Commission of Parmalat to complete the restructuring program of the group, with assignment of a 1.869% share of the capital of Parmalat;
- disposal – as execution of the agreements stipulated in 2002 with EDF - Electricité de France – of the 12.48% share held in Italenergia Bis (IEB), of IEB warrants and of the Edison shares and warrants held, for a total of 639.7 million euro and a net capital gain of 136 million;
- other transactions, including the sale of shareholdings in Lingotto S.p.A. and Aeroviaggi, for a total of 5.9 million euro and capital gains of 1.5 million euro.

The increase resulting from the fair value adjustments of these investments, net of disposals carried out during the period, is mainly attributable to revaluation of the investment in Santander, equal to 106 million euro for the Parent Bank and 165 million euro for Sanpaolo IMI International, before tax.

Regarding valuations of other shareholdings, a specific AFS securities valuation reserve for own shares has been established to the amount of 1,029 million euro.

Group capital and reserves

Net shareholders' equity

Group net shareholders' equity, equal to 13,483 million euro as of 31 December 2005, showed the following changes during the period:

Movements in Group shareholders' equity	*(€/mil)*
Shareholders' equity at 31 December 2004 (1)	**12,308**
Adoption of IAS 32, 39 and IFRS 4	-273
Shareholders' equity at 1 Janaury 2005	**12,035**
Decreases	**-873**
- Dividends	-873
Increases	**2,321**
- Net profit for the period	1,983
- Net change in valuation reserves	252
- Net change in own shares	10
- Stock option accounting	62
- Other changes	14
Group shareholders' equity at 31 December 2005	**13,483**

Variations during 2005 are essentially determined from the year-end income, net of dividends paid out of the net profit for 2004, the change in valuation reserves and accounting for stock options (increase in capital and share premium reserves).

In particular, the change in valuation reserves was essentially impacted by:

- the revaluation at fair value of several minority equity investments classified in the available for sale portfolio for a total of 478 million euro (including the investment in Santander Central Hispano for 266 million euro);
- the recognition of 199 million euro with direct corresponding caption under shareholders' equity reserves for the "actuarial" losses on defined benefit employee funds and employee termination indemnities. In fact, a recent revision of IAS 19 (Employee benefits – amended version of 8 November 2005) allows, in the presence of valuation imbalances related to actu-

arial estimates of defined benefit employee funds (including, therefore, the employee termination indemnity), a relative allocation to the Provisions for risks, with direct corresponding captions under shareholders' equity reserves (net of taxes) and without impacting the statement of income. This option represents a "prudential" alternative to the previously used criterion (the so-called corridor method), which essentially involves not recording the aforementioned "actuarial calculation differences" in the financial statements if they amount to +/-10% of commitments at the beginning of the period;
- the 27 million euro reduction in valuation reserves for debt securities.

Regulatory capital and solvency ratios

With regard to prudential and statistical Supervision, the Bank of Italy has decided that consolidated results take into account the IAS/IFRS international accounting standards as of 31 December 2005. However, as the definitive provisions for the determination of the regulatory capital and solvency ratios are not yet available, the results provided above have been calculated on the basis of general principles issued by the Regulatory Body, in line with guidelines of the Basel Committee and of the CEBS (Committee of European Banking Supervisors). For comparative purposes, the IAS-compliant consolidated regulatory capital as of 31 December 2004 was recalculated, in order to identify the change in main capital aggregate values and the relative impacts on solvency ratios. On 31 December 2005, the Regulatory capital structure of the SANPAOLO IMI Group also adopted national regulations in terms of treatment of financial conglomerates, pursuant to D.Lgs. 142/2005, with specific reference to the insurance subsidiaries.

Based on the above, as of 31 December 2005, the ratio of total regulatory capital of the Group and total risk-weighted assets, mainly resulting from credit and market risk, amounted to 9.2%; in particular, market risks attributable to both the Parent Bank and to other companies of the Group, equal to about 15 billion euro at the end of December 2005, were 49% covered by Tier 3 subordinated loans, which amounted to 600 million euro.

At the same date, the ratio of Tier 1 capital of the Group and total weighted assets was equal to 7.2% (Tier 1 ratio), while the Core Tier 1 ratio (calculated on Tier 1 capital net of preferred shares) amounted to 6.6%.

As of 31 December 2004, the same ratios, calculated on a pro forma and IAS-compliant basis, were equal to 6.7% for the Core Tier 1 ratio, 7.4% for the Tier 1 ratio and 11.3% for the Total risk ratio.

The decline in the Total risk ratio compared to 31 December 2004 is attributable to the increase in capital deductions as a result of the introduction of regulations on "financial conglomerates" (90 bp), together with the repayment of subordinated loans during the period (50 bp) and growth in risk-weighted assets (70 bp).

A subordinated loan placement program has been established to bring the ratio back above 10%. A first tranche of 750 million euro has already been placed, bringing the ratio to 9.7%.

Regulatory capital and solvency ratios

	31/12/2005	31/12/2004 full IAS
Regulatory capital (€/mil)		
Tier 1 capital	10,938	10,089
of which: preferred shares	*1,000*	*1,000*
Tier 2 capital	4,722	5,508
less: prescribed deductions	-2,308	-877
Regulatory capital	13,352	14,720
Tier 3 subordinated loans	600	594
Total regulatory capital	13,952	15,314
Weighted assets (€/mil)		
Credit risk	135,688	121,700
Market risk	15,237	13,063
Other requirements	288	787
Total assets	151,213	135,550
Solvency ratios (%)		
Core tier 1 ratio	6.6	6.7
Tier 1 ratio	7.2	7.4
Total risk ratio	9.2	11.3

Own shares

As of 31 December 2005, SANPAOLO IMI shares held by the Group totaled 4,774,774, equal to 0.26% of the share capital, and they were recorded on the basis of the new IAS/IFRS criteria as a negative component of shareholders' equity, for a total of 51 million euro. These shares were held by the Parent Bank and by its subsidiaries, as well as collective investment entities within the context of the Group's insurance sector and, in accordance with international standards, consolidated on a line-by-line basis. Regarding the amount of own shares in the portfolio, the Parent Bank and Banca IMI have the same amount in the undisposable reserve foreseen by law.

Own shares of the subsidiaries, on the other hand, refer to shares of Banca Fideuram S.p.A. in the portfolio of the bank. As of 31 December 2005, these shares, held exclusively by Banca Fideuram for stock option plans, amounted to 12,655,273 (nominal value of 2.4 million euro), corresponding to 1.3% of the share capital (14,997,000 as of 31 December 2004). Under application of IAS 32, these shares are recorded at cost, as an adjustment to the shareholders' equity of Banca Fideuram (including the minority portion) for 54.4 million euro.

For additional information on transactions carried out during the year, see Part B – Liabilities – Section 15 of the Consolidated Explanatory Notes.

Operating structure

The distribution network

The Group's distribution network is divided into territorial areas and bank networks with light central structures, which provide uniform and complete supervision of the respective territory. In order to effectively satisfy the different needs of households and businesses, the distribution model is based on specialization of the branches according to the type of customer served (corporate, private and retail). Internet and phone and mobile banking services also support operations with customers.

As of 31 December 2005, the SANPAOLO IMI Group had a network of 3,172 banking branches in Italy, distributed as follows: 34.1% in the North West regions, covered extensively by the Sanpaolo network; 27.2% in the North East, which comprises the branches of four networks (Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Cassa di Risparmio di Venezia and Friulcassa); 25.9% in Southern Italy and in the Islands, headed by Sanpaolo Banco di Napoli on the mainland and by the Sanpaolo network on the Islands. The remaining 12.8% of the Group's network is located in Central Italy, with branches of Sanpaolo and Banca Popolare dell'Adriatico. In addition, branches of Cassa dei Risparmi di Forlì (38.25% stake held), Cassa di Risparmio di Firenze (18.7% stake held) and Banca delle Marche (7% stake held), with which SANPAOLO IMI has distribution agreements, operate in the North East and Central regions.

With reference to commercial banks, the distribution network, as of the end of December, included 3,050 branches in Italy, 39 more than in 2004. During the year, a rationalization of the distribution network of the Group was carried out, leading to the transfer of operating points among commercial banks, particularly through assignment of the Sanpaolo branches operating in the province of Venice to Cassa di Risparmio di Venezia and of those operating in Friuli Venezia Giulia to Friulcassa, and via acquisition by Sanpaolo of active branches in the provinces of Lodi, Milan and Rome, ceded by Cassa di Risparmio di Padova e Rovigo and Cassa di Risparmio in Bologna.

The share of branches held on a national level, as of 30 September 2005, was 10.0%. In particular, the Group had an 11.1% share in the North West, 10.3% in the North East, 5.5% in the Centre and 13.4% in the South and in the Islands.

Regarding multi-channel infrastructures, as of the end of December, direct banking contracts with retail customers rose to almost one million, an increase of 25% compared to 31 December 2004. Internet banking contracts with companies amounted to 66,600 units, for an increase of over 33% from the beginning of the year.

Customer service is also provided through the network of "Bancomat" automated teller machines (at the end of December 2005, these included 1,944 Sanpaolo ATMs, 849 Sanpaolo Banco di Napoli ATMs and 1,091 ATMs of the four bank networks of the

Group distribution network

	31/12/2005	31/12/2004	Change 31/12/05-31/12/04 (%)
Banking branches and area offices (1)	**3,289**	**3,239**	**+1.5**
- Italy (1)	3,172	3,126	+1.5
of which: Parent Bank (2)	*1,415*	*1,371*	*3.2*
North East banking networks and Banca Popolare dell'Adriatico	*948*	*952*	*-0.4*
Sanpaolo Banco di Napoli	*687*	*688*	*-0.1*
- Foreign	117	113	+3.5
Representative offices	**19**	**18**	**+5.6**
Financial planners	**4,151**	**4,317**	**-3.8**

(1) The data as of 31/12/2004 have been reclassified with respect to the 2004 Annual Report to take into account the exclusion of Cassa dei Risparmi di Forlì from the area of proportional consolidation.

(2) The data as of 31/12/2004 have been reclassified with respect to the 2004 Annual Report to take into account the transfer of the branches among the Sanpaolo network and the North East banking networks.

Group distribution network in Italy as of 31/12/2005

	Sanpaolo	North East banking network (1)	Banca Popolare dell'Adriatico	Sanpaolo Banco di Napoli	Other networks (2)	TOTAL	%
North West (Piedmont, Valle d'Aosta, Lombardy and Liguria)	1,039	1	2	-	41	1,083	34.1
North East (Triveneto and Emilia Romagna)	5	806	17	-	34	862	27.2
Center (Tuscany, Marche, Umbria, Lazio, Abruzzo e Molise)	254	-	122	4	27	407	12.8
South and Islands (Campania, Puglia, Basilicata, Calabria, Sicily and Sardinia)	117	-	-	683	20	820	25.9
Banking branches and area offices in Italy	**1,415**	**807**	**141**	**687**	**122**	**3,172**	**100.0**

(1) Includes 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 (91), Neos Banca (25), Farbanca (1), Banca IMI (1) and Banca OPI (4).

North East and Banca Popolare dell'Adriatico), as well as through POS terminals (38,879 for the Sanpaolo network, 15,701 for Sanpaolo Banco di Napoli and 20,577 for the latter networks).

The Group's distribution structure also includes 4,151 financial planners under Banca Fideuram and Sanpaolo Invest SIM.

The Group operates abroad through a network of 117 branches, 19 representative offices and 2 desks (one syndicated Inter-Alpha group desk in Teheran as representative office and one "Italian desk" with commercial bank in Kuwait). In addition to the international network of the Parent Bank, the external network mainly comprises branches of the subsidiary banks operating in Central Eastern Europe.

Personnel

At the end of the period, the Group employed 43,476 resources, in addition to 190 workers with atypical contracts, for a total of 43,666 people. Compared to December 2004 figures, this represents an increase of 482 resources (+1.1%), due to an increase of 592 employees (+1.4%) and a reduction of 110 workers with atypical contracts.

This growth is the result of about 1,700 new employees and 1,050 terminations, which enabled completion of the generational turnover begun at the end of 2003, using the "Income, employment and retraining fund for staff in the banking industry".

Growth in the workforce during 2005, which enabled recovery of part of the reduction recorded during the previous two-year period as a result of incentive-based resignations (of which 600 in December 2004), is linked to investments supporting commercial development in Banking and expansion of the Savings and Assurance sector, partially offset by rationalization in the tax sector. Growth was also impacted by the incorporation of Neos Servizi, which involved the addition of about 60 resources in the scope of consolidation.

The workforce of the Commercial Banks amounted to 35,755 units, of which 24 workers with atypical contracts, an increase of 336 (+0.9%) compared to December 2004, following growth in the number of employees (+1.3%), countered by the reduction of 111 workers with atypical contracts, used on an extraordinary basis in 2004 in order to handle the migration of IT procedures.

With reference to the Parent Bank, the workforce amounted to 21,070 resources at the end of the year, up 1.3% with respect to December 2004, reclassified consistently in order to take into account transfers of the branches with network banks of the North East. Newly hired staff amounted to 660, of which over two thirds in the network of branches and structures directly supporting the business, while total departures amounted to 240.

Total personnel of Sanpaolo Banco di Napoli, at the end of the period, amounted to 5,751 resources, an increase of 28 compared to the end of 2004, as a result of 42 new employees, 62 resignations, 45 net acquisitions by the Parent Bank and other net transfers of personnel from other Companies of the Group and of workers with atypical contracts.

Resources employed by the network banks in the North East and by Banca Popolare dell'Adriatico amounted to 8,934 at the end of the period, an increase of 39 units compared to December 2004,

Personnel

	31/12/2005	%	31/12/2004 pro forma	%	Change 31/12/05-31/12/04	(%)
Period-end headcount (1)	**43,476**	**100.0**	**42,884**	**100.0**	**592**	**+1.4**
- Parent Bank (2)	*21,059*	*48.5*	*20,765*	*48.5*	*294*	*+1.4*
- North East bank networks and Banca Popolare dell'Adriatico (2)	*8,923*	*20.5*	*8,800*	*20.5*	*123*	*+1.4*
- Sanpaolo Banco di Napoli	*5,749*	*13.2*	*5,719*	*13.3*	*30*	*+0.5*
- other companies	*7,745*	*17.8*	*7,600*	*17.7*	*145*	*+1.9*
Executives	847	1.9	794	1.9	53	+6.7
Managers	14,047	32.3	13,298	31.0	749	+5.6
- of which: third and fourth level managers	*5,063*	*11.6*	*4,969*	*11.6*	*94*	*+1.9*
Remaining employees	28,582	65.8	28,792	67.1	-210	-0.7
Other personnel (3)	**190**		**300**		**-110**	**-36.7**
Total	**43,666**		**43,184**		**482**	**+1.1**

(1) The group's headcount for 2005 and 2004 has been calculated applying IAS accounting standards and therefore with the entry into the consolidation area of the A.I.P. group and Sanpaolo Insurance Broker. At the same time, the percentage of consolidation of Banka Koper (a member of the Sanpaolo IMI Internazionale group) has changed from 63,9% al 100% and Cassa dei Risparmi di Forlì, All Funds Bank, Gruppo Wargny have been excluded from the Group's consolidation area. Furthermore, the headcount for each company refers to personnel actually working in that company, which includes personnel on secondment form other Group companies but excludes personnel on transfer away from the company, and not those nominally employed.

(2) The data as of 31/12/2004 have been reclassified with respect to the 2004 Annual Report to take into account the spin off of branches in January 2005.

(3) Includes workers on fixed term contracts and contracts for specific projects.

reclassified consistently in order to take into account exchange of branches with the Parent Bank.

This growth is a result of a 123-unit increase in the number of employees and a decrease of 84 workers with atypical contracts. The total number of new employees amounted to about 300, with 230 departures; personnel from other Group companies grew by about 50 units.

The other Companies of the Group closed the year with a workforce of 7,911 resources, up 146 units (+1.9%) as a result of around 670 newly hired employees and 520 departures. The number of workers with atypical contracts remained stable.

In particular, in the Savings and Assurance sector, the Assicurazioni Internazionali di Previdenza group grew by over 100 units, following plans for reinforcement of the structure supporting business, while the Fideuram group grew by over 60 resources.

The Neos group, operating in the consumer banking sector, grew by about 90 units, of which two thirds following the incorporation of Neos Servizi, previously unconsolidated. In addition, measures to rationalize the tax sector continued during 2005 (-3.4%), also through the Solidarity Fund, with total departures in 2005 amounting to about 30 resources.

Stock incentive plans

Regarding stock incentive plans, see Part I of the Consolidated Explanatory Notes.

Risk management and control

The basic principles

The Group is strongly committed to risk management and control on the basis of the following 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 conduct business activities and those responsible for 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 Committees.

The Parent Bank also performs general risk management and control functions and takes risk-acceptance decisions in the case of particularly large risks, supported by the Risk Management Department.

The Business Areas that generate credit and/or financial risks are assigned limits of autonomy and each has its own control structure. For the main Group banking subsidiaries (Sanpaolo Banco di Napoli, Cassa di Risparmio in Bologna, Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio di Venezia, Friulcassa and Banca Popolare dell'Adriatico), 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 Committee of the subsidiary.

The Basel 2 Project

In June 2004, the Basel Committee on Banking Supervision published the final version of the Capital Accord ("Basel 2"), adopted by the European Union at the end of 2005 through the Directive on Capital Adequacy.

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, in both credit risks and operational risks. In order to obtain access to these options, however, the banks must satisfy a set of minimum requirements for risk management and control methodologies, to be verified by the Supervisory Authority.

Most of the advantages will come from the management and operating results obtained from the systematic application of the new methodologies which should allow the improvement of 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 for the adoption of the advanced approaches as soon as the New Accord comes into force, expected for the beginning of 2007.

A new Group credit process was introduced during 2005 that, in accordance with the New Accord, includes the use of internal rating as an essential part of deliberations on credit acceptance and management.

The new process is applied to the corporate, small business and household mortgage sectors. During 2006 it will be extended to other retail loans, thereby reaching an almost total coverage of customer loans.

Risk management and control

Qualitative and quantitative data of risk management and control can be found in Part E of the Explanatory Notes.

Shareholders and ratings

Shareholders

As of 31 December 2005, 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	14.22	6.85
Banco Santander Central Hispano	8.44	9.96
Fondazione Cassa di Risparmio di Padova e Rovigo	7.04	4.00
Fondazione Cassa di Risparmio in Bologna	5.55	2.85
Giovanni Agnelli e C.	4.97	5.86
Assicurazioni Generali	2.00	2.36
Mediobanca	1.75	2.06
Morgan Stanley & Co. International	1.75	2.06
Banca Monte dei Paschi di Siena	1.51	1.78
Società Reale Mutua di Assicurazioni	1.50	1.77
Caisse Nationale des Caisses d'Epargne (CNCE)	1.50	1.77
Ente Cassa di Risparmio di Firenze	1.50	1.77
Fondazione di Venezia	1.47	1.73
Other shareholders (1)	46.79	55.17
Total	**100.00**	**100.00**

(1) Includes own shares held by the Group.

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+

Performance of share prices

At the end of December 2005, SANPAOLO IMI's share price was 13.216 euro, up 24.7% compared to 30 December 2004, against an increase of 30.7% in the MIB bancario index. On the same date, the SANPAOLO IMI share traded at a price/book value of 1.8.

On 21 March 2006, the quoted price was 15.546 euro, a rise of 17.6% since the beginning of the year.

SANPAOLO IMI share price and dividends

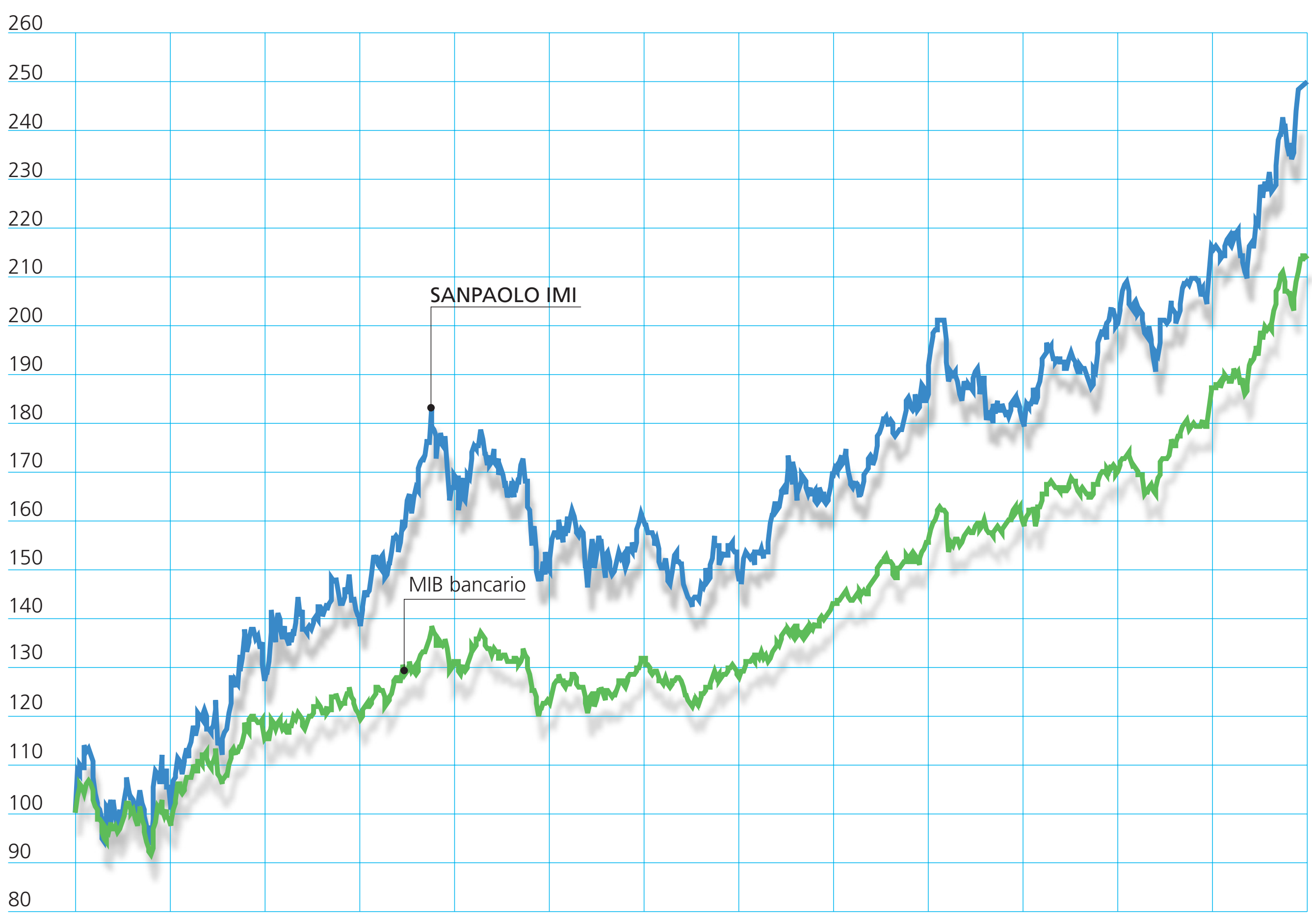
Year	High (€)	Low (€)	Average (€)	Unit dividend (€)	Dividend yield (1) %	Payout ratio (2) %
1997	8.800	4.564	6.275	0.06	0.91	53.4
1998	16.274	8.717	12.429	0.46	3.74	71.7
1999	16.071	10.970	13.192	0.52	3.91	69.0
2000	20.800	11.483	16.612	0.57	3.42	61.7
2001	18.893	8.764	14.375	0.57	3.97	66.5
2002	13.702	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	13.420	10.201	11.836	0.57	4.82	53.8
2006 (3)	15.546	12.986	14.126			

Market comparison

	21/3/2006	30/12/2005	30/12/2004	Change 30/12/05 - 30/12/04 (%)
SANPAOLO IMI share price (€)	15.546	13.216	10.600	+24.7
Historical MIB bancario index	3,686	3,230	2,472	+30.7

	30/12/2005	31/12/2004 (4)
Book value per share (€)	7.22	6.48

(1) Calculated on annual average price.
(2) On consolidated income.
(3) Up to 21/3/2006.
(4) Pro forma.



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

Supplementary information

Transactions with related parties

Information on Group transactions and relations with related parties can be found in Part H of the Explanatory Notes to these consolidated financial statements. Moreover, Part H of the Explanatory Notes to the Parent Bank financial statements gives an analysis, pursuant to Art. 78 of Consob Resolution n. 11971/99 and subsequent modifications, of the remuneration of the Directors, Auditors and Managing Director of the Parent Bank, as well as the stock option plans reserved for them.

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 in Art. 79 of Consob Resolution n. 11971/99, are detailed in Part H of the Explanatory Notes to the Parent Bank financial statements.

A detailed list of the Group companies and subsidiaries as of 31 December 2005 is given in the Explanatory Notes to these consolidated financial statements (Part B – Section 10 – Assets).

Offices held by Directors in other companies

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

Corporate bond risk and protection of savers

The serious repercussions of recent national and international corporate bond defaults, which have affected savers' portfolios, have led the Group to take certain measures to protect its customers.

In dealing with the complaints of customers who have invested in bonds from defaulting issuers, SANPAOLO IMI has taken the approach of a case-by-case examination of the areas where customers have complained of specific shortcomings in the investments carried out. The aim is to verify the adequacy and formal, substantial consistency of the investment to the risk profile attributable to the customer and, where the shortcomings are proven to exist, to resolve any controversy amicably.

During 2005, examination of claims on investments in Cirio and Parmalat bonds was basically completed, confirming the Group's formal and substantial correct behavior in the majority of cases.

Examination of claims in relation to Argentine bonds is still underway, but here, too, the majority of cases show the Group's formal and substantial correct behavior.

In those cases where the investment activities in Cirio, Parmalat or Argentine bonds do not seem adequate (around 5% of the overall complaints made to the Group Banks for a total nominal value of approximately 14 million euro), the relative reimbursements have been arranged for customers for a total of some 6 million euro.

As regards Argentine bonds acquired before 23 December 2001, the date of the issuer's default, the Association for the Protection of Investors in Argentine Bonds – Task Force Argentina (TFA), of which SANPAOLO IMI is an associate, has identified the proposal to make legal recourse to the International Centre for the Settlement of Investment Disputes (ICSID) as the most suitable way to protect the interests of those Italian investors who did not adhere to the Argentine Republic's Public Exchange Offer (OPS) which closed on 25 February 2005.

ICSID is an organ of the World Bank that acts as conciliator and arbitrator in disputes over investments between states and private foreign investors in application of bilateral treaties existing between interested countries (the agreement between Italy and Argentina was ratified with Law n. 334 of 18 August 1993).

The legal recourse requires, amongst other things, a warrant of attorney which the bondholder may deposit at a designated US legal office, and a mandate to the TFA for the coordination of the proceedings and actions that will taken against Argentina.
The proposed initiative will be totally free for customers.

The initiative does not, however, include holders of bonds from the Province of Buenos Aires as from 7 November to 16 December 2005 there was a Public Exchange Offer (OPS) proposed by the Province to holders of bonds it had issued. There was a generally good response to the Offer and around 94% of the debt to be restructured was exchanged. This was basically in line with the position of customers of the SANPAOLO IMI Group who still hold some 7% of the total bonds owned before the offer.

The insolvency of the Parmalat group, declared in December 2003, led to a default on 26 bonds, mostly on the European market, corresponding to around seven billion euro. The majority of SANPAOLO IMI Group retail customers have adhered to the "Committee to defend SANPAOLO IMI Group Parmalat bondholders", founded autonomously with the financial support of the Bank with the aim of assisting members in the exercise of their rights, including any collective legal proceedings for compensation against individuals who, for the positions held or functions executed in companies of the Parmalat group, might be deemed responsible for the damage caused to all the customers represented by the above-mentioned Committee.

The Committee has initiated civil action on behalf of its members in the two ongoing legal proceedings at the Court of Milan for crimes of market rigging, falsification of papers and obstructing the Supervisory Authorities. Over 32,000 customers adhered to the project. Similar initiatives will be taken in pending cases at the courts of Milan and Parma.

Between 28 June and 26 August 2005, voting was held on the proposed agreement drawn up by the Parmalat Commissioner for the conversion of loans, reduced to the percentages agreed for each insolvent company (recovery ratio), into shares issued by the contractor of the agreement (also called "Parmalat S.p.A.") and quoted on the MTA of the Italian stock exchange.

On 1 October 2005, in the light of a majority of favorable votes, the Court of Parma approved the agreement. Some bondholders opposed the sentence but this has not affected the efficacy of the contested approval.

The appropriate shares and warrants were promptly made available in the relevant administered deposits to Group customers who exercised their right to vote or subsequently requested registration. "Rights" to recall shares have been given to those who have not yet made such a request and must be exercised by 1 October 2010, otherwise they will expire.

On 8 November, on its second calling, the shareholders' meeting was held which nominated the members of the board and the statutory auditors of the new "Parmalat S.p.A.".

Finally, during 2005 activities continued with the application of the "PattiChiari" (Clear Deals) interbank project, aimed at improving relations between the bank and its customers. After implementing the eight initiatives of the project last year, the Group was subjected to a third verification of its compliance to the quality protocols set out in the interbanking area, in line with the normal performance of the certification that provides for regular checks aimed at ensuring that required service levels are constantly maintained.

The administrative and financial governance model

As part of corporate governance aimed at strengthening the quality and level of the presidium of financial market information, the Group has taken measures to regulate all administrative and control activities, taking advantage of the required alignment with the dispositions of the US Sarbanes-Oxley Act in relation to listing on the New York Stock Exchange (NYSE).

The initiatives have been aimed at creating an unequivocal and highly integrated model of Group financial and administrative governance with reference to the system of controls for company information procedures producing obligatory financial market information.

The line taken markedly anticipates the development of the administrative control system, initiated in Europe with the issuing of the VIII directive and in Italy with the reform of the Law on Savings, ex law 262/2005, in response to the growing attention national and international regulators pay to company administrative and financial information to protect investors.

The Group's administrative and financial model reflects its organic planning and creation, fostered by the coordination of the entire Group by one dedicated Function set up in the Finance and Administrative Department of the Parent Bank (whose director covers the role of Chief Financial Officer).

The lines of development for the work program have first defined the methods to ensure the widest diffusion and understanding of the regulatory responsibilities resulting from the application of the Sarbanes-Oxley Act. This has been pursued by the activation of a dedicated information space in the communications infrastructure used by the Group, and accessible to all the companies, that allows widespread utilization of the available analyses, making accessible information sources and a review of the domestic and international experiences accrued, as well as the documentation aimed at coordinating the established work program: guidelines and operative plans, analysis methods and document standards, problems and technical opinions, information given to relevant organs, to company management and to External Auditors.

The commitment to the widespread diffusion of information and an integrated management of initiatives taken is aimed at speeding up the processes of internalization of the innovations and organizational adaptation, deepening understanding of regulatory tasks and increasing the efficiency of communication processes and the overall quality of the system.

In parallel, a model for administrative and financial governance was drawn up paying especial attention to operative profiles aimed at making the internal processes of drafting the financial statement positions and the relative Disclosures secure, transparent and certifiable, according to the principles set out in the auditing standards and in application of the requirements of the CoSO (Committee of Sponsoring Organization of the Treadway Commission) Integrated Framework which constitutes the reference best practice.

The draft plan was then converted, for all the Group's corporate organization, into a document analyzing and defining the links between the administrative-financial reports (financial reporting) and the description of organizational procedures and the configuration of the control system for market financial information.

This document framework integrates the company rules and regulations, responsibilities, organizational processes, working procedures and phases, information architectures and application systems in a codified structure of reports describing everything influencing the drawing up of financial reporting and disclosures, with particular emphasis on information risk profiles and all the established protection and control systems.

The descriptive analysis refers to an extension of the specific organizational model, with especial attention to:

- standards, regulations and operational control mechanisms valuable to the Group, reflecting the quality of financial information which represents the most common form of risk mitigation for minority parties holding issuer securities (Company Level Controls);
- general procedures and regulations governing technology and applied developments, with respect to design, procurement, development and management of the information system, with particular reference to architectures and applied systems supporting the production of data (IT General Controls);

- management, business, administrative and support procedures with tangible influence on the drawing up and determination of capital and economic values and amounts stated in financial reporting.

The effectiveness and efficiency of the model for administrative and financial governance are strengthened through checks on the coherent application of the controls and the correctness of the recording documents; any plans of action advisable for improving the quality of the control system set up are analytically formalized for the whole Group, illustrating their nature and state of realization.

Extension to all Group areas of an unequivocal and integrated model for administrative and financial governance has prompted the adoption of a dedicated applied architecture in support of the management and upkeep of the overall store of information, ensuring that the document plan possesses the quality and efficient structure typical of the most up-to-date information systems.

On this basis, Management has put itself in the position of being able to publicly disclose the state of the internal control system, initially according to the Sarbanes-Oxley Act (Management Assessment of Internal Controls over financial reporting), and in future, compliance to the aforementioned dispositions of Law 262/2005 (Declaration on financial statements by the “Manager for accounting and corporate documents”).

With the initiatives taken, SANPAOLO IMI intends to seize the opportunities offered by the regulations in terms of competitive advantage, pursuing a broad program aimed at establishing an innovative governance and control system for financial information, centered on greater reliability and depth of analysis to ensure the highest standards in the quality of the drafting of disclosures.

Group Business Structure

Following the redesign of the organizational structure initiated on 5 July 2005, the SANPAOLO IMI Group is divided into the following Business Sectors:

- Banking
- Savings and Assurance
- Asset Management and International Private Banking
- Central Functions.

This division, which has concentrated operations on banking, further divided into the business lines of "retail & private" and "corporate", savings and assurance activities, including the insurance business and asset gathering, and asset management, is in line with the provisions of IAS 14 concerning Segment Reporting. More in detail, it has been selected as primary information on the basis of the management approach principle inasmuch as it reflects the operational responsibilities required by the above-mentioned organizational restructuring.

The following table summarizes the main data for the performance of the Business Sectors.

The detailed analysis of the Business Sectors and the principal business lines illustrates the initiatives taken in the year, the data

	Banking	Savings and Assurance	Asset Management and International Private Banking	Central Functions (1)	Group total
TOTAL OPERATING INCOME (€/mil)					
2005	6,649	1,072	344	337	8,402
2004	6,231	900	325	143	7,599
Change 2005 / 2004 (%)	+6.7	+19.1	+5.8	+135.7	+10.6
PRE-TAX OPERATING PROFIT (€/mil)					
2005	2,555	600	233	-365	3,023
2004	1,947	507	181	-664	1,971
Change 2005 / 2004 (%)	+31.2	+18.3	+28.7	-45.0	+53.4
NET PROFIT (€/mil)					
2005	1,665	365	187	-234	1,983
2004	1,135	306	144	-329	1,256
Change 2005 / 2004 (%)	+46.7	+19.3	+29.9	-28.9	+57.9
TOTAL INTEREST-EARNING ASSETS (€/mil) (2)					
31/12/2005	141,463	6,460	4,137	33,708	185,768
31/12/2004	124,132	5,063	4,549	30,170	163,914
Change 31/12/2005 - 31/12/2004 (%)	+14.0	+27.6	-9.1	+11.7	+13.3
TOTAL INTEREST-BEARING LIABILITIES (€/mil) (2)					
31/12/2005	126,115	5,780	4,373	41,686	177,954
31/12/2004	112,349	4,312	5,554	34,822	157,037
Change 31/12/2005 - 31/12/2004 (%)	+12.3	+34.0	-21.3	+19.7	+13.3
ALLOCATED CAPITAL (€/mil)					
2005	8,413	1,257	113	1,717	11,500
2004	8,182	1,146	108	1,152	10,588
Change 2005 / 2004 (%)	+2.8	+9.7	+4.6	+49.0	+8.6
PROFITABILITY (%)					
2005	19.8	29.0	165.5	n.s.	17.2
2004	13.9	26.7	133.3	n.s.	11.9
EMPLOYEES					
31/12/2005	34,959	2,156	696	5,855	43,666
31/12/2004	34,742	1,984	694	5,764	43,184
Change 31/12/2005 - 31/12/2004 (%)	+0.6	+8.7	+0.3	+1.6	+1.1

(1) Including netting and consolidation entries.
(2) Excluding the Banca IMI group.

of the statement of income, the operating structure, as well as the main profitability ratios, with values expressing the contribution to Group income.

When necessary, figures for the statement of income for 2004 and operational data as at 31 December 2004 have been reconstructed homogeneously, with regard to both the adoption of the new accounting standards and the business structure.

Criteria for calculating the profitability of the Business Sectors

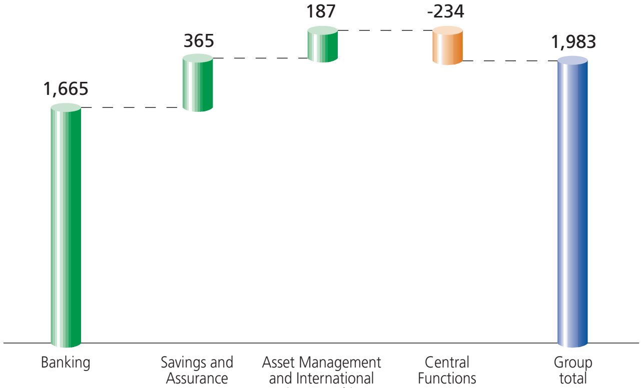
The statement of income for the Business Sectors has been drawn up in the following way:

- for those Sectors whose activities are carried out both by the Parent Bank and by its subsidiaries, the Parent Bank accounts attributable to the relevant Sector have been consolidated with the income statement line items of its subsidiary companies. In particular, the attribution to individual Sectors of Parent Bank line items has been made on the basis of the following principles:
  - net interest income has been calculated using appropriate Internal Transfer Rates;
  - in addition to real commissions, notional commissions for services rendered between business units have also been quantified;
  - the direct costs of each Sector have been calculated and the costs of central structures other than those attributable to holding company functions have been allocated to the same Sectors. 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 Sectors whose activities are carried out entirely by subsidiaries, the income statements of the companies are reported in terms of their contribution to the consolidated results of the Group, net of minority interest and after posting of consolidation attributable to the Sector.

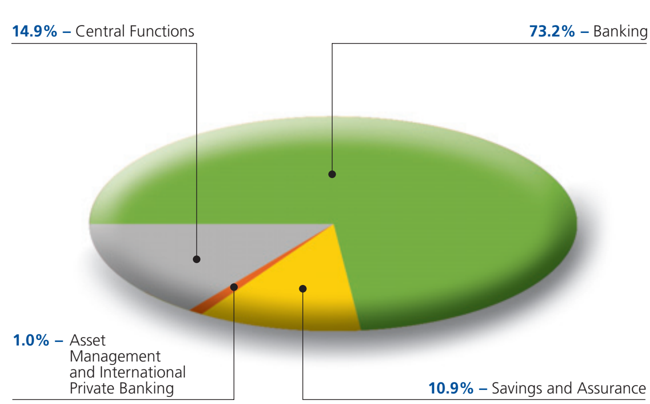
Furthermore, each Sector has been attributed the average absorbed capital on the basis of the current risks (credit, market and operational) calculated according to the VaR (Valued at Risk) approach; these risks are covered entirely by the primary capital. The only exception is Banca Fideuram, that operates in the Savings and Assurance sector, for which, as it is a listed company, reference has been made to accounting net shareholders' equity at the end of the year (excluding income), in line with the practice for the Group.

Profitability of each Sector has been expressed in terms of RORAC (Return On Risk Adjusted Capital), relating the Sector's contribution to the net profit of the Group to the amount of average absorbed capital measured according to VaR. Concerning Savings and Assurance, profitability has been calculated relating the contribution of the Sector to the Group net profit to the amount of accounting net shareholders' equity of Banca Fideuram and the average absorbed capital of Assicurazioni Internazionali di Previdenza.

2005 net profit by Business Sector (€/mil)



2005 allocated capital by Business Sector



Initiatives and results of the Business Sectors

Banking

Banking activities are the Group's core business and represent the reference point for the definition, development and co-ordination of the commercial strategies of all the networks of the Group. They are divided into the business lines of Retail & Private and Corporate, and also include IMI Investimenti for the management of large industrial investments, and GEST Line, responsible for the Group's tax collecting activities.

2005 saw the continuation of the process of integrating the networks that has led to the extension to all the banks of the Group's distribution model, specialized by customer segment. The resulting improvement in the quality of service and the personalization of the offer have contributed to strengthening customer relations. The current organizational structures comprises 20 territorial areas/directorates of the network banks responsible for coordinating the transactions of the Markets and the branches and improving the effectiveness of the initiatives aimed at customers on the basis of the specific needs of each territory, taking advantage of being close to the customer.

80% of the Group's employees work in the Sector which generated 81% of total intermediary funds and contributed 79% of consolidated revenues. Banking activities absorbed 73% of capital, a fall from the 77% of 2004. In absolute values, allocated capital rose due to the greater impact of credit risks linked to new transactions, only partly compensated by the fall in operating risks linked to cost performances. Together with the trend in absorbed capital, the considerable increase in net profit (+46.7%) led to a rise of approximately six percentage points in RORAC (19.8%) compared with the previous year. Overall, the core business contributed 84% of the net consolidated profit. Alongside this, there was a reduction of over four points in the cost/income ratio which was seen in an improvement of efficiency pursued through the growth of revenues coupled with a reduction in costs.

More detailed analysis will be given under the two business lines of the Sector. However, the positive performance can be noted here of the main income margins, driven by the favorable trend in transactions during 2005, for both customer financial assets (+9.2%) and net customer loans (+12%). In particular, total operating income rose by 6.7%, mainly due to the traditional revenues of the commercial banks, the greater income from investment banking, in which Banca IMI operates, as well as in the public compartment where Banca OPI is active. Net interest income rose by 0.9%, rising to 2.5% if investment banking activities are excluded. The growth in pre-tax operating profit, equal to 31.2%, was favored by a reduction in adjustments to loans and other financial assets, as well as a fall in operating costs in all the main elements. Net of taxes, profits for the year amounted to 1,665 million euro compared to the 1,135 million recorded for 2004 and reconstructed pro forma. The results for 2005 have benefited for extraordinary, non-recurring transactions for some 200 million euro, the most important of which was the capital gain on Italenergia Bis.

Banking

	2005	2004 pro forma	Change 2005 / 2004 pro forma (%)
STATEMENT OF INCOME (€/mil)			
Net interest income	3,540	3,508	+0.9
Net commissions	2,609	2,474	+5.5
Income from credit disposals, assets held to maturity and repurchase of non-hedged financial liabilities	23	4	n.s.
Dividends and income from other financial assets and liabilities	411	221	+86.0
Profits (losses) on equity shareholdings	66	24	+175.0
Income from insurance business	-	-	-
Total operating income	**6,649**	**6,231**	**+6.7**
Net adjustments to loans	-426	-555	-23.2
Net adjustments to other financial assets	-	-68	n.s.
Net operating income	**6,223**	**5,608**	**+11.0**
Personnel costs	-2,129	-2,153	-1.1
Other administrative costs	-1,462	-1,472	-0.7
Net adjustments to tangible and intangible assets	-29	-34	-14.7
Operating costs	*-3,620*	*-3,659*	*-1.1*
Other net income (expenses)	42	62	-32.3
Impairment of goodwill	-1	-	n.s.
Profits (losses) from disposals of investments	2	-	n.s.
Net provisions for risks and charges	-91	-64	+42.2
Pre-tax operating profit	**2,555**	**1,947**	**+31.2**
Taxes for the period	-889	-810	+9.8
Profits (losses) on groups of discontinued operations	-	-	-
Profit attributable to minority interests	-1	-2	-50.0
Net profit	**1,665**	**1,135**	**+46.7**
REVENUES FROM THE SECTOR (€/mil)	**6,649**	**6,231**	**+6.7**
INCOME FROM THE SECTOR (€/mil)	**2,555**	**1,947**	**+31.2**
ALLOCATED CAPITAL (€/mil)	**8,413**	**8,182**	**+2.8**
RATIOS (%)			
Profitability	19.8	13.9	
Cost / Income ratio	54.4	58.7	

	31/12/2005	31/12/2004 pro forma	Change 31/12/05-31/12/04 pro forma (%)
OPERATING DATA (€/mil)			
Intermediary funds	440,184	399,919	+10.1
Customer financial assets	307,054	281,104	+9.2
- direct deposits	100,169	91,582	+9.4
- asset management	103,313	93,491	+10.5
- mutual funds and fund-based portfolio management	*68,538*	*63,013*	*+8.8*
- portfolio management	*5,055*	*5,298*	*-4.6*
- life technical reserves and financial liabilities	*29,720*	*25,180*	*+18.0*
- asset administration	106,822	97,948	+9.1
- netting	-3,250	-1,917	+69.5
Net asset management flows	5,476	-1,033	
Net loans to customers excluding NPLs	133,130	118,815	+12.0
Total interest-earning assets (1)	141,463	124,132	+14.0
Total interest-bearing liabilities (1)	126,115	112,349	+12.3
OPERATING STRUCTURE			
Employees	34,959	34,742	+0.6
Domestic branches	3,081	3,037	+1.4
Foreign branches and representative offices	131	126	+4.0

(1) Excluding the Banca IMI group.

Retail & Private

The Retail & Private business line operates to serve customers made up of families, small businesses and private clients and is supported by direct channels such as Internet, 'phone and mobile banking. It also comprises Neos Banca (formerly Finemiro Banca), the company specialized in consumer credit, and Farbanca, the electronic bank for the pharmaceutical and health sector.

Retail & Private's net operating income increased by 3.9% compared to the previous year, benefiting from the growth in net interest income and net commissions from commercial banks and from the reduction in adjustments to loans in the portfolio of the commercial banks and Neos Banca.

Net profit amounted to 818 million euro, an increase of 14.4% over 2004: the result not only of the good performance of revenues but also of the reduction of other administrative costs and personnel costs. The latter make up a significant part of the costs of the line of business which employs 25,188 staff, corresponding to 58% of the Group's personnel.

Retail & Private intermediary funds, constituting 50% of those of the Group, registered an annual growth of 6.6%, thanks to the expansion of both customer financial assets (+5.8%) and loans to customers (+10.2%). The increase in financial assets is mainly attributable to asset management (+10.5%) which benefited from a high number of placements and the favorable trend of the financial markets. Concerning asset management, life policies and fund-based portfolio management were particularly lively with a growth rate since the beginning of 2005 of 20% and 30% respectively.

Retail & Private absorbed 20% of the Group's capital, a slight decrease compared to 2004. In absolute values, the allocated capital was a little above the levels of 2004. The performance is attributable to an increase in transactions, which increased the weight of credit risks, against a fall in operational risks linked to cost structures. Profitability, which rose to 35.2% from the 31.3% of the previous year, benefited from the increase in net profit.

Retail & Private operates through 3,007 branches and 168 other specialized operating points in the Group's commercial banks divided into 45 Markets. In particular, the regions of Central Northern Italy and the Islands are covered by 1,469 Sanpaolo operating points, those of the South by 718 Sanpaolo Banco di Napoli operating points, and those of the North East, Emilia and the Adriatic area by 988 operating points of Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Cassa di Risparmio di Venezia, Friulcassa and Banca Popolare dell'Adriatico. To these must be added the 26 branches of Neos Banca and Farbanca.

The retail branches are divided into modules providing services for the various types of customers: personal, family and small business, dedicated respectively to customers with significant financial funds, to households and customers comprising professionals, artisans, farmers and smaller companies. The larger retail branches also operate modules specialized in serving private customers, and these join the operating points specifically dedicated to this type of customer, to give a better territorial coverage.

Particular importance has been given to the management of customers' assets: in line with market needs, offer policies have been oriented towards providing support to customers in maximizing their short- and medium-/long-term financial plans, by offering asset management and welfare products, satisfying, at the same time, the increasing demand for personal and property protection by offering insurance products. With particular reference to offers, the planning and realization phases of the new range of "absolute return" funds have been completed in collaboration with Sanpaolo IMI Asset Management SGR. These funds are managed with the aim of giving an "absolute" return, not linked to the traditional benchmark and market performance, through innovative management techniques that still maintain a close presidium of the risks. The commercialization of the first funds in the series began in 2006. Furthermore, the rationalization and restyling of the range of open pension funds was completed with Sanpaolo IMI Asset Management and A.I.P. in preparation for the transfer of the business from Sanpaolo IMI Asset Management to A.I.P..

During 2005 the foundations were laid for new commercial processes aimed at improving cross selling, customer retention and acquiring new customers. In particular, strengthening began of the central capacities of "data mining" and Customer Relationship Management (CRM) for family and personal modules. The number of resources was increased for the telephone contact unit that started operating to support branches in customer contacts, and new instruments were made available on to the network for the prompt identification of customers showing signs of wishing to leave the bank and alerting the customer managers in real-time of the major commercial events in customer transactions. The personal customer service has been strengthened with the introduction of a new professional figure – the territorial personal contact – who collaborates with, and gives guidance and support to, the customer managers in a specific territory, with advantages in terms of promptness and effectiveness in communicating the directives of the Division, development of manager competences, sharing of experiences and best practice.

On the occasion of the XX Olympic Winter Games Turin 2006, there were 22 new issues of debit cards and new functions were put into action. The spread of credit cards with flexible payment methods was amplified, allowing the holder to choose between paying in a lump sum or by instalments. A project was started during 2005 for the gradual migration to advanced technologies (microchip) which, in the light of the progressive modification of debit cards, ATMs and POS, will ensure greater security in electronic payment services and offer the possibility to increase the services available to customers. Mention should also be made of the roll-out of the pool of ATMs equipped with Web technologies, offering customers new self-service functions (transfer, fast withdrawal, advanced information services) and, in the case of the Web MTA ATM, also the possibility of depositing cash and checks.

Particular attention has been paid to private customers, also through a further increase in the offer range. "Gestione

Retail & Private

	2005	2004 pro forma	Change 2005 / 2004 pro forma (%)
STATEMENT OF INCOME (€/mil)			
Net interest income	2,161	2,115	+2.2
Net commissions	1,959	1,912	+2.5
Income from credit disposals, assets held to maturity and repurchase of non-hedged financial liabilities	7	-	n.s.
Dividends and income from other financial assets and liabilities	33	30	+10.0
Profits (losses) on equity shareholdings	-	-	-
Income from insurance business	-	-	-
Total operating income	**4,160**	**4,057**	**+2.5**
Net adjustments to loans	-193	-240	-19.6
Net adjustments to other financial assets	-	-	-
Net operating income	**3,967**	**3,817**	**+3.9**
Personnel costs	-1,518	-1,538	-1.3
Other administrative costs	-990	-997	-0.7
Net adjustments to tangible and intangible assets	-7	-7	-
Operating costs	*-2,515*	*-2,542*	*-1.1*
Other net income (expenses)	15	31	-51.6
Impairment of goodwill	-	-	-
Profits (losses) from disposals of investments	-	-	-
Net provisions for risks and charges	-21	-26	-19.2
Pre-tax operating profit	**1,446**	**1,280**	**+13.0**
Taxes for the period	-628	-564	+11.3
Profits (losses) on groups of discontinued operations	-	-	-
Profit attributable to minority interests	-	-1	n.s.
Net profit	**818**	**715**	**+14.4**
ALLOCATED CAPITAL (€/mil)	**2,321**	**2,281**	**+1.8**
RATIOS (%)			
Profitability	35.2	31.3	
Cost / Income ratio	60.5	62.7	
	31/12/2005	31/12/2004 pro forma	Change 31/12/05-31/12/04 pro forma (%)
OPERATING DATA (€/mil)			
Intermediary funds	268,418	251,902	+6.6
Customer financial assets	222,356	210,110	+5.8
- direct deposits	60,160	57,369	+4.9
- asset management	103,198	93,412	+10.5
- mutual funds and fund-based portfolio management	*68,425*	*62,936*	*+8.7*
- portfolio management	*5,053*	*5,296*	*-4.6*
- life technical reserves and financial liabilities	*29,720*	*25,180*	*+18.0*
- asset administration	58,998	59,329	-0.6
Net asset management flows	5,444	-1,054	
Net loans to customers excluding NPLs	46,062	41,792	+10.2
Total interest-earning assets	46,553	41,895	+11.1
Total interest-bearing liabilities	64,741	61,347	+5.5
OPERATING STRUCTURE			
Employees	25,188	24,886	+1.2
Domestic branches	3,033	2,991	+1.4

Investimento Private" (Private Investment Management), the portfolio management product with low volatility and a balanced management, was prepared in the last part of the year.

Operations carried out with small entrepreneurs with good creditworthiness were increased, in line with the growth foreseen in the Small Business Project, which sets ambitious objectives in terms of increasing market shares and broadening the customer base.

Especial attention was also paid to certain areas such as financing to personal and family customers, where Retail & Private operates both directly by granting personal loans and mortgages through the branch network, and indirectly through the subsidiary Neos Banca. The offer range of the branch network has been broadened with the commercialization of the "Domus 100%" mortgage which gives 100% financing of the value of the property. A multi-guarantee policy linked to mortgages has also been developed. After it became a subsidiary of the SANPAOLO IMI Group, Neos Banca has carried out major organizational and management changes aimed at strengthening its competitive ability, with the particular objectives of gradually shifting the activity towards those business areas which are more interesting in terms of national growth, and of reducing asset risk.

In order to render the initiatives taken fully effective, constant attention has been paid to staff training with the goal of offering customers a better professional service and developing the selling skills of the network employees. During 2005, some 127,600 training days were held, involving 20,700 resources.

In the course of the year, the Retail & Private business line completed preparations for the realization of the 2006-2008 Three-year Plan, which saw areas/directorates of the network banks take on a fundamental role. In more detail, for each of the four reference customer segments, 16 product families have been identified, each one of which has been assigned an objective in terms of expected percentage possession, on the basis of specific benchmarks for each area. Furthermore, objectives were set in terms of key performance indicators (KPI) for the branches of the reference market, in the light of alignment to internal best practices.

Corporate

Corporate is the Banking business line dedicated to company customers. It consists of the following Divisions: Companies, for the management of relations with small- and medium-sized businesses; Large Groups, responsible for the management of relations with the more important national and international groups; International, which includes the Parent Bank's foreign network but limited to corporate lending activities, the Irish subsidiary Sanpaolo IMI Bank Ireland and Sanpaolo IMI Internazionale that

Corporate

	2005	2004 pro forma	Change 2005 / 2004 pro forma (%)
STATEMENT OF INCOME (€/mil)			
Net interest income	1,363	1,381	-1.3
Net commissions	487	403	+20.8
Income from credit disposals, assets held to maturity and repurchase of non-hedged financial liabilities	24	4	n.s.
Dividends and income from other financial assets and liabilities	262	177	+48.0
Profits (losses) on equity shareholdings	47	-	n.s.
Income from insurance business	-	-	-
Total operating income	**2,183**	**1,965**	**+11.1**
Net adjustments to loans	-238	-308	-22.7
Net adjustments to other financial assets	-	-7	n.s.
Net operating income	**1,945**	**1,650**	**+17.9**
Personnel costs	-539	-545	-1.1
Other administrative costs	-390	-407	-4.2
Net adjustments to tangible and intangible assets	-20	-25	-20.0
Operating costs	*-949*	*-977*	*-2.9*
Other net income (expenses)	20	27	-25.9
Impairment of goodwill	-1	-	n.s.
Profits (losses) from disposals of investments	1	-	n.s.
Net provisions for risks and charges	-66	-36	+83.3
Pre-tax operating profit	**950**	**664**	**+43.1**
Taxes for the period	-263	-252	+4.4
Profits (losses) on groups of discontinued operations	-	-	-
Profit attributable to minority interests	-1	-1	-
Net profit	**686**	**411**	**+66.9**
ALLOCATED CAPITAL (€/mil)	**5,860**	**5,678**	**+3.2**
RATIOS (%)			
Profitability	11.7	7.2	
Cost / Income ratio	43.5	49.7	
	31/12/2005	31/12/2004 pro forma	Change 31/12/05-31/12/04 pro forma (%)
OPERATING DATA (€/mil)			
Intermediary funds	155,483	136,026	+14.3
Direct deposits	35,674	30,519	+16.9
Net loans to customers excluding NPLs	84,928	75,280	+12.8
Total interest-earning assets (1)	93,709	81,477	+15.0
Total interest-bearing liabilities (1)	56,169	46,730	+20.2
OPERATING STRUCTURE			
Employees	8,438	8,477	-0.5
Domestic branches	48	46	+4.3
Foreign branches and representative offices	131	126	+4.0

(1) Excluding the Banca IMI group.

has the presidium of the group's activities in Central Eastern Europe; Public Authorities and Entities, dedicated to developing relations with reference organizations and institutions. Banca IMI, the Group's investment bank, Sanpaolo IMI Private Equity, Sanpaolo Leasint, active in the leasing compartment, and the Structured Finance unit, responsible for project financing and specialized structured lending, all also come under Corporate.

Corporate intermediary funds grew steadily on an annual base (+14.3%), indicating the significant upturn in transactions. This performance has been supported by both the commercial effort for loans to foreign and domestic companies, also through transactions in investment banking and structured finance, and the liquidity of the companies seen in an increase in direct deposits. Net loans to customers rose by 12.8% compared to end December 2004. The rise in trading volumes was obtained by containing risk in the portfolio that allowed a reduction in net adjustments to loans, also due to write-backs on some doubtful positions.

Revenues rose by 11.1% compared to 2004, attributable to the growth in commissions and income from other financial assets and liabilities, thanks also to the good performance of corporate finance activities and equity capital markets overseen by Banca IMI. Total operating income also benefited from the capital gain on the disposal of some shareholdings by Sanpaolo IMI Private Equity. Net interest income fell by 1.3%; if investment banking transactions by Banca IMI are excluded, net interest income of the core business rose by 2.7%, driven by the rise in operating volumes, which has largely compensated for the erosion of the spread in corporate counterparties.

Net operating income, up 17.9%, benefited from the aforementioned resizing of adjustments to loans. Due to the reduction in operating costs, pre-tax operating profit amounted to 950 million euro compared to the 664 million recorded in 2004. The fall in costs, equal overall to 2.9%, is attributable to other administrative costs and, to a lesser extent, amortization and personnel costs. In connection with the latter, the business line employs 8,438 staff, representing 19% of the Group's personnel.

Net profit totaled 686 million euro, up 66.9% on the previous year.

Corporate absorbed 51% of the Group's capital, a decrease with respect to 2004. In absolute values, allocated capital rose as a result of the higher credit risk connected to new business together with the lower operating risks linked to cost containment. The growth in net profit has given rise to a solid improvement in profitability in terms of RORAC that rose to 11.7% from the 7.2% in 2004.

Improvement in efficiency was equally significant: the cost/income ratio fell by over six percentage points compared to the previous year.

Companies

The Group network dedicated to the national companies market comprises 247 operating points divided between branches and specialist teams assigned to the retail branches.

The single service model used by all the commercial banks of the Group exploits the broad spread of the network and the specialization of employees. The network has 20 Market presidium offices responsible for coordinating branch transactions and shaping the commercial offer to specific local needs.

Actions taken during the year were aimed at strengthening relations with the domestic business system through greater financial support to companies with a suitable risk profile. The initiatives taken led to an increase of the share of the wallet of cash loans of around 80 basis points compared to the preceding year.

The rise in transactions was supported by the strengthening of the offer of products and services, by commercial initiatives aimed at selected customer targets and by investments in the development of competences.

With reference to the financing sector, new innovative projects were launched to support investments in research and development and new technologies, new types of actions were developed to help the rebalancing of financial structures and the recapitalization of companies, and, lastly, offer programs were defined for specific business sectors. Overall, medium- and long-term disbursements to small- and medium-sized enterprises amounted to around six billion euro.

International trade transactions were strengthened thanks to the extension throughout the network of a new operational approach whose main purpose is to maximize the offer of services with high added value.

The offer of transaction services has been further improved with the start-up of the Links Sanpaolo remote station, enhanced with new, innovative operational functions: the number of businesses with Sanpaolo remote stations rose to around 3,200 in 2005.

The sale of hedging products to cover interest rate and exchange risks maintained the growth trend of previous years and was guided by a policy of offering coherent answers to the operational needs of businesses and customer financial competences. The number of customers operating in derivatives rose to 4,400 in 2005.

The high specialization of the service model was backed by intense training programs which continued throughout the year aimed at strengthening commercial and technical-specialist capacities. Some 19,500 training days were held during 2005, involving over 3,400 employees.

In order to give adequate support to decisional processes and offer development, a survey of customer satisfaction was carried out which laid the foundations for long-term monitoring. The study, which revealed a high level of overall satisfaction, also permitted the analysis of the present offer of products, the organizational model and the level of commercial competition.

With regard to the New Basel Agreement, extension of the new process of lending and loan management to the business network was concluded, giving complete uniformity at Group level with obvious advantages in terms of the efficiency and effectiveness of commercial activities.

Finally, in the last part of the year a growth strategy for the next three years was drawn up. To achieve its objectives, the commercial capability of the network is being improved through the strengthening of the specialist product sales force and the introduction of a network of developers dedicated to acquiring new customers.

Large Groups

Large Groups is responsible for the presidium of the larger customers.

In a market characterized by strong commercial competition, the main aim was to protect the quality of the portfolio. The most important event in activities with large groups in 2005 was the conversion of the FIAT loan for 400 million euro in ordinary shares, which was followed at the beginning of 2006 by the market placement of the entire capital share deriving from the loan, as already described in "Action points and initiatives in the year".

International

International is responsible for international activities. It manages the sector made up of overseas customers, supports domestic companies operating on foreign markets and develops relations with corresponding banks. The Division is also responsible for Sanpaolo IMI Internazionale, the company that coordinates and heads the shareholdings in the Hungarian Inter-Europa Bank (85.9%) and Sanpaolo IMI Bank Romania (98.6%). The company is also responsible for the operational controlling of Banka Koper, operating in Slovenia, of which 63.9% is held by the Parent Bank.

The distribution structure directly covers 33 countries and constitutes the international network of the Parent Bank made up of 13 wholesale branches, the Irish subsidiary Sanpaolo IMI Bank Ireland, 19 representative offices and two operating desks, to which must be added the 98 branches of the controlled banks operating in Central Eastern Europe.

Activities in the year continued in line with the mission, aimed at encouraging and supporting the internationalization of Italian companies, promoting and assisting the investments and activities of foreign multinationals on the European market (with priority given to the Italian market), capitalizing on cross selling opportunities for the Group's product factories, operating as a domestic bank in new, high-growth markets, and extending relations with counterpart banks.

With the aim of rendering assistance to Italian customers on international markets more efficient, during 2005 representative offices were opened in Casablanca and Dubai and an "Italian desk" was started at the Commercial Bank of Kuwait in Kuwait City.

Other initiatives completed in the foreign sector during the year included SANPAOLO IMI joining the Global Trade Finance program of the International Finance Corporation, obtaining partial or total coverage of risks for banks in emerging countries in the context of the import/export of goods and services, and agreeing to acquire 80% of Banco Italo Albanese which is an important element in the development of economic-trade relations between Albania and Italy.

Public Authorities and Entities

Public Authorities and Entities is dedicated to developing relations with the reference organizations and institutions and, through Banca OPI, provides advisory services and medium-/long-term financing to public bodies and local service companies for infrastructures.

In 2005, Banca OPI confirmed its leading position in the specific compartment with loans to customers of 26.6 billion euro as of 31 December 2005, including securities in the portfolio for 5.9 billion, for an annual growth of 9.5%.

The commercial structure of the bank has strengthened its market penetration: the overall flow of new operations completed (financing and securities) totaled seven billion euro, obtained through a significant rise in the number of entrusted counterparties.

A particular effort was made in the organization and issue of bonds by medium-sized territorial bodies, meeting customer needs in a market characterized by a greater growth (compared to mortgages) in this component of the liabilities of local authorities. During the year, a total of 121 new issues were made (twice as many as in 2004) to the sum of over 1 billion euro.

2005 saw the start of operations for the Public Authorities and Entities network of the Parent Bank, dedicated to the commercial promotion of Banca OPI products. The network, distributed across the country with "presidium offices", has allowed contacts to be made with many new counterparties, giving rise to contracts for 1.1 billion euro.

A boost was also given to the financial advisory services offered to customers, mainly in connection to debt restructuring programs and the related promotion of derivative products. A major part (over 50%) of mortgage prepayments (for a total of 1.9 billion) was subject to a remodeling of payment dates and the debt structure for primary clients.

With reference to project finance, 2005 was marked by considerable growth in Italy and abroad, with new contracts exceeding 340 million euro, an increase over 2004. Banca OPI acted as mandated lead arranger in two major project and construction financing operations: the construction of the first trading lot of the Salerno-Reggio Calabria highway, and the license for the construction and management of the new seat of the Bologna Municipal Town Hall, the first example in Italy of a Public/Private Partnership (PPP) in public building. In the international arena, the bank has worked to develop relations with leading sponsors and to confirm the relations with the main banks operating in project financing, subscribing to some activities in the highway sector.

Among these are the Skyway Concession LLC project for the concession of a stretch of toll highway to enter the city of Chicago, and the project of "Madrid Calle 30 SA", the company holding the concession for the construction and management of a part of Madrid's internal ring road.

Advisory services continued to be a valid tool for developing relations with primary customers. These activities also contributed to the flow of project finance commissions: around 60% of overall commissions came from preparations for project financing operations and 40% from general consultancy and company finance. Activities on international markets, which have enjoyed a dedicated structure since the end of 2004, were stepped up by promoting, in particular, relations with counterparties in Central-Eastern Europe: contracts with foreign payees totaled 380 million euro in 2005, compared to 120 million in 2004.

The year also saw the scheduled start of dynamic asset management which benefited from the opportunities offered by the market and its appreciation of good quality "Italian risks". In 2005, disposals of assets were completed for an overall notional value of 1.2 billion euro.

With regard to equity investments, the controlled company Fin.OPI acquired from the Parent Bank shares in the concessionary companies Autostrada Brescia-Padova and Autovie Venete. Moreover, in 2005 Fin.OPI acquired 1.61% of Acque Potabili on the market, integrated the share package already held in Hera, and subscribed to the capital increase made by the French shareholding Transdev. Among non-listed investments, the sale of the share in Lingotto S.p.A. should be noted.

With reference to the results in the statement of income, mention should be made of the rise in all the profit margins, reflected in an increase in net profit.

Banca IMI

Banca IMI is the Group's investment bank whose mission covers, on the one hand, the offer of specialist services for company and institutional customers and, on the other, the development of structured products offered to retail and corporate customers through the Group's network.

With reference to capital markets, in 2005 Banca IMI acted as lead manager and bookrunner in 60 bond issues, participated in the placement of inflation-linked BTP and the issue of government securities from Greece and Quebec, placed with institutional investors issues by banks (including Cassa di Risparmio di Bolzano, Banca Lombarda, Banca Popolare di Lodi, Veneto Banca, Landsbanki Islands, Banca Agrileasing, Banca delle Marche, Mediocredito Trentino Alto Adige, Banca Popolare di Intra, Banca Europea per gli Investimenti, Banca Popolare dell'Emilia Romagna, Cassa dei Risparmi di Forlì, Carige), and by corporates (GE Capital, Enel, Finmeccanica, It Holding). Securitization was completed of the loan partly issued also by Banca IMI to Fondo Immobili Pubblici (FIP - public real-estate fund) through the issue of securities in two tranches by the FIP Funding vehicle. The bank acted as joint lead manager and bookrunner in the bond issue for the Municipality of Lecce and for the Province of Como and the Province of Rovigo. It also acted as rating advisor for the Municipality of Bolzano and the Province of Como.

Banca IMI confirmed its traditional presidium of capital increases and the placement of shares, in a scenario characterized by the positive performance of international stock markets. In particular, it acted as joint lead manager for the capital increase of Impreglio; it established and ran the guarantee consortium for the capital increase of Banca Etruria and intervened in the capital increase of Alitalia. During the year the bank acted as sole bookrunner for some private placements (including Buongiorno Vitaminic, CDC Point, Trevi Finanziaria, Isagro, Eutelia and Mondo Home Entertainment) which aroused considerable interest among leading Italian and international investors. The bank also acquired a mandate for specialist activities in the STAR segment of the Italian stock exchange and acted as an intermediary in the Public Offer launched by Nuova Sap on Acque Potabili ordinary shares and in the partial offer made by Hera on Meta. In relation to placement of shares, Banca IMI headed the IPO for Safilo (the biggest offer in Italy during the year) and the IPO for Marr, acting as joint global coordinator, lead manager for the public offer and joint bookrunner for the institutional offer. Finally, it terminated listing on the Expandi market of Mondo Home Entertainment and was a member of the Management Group in the public offer, and global manager for the institutional offer, for Enel IV.

As regards corporate finance advisory and structured finance activities, Banca IMI played a leading role in the acquisition of Wind by Weather Investments, acting as advisor to the acquirer in both structuring and subscription to the financing issued for the operation. The bank also acted as sole arranger for the further structured financing for another company in the Weather group.

Again in relation to structured finance, the bank also took part in the issuing of bridging loans to FIP.

During the year, Banca IMI assisted in the conclusion of the acquisition of Acque Potabili by AMGA and SMAT from Italgas, and the merger of Hera and Meta, that created the second largest Italian municipal multi-utility company. It also supported Maire Holding in the acquisition of Tecnimont from Edison, and Reno de Medici in the disposal of Europoligrafico and Atipackaging to New EPG and the Colleoni group, respectively. Finally, the bank acted as financial advisor to SANPAOLO IMI in the acquisition of 80% of Banca Italo Albanese.

The bank's performance was especially positive in 2005 also thanks to the conclusion of the Wind operation. Net profit for the year trebled compared to 2004 due to greater revenues, particularly net commissions and dividends and income from financial activities. A positive contribution to net income was also made by the recovery of advanced taxes connected to taxation of dividends on shares contained in ordinary trading.

Sanpaolo IMI Private Equity

With regard to private equity activities, carried out through Sanpaolo IMI Private Equity, the fund raising for the two multiregional closed funds – Fondo Centro Impresa and Fondo Nord Ovest Impresa – dedicated to equity investments in the capital of small- and medium-sized companies was concluded at the beginning of 2005. Total commitment subscribed by investors was 180 million euro. The investment phase was started in the following months and should lead to the closing of three operations already approved by the competent bodies early this year.

As regards the Fondo Mezzogiorno (Fund for Southern Italy), set up for investments in small- and medium-sized companies in Southern Italy, two new operations were concluded during the year which brought the number of investment in the Fund to five, for a total of 23 million euro. Another two operations have been approved, for a total of 15 million, and will be concluded in the first months of 2006.

At the end of 2005, Alcedo, the controlled advisory company for the Cardine Impresa and Eptasviluppo funds, was ceded. Management of these funds will be transferred to Alcedo pending authorization to operate as an SGR.

With regard to the structures dedicated to managing the SIPEF I fund, the controlled company Sanpaolo IMI Capital Partners, headquartered in Guernsey, was liquidated, while the Milan branch of the London-based controlled company Sanpaolo IMI Management Ltd became fully operational.

Some important disposals were made during the year in connection with the merchant banking portfolio (Aeroporti Holding, Aeroviaggi, Buongiorno Vitaminic, Carpine/Argenta), resulting in significant capital gains.

Other Activities

As far as major industrial shareholdings, managed by IMI Investimenti, are concerned, the main event in 2005 was the closing of the IEB transaction, already described in the preceding chapters of this Report on Group Operations. During the year, IMI Investimenti subscribed to an 85 million euro share of a financing cum warrant in favor of Weather Capital in the context of the Wind transaction, and also exercised the put option granted by Fintecna to its minority shareholders, settlement of which took place in early 2006.

Tax collecting activities, managed by GEST Line, were affected by the extension of concessions for 2005/2006, which gave rise to the definition of regulations for fixed public sector contributions (D.Lgs. 203 of 30 September 2005).

Savings and Assurance

As described in more detail in the chapter "Action points and initiatives in the year", the Savings and Assurance sector covers the activities of the financial planners of the Banca Fideuram group (that includes Sanpaolo Invest SIM) serving customers with a medium/high savings potential, as well as those of Assicurazioni Internazionali di Previdenza (A.I.P.), the company comprising the Group's insurance companies. In January 2006, it was decided to concentrate the Group's asset management activities, specifically those of Sanpaolo IMI Asset Management, in the Sector.

In 2005, the total operating income of the Sector grew by 19.1% compared to the previous year. This trend was generated by the increase in revenues by both Banca Fideuram and A.I.P.; the latter are entirely included in the income from insurance business. Operating costs (+8.4%), mainly linked to a strengthening of the A.I.P. structure, and the provisions for risks and charges at Banca Fideuram also rose, but to a lesser extent. In more detail, the rise in revenues affected the traditionally more sensitive costs such as the variable component of personnel costs. Net profit for the period amounted to 365 million euro, an increase of 19.3% over 2004.

With regard to operating data, there was a rise in asset management (+12.1%), thanks to the positive trend in all compartments, and in asset administration (+3.8%).

The capital absorbed by the Sector in 2005, representing 11% of the Group's shareholders' equity, was 1,257 million euro, a growth of 9.7% over the previous year. In the light of this performance of capital, the increase in the contribution to net profit, that represents 18% of the consolidated profit, generated a rise in profitability to 29%.

Savings and Assurance

	2005	2004 pro forma	Change 2005 / 2004 pro forma (%)
STATEMENT OF INCOME (€/mil)			
Net interest income	45	43	+4.7
Net commissions	587	535	+9.7
Income from credit disposals, assets held to maturity and repurchase of non-hedged financial liabilities	4	4	-
Dividends and income from other financial assets and liabilities	18	12	+50.0
Profits (losses) on equity shareholdings	-	-	-
Income from insurance business	418	306	+36.6
Total operating income	**1,072**	**900**	**+19.1**
Net adjustments to loans	1	4	-75.0
Net adjustments to other financial assets	-	-	-
Net operating income	**1,073**	**904**	**+18.7**
Personnel costs	-167	-143	+16.8
Other administrative costs	-204	-189	+7.9
Net adjustments to tangible and intangible assets	-30	-38	-21.1
Operating costs	*-401*	*-370*	*+8.4*
Other net income (expenses)	18	10	+80.0
Impairment of goodwill	-1	-	n.s.
Profits (losses) from disposals of investments	-	-	-
Net provisions for risks and charges	-89	-37	+140.5
Pre-tax operating profit	**600**	**507**	**+18.3**
Taxes for the period	-144	-119	+21.0
Profits (losses) on groups of discontinued operations	-36	-35	+2.9
Profit attributable to minority interests	-55	-47	+17.0
Net profit	**365**	**306**	**+19.3**
REVENUES FROM THE SECTOR (€/mil)	**1,072**	**900**	**+19.1**
INCOME FROM THE SECTOR (€/mil)	**600**	**507**	**+18.3**
ALLOCATED CAPITAL (€/mil)	**1,257**	**1,146**	**+9.7**
RATIOS (%)			
Profitability	29.0	26.7	
Cost / Income ratio	37.4	41.1	
	31/12/2005	31/12/2004 pro forma	Change 31/12/05-31/12/04 pro forma (%)
OPERATING DATA (€/mil)			
Asset management	81,588	72,759	+12.1
- mutual funds and fund-based portfolio management	35,600	32,307	+10.2
- portfolio management	662	601	+10.1
- life technical reserves and financial liabilities	45,326	39,851	+13.7
Net asset management flows	4,539	5,556	
Asset administration	11,313	10,901	+3.8
Total interest-earning assets	6,460	5,063	+27.6
Total interest-bearing liabilities	5,780	4,312	+34.0
OPERATING STRUCTURE			
Employees	2,156	1,984	+8.7
Financial planners	4,150	4,313	-3.8
Domestic branches	91	89	+2.2

Banca Fideuram

During 2005, Banca Fideuram pursued the targets at the heart of the 2005-2007 three-year industrial plan approved in February, confirming as its main objective the growth of volumes in the reference customer segments and the maintenance of the bank's profitability at the current levels of excellence.

In line with the projects outlined in the plan, activities continued in the year for the creation of the new commercial system supporting the network of private bankers, which will offer customers a complete advisory and financial planning service.

Concerning product development, and with the aim of offering customers new investment opportunities:
- issues were completed of three fund Certificates and two new structured bonds, while the multi-sector SICAV of Crédit Agricole Funds was launched;
- the range of mutual funds was broadened with the launch of the Fonditalia Flexible compartment which heralded "total return" in the bank's fund range;
- Fideuram Certa, developed in collaboration with A.I.P., was added to the insurance range as a traditional life policy with a guaranteed minimum yield.

Particular attention was given to high-profile customers with the dedicated GPF Capital, a total return fund capital management system divided into five investment lines differentiated by risk profile, and Fideuram Alternative Investments Funds Opportunity, the new fund for speculative funds offering the possibility of more aggressive positions in terms of risk/yield ratios.

Research and development activities were focused on participation in multi-client surveys carried out by international research companies to monitor the evolution of the asset management market.

2005 also saw the continuation, and in some cases completion, of the rationalization of IT systems aimed at improving efficiency and containing costs, also through synergies with SANPAOLO IMI.

It should be remembered that, in order to give unity of comparison, figures for 2004, besides taking into account the adjustments following the introduction of IAS/IFRS, have been reported in the light of the demerger of the insurance business at the beginning of 2004. Furthermore, for both periods, the captions of the statement of income and operating data do not include the results of the Fideuram Wargny grouping. In accordance with IFRS 5, the results for the controlled companies operating in France have been reported among discontinued operations in the light of the disposal expected by the end of 2006.

Transactions in 2005 benefited both from initiatives aimed at guiding the customer portfolio towards a mix of products with higher added value and from the recovery of financial markets. Assets under management grew 8.1% on an annual basis, reaching 64.3 billion euro and, within these, the amount of managed funds generating recurring commissions also increased. The 10.1% rise in total operating income compared to 2004 is attributable to the increase in commission revenues, thanks to the growth of average managed volumes, and higher income from financial assets. The latter particularly benefited from the added value deriving from the fair value evaluation of insurance policies drawn up by Banca Fideuram in favor of private bankers in the context of customer retention plans which are almost totally provided for in provisions for risks and charges. The positive trend of these aggregates has more than compensated for higher, non-recurring provisions, posted in a single solution as a presidium over risks connected to the placement in preceding years of corporate bonds that subsequently defaulted. The contribution to the net profit of the Group was equal to 140 million euro, an increase of 7.7% compared to 2004. A negative contribution to profit came from the non-recurring loss on the ongoing disposal of the Fideuram Wargny grouping, reported in the caption "Profits (losses) on groups of discontinued operations". Profitability, expressed in terms of RoE, was 38% compared to 37.5% in 2004.

The cost/income ratio improved by three percentage points, coming down to 46.8%, confirming that the bank's profitability is characterized by both the quality of revenues and the modest rise of operating costs, despite the investments to support the 2005-2007 industrial plan.

Banca Fideuram

	2005	2004 pro forma	Change 2005 / 2004 pro forma (%)
STATEMENT OF INCOME (€/mil)			
Net interest income	45	43	+4.7
Net commissions	587	535	+9.7
Income from credit disposals, assets held to maturity and repurchase of non-hedged financial liabilities	4	4	-
Dividends and income from other financial assets and liabilities	18	12	+50.0
Profits (losses) on equity shareholdings	-	-	-
Income from insurance business	-	-	-
Total operating income	**654**	**594**	**+10.1**
Net adjustments to loans	-1	4	n.s.
Net adjustments to other financial assets	-	-	-
Net operating income	**653**	**598**	**+9.2**
Personnel costs	-137	-122	+12.3
Other administrative costs	-142	-137	+3.6
Net adjustments to tangible and intangible assets	-27	-37	-27.0
Operating costs	*-306*	*-296*	*+3.4*
Other net income (expenses)	3	-3	n.s.
Impairment of goodwill	-	-	-
Profits (losses) from disposals of investments	-	-	-
Net provisions for risks and charges	-71	-37	+91.9
Pre-tax operating profit	**279**	**262**	**+6.5**
Taxes for the period	-52	-51	+2.0
Profits (losses) on groups of discontinued operations	-36	-35	+2.9
Profit attributable to minority interests	-51	-46	+10.9
Net profit	**140**	**130**	**+7.7**
ALLOCATED CAPITAL (€/mil)	**368**	**347**	**+6.1**
RATIOS (%)			
Profitability	38.0	37.5	
Cost / Income ratio	46.8	49.8	
	31/12/2005	31/12/2004 pro forma	Change 31/12/05-31/12/04 pro forma (%)
OPERATING DATA (€/mil)			
Assets under management (1)	64,312	59,469	+8.1
Assets under management (net flow) (1)	1,222	-798	
Asset management	50,328	46,322	+8.6
- mutual funds and fund-based portfolio management	35,600	32,307	+10.2
- portfolio management	662	601	+10.1
- life technical reserves and financial liabilities	14,066	13,414	+4.9
Net asset management flows	931	434	
Asset administration	11,313	10,901	+3.8
Total interest-earning assets	6,460	5,063	+27.6
Total interest-bearing liabilities	5,780	4,312	+34.0
OPERATING STRUCTURE			
Employees	1,681	1,615	+4.1
Financial planners	4,150	4,313	-3.8
Domestic branches	91	89	+2.2

(1) Includes asset management, asset administration and direct deposits.

A.I.P.

In 2005, A.I.P. worked mainly towards the completion of the integration subsequent to the incorporation of Sanpaolo Vita and Fideuram Vita at the end of 2004. Initiatives during the year were aimed at:

- full integration of the companies incorporated in the Company so as to increase efficiency and strengthen the capacity for innovation and presidium of the offer range;
- perfection and completion of the organizational structure through a more functional development of the Company and the introduction of specific competences.

These actions were accompanied by initiatives supporting the aforementioned project to develop the "Savings and Assurance" pole which took concrete form with the creation of New Step (now Eurizon Financial Group) and the subsequent conferral of investments in A.I.P. and Banca Fideuram previously held by the Parent Bank. A.I.P. made a positive contribution to analyzing and preparing the project and also took part in the preliminary activities for the creation, in the first months of 2006, of the "Macchina Operativa del Polo" (Pole Operating Vehicle) that concentrates Banca Fideuram's information technology and communications and production management (back office) areas in Universo Servizi.

Operations carried in the year include:

- centering in A.I.P. of the promotion of banking networks' pension funds previously overseen by Sanpaolo IMI Asset Management;
- exercise of the call option for the remaining 50% of the capital of Egida held by Reale Mutua which, on completion of the ongoing authorization process, will permit a rationalization of the offer of casualty products.

Possible areas for the rationalization and development of the insurance business were identified during 2005 in terms of a new product range and new business areas. In particular studies have been made of some priority areas:

- integrated assurance, so as to take advantage of the future opportunities offered by the review of regulations begun at the end of the year;
- the casualty sector, so as to give better support to customers in their requirements for personal and property protection;
- life savings and investment products with the aim of identifying a trend in the product range that is coherent with the mission of protecting savings both through enriching the product insurance components and through investment duration profiles that are more coherent with the insurance mission.

These studies have given A.I.P. a position within the Savings and Assurance pole commensurate with achieving the objectives of coverage emerging customer requirements for the protection of savings and personal assurance.

In order to give unity of comparison, figures for 2004 have been recalculated assuming that the insurance companies of the Group were grouped under the Company as of 1 January 2004.

A.I.P.'s contribution to consolidated profit, net of third party income, was 225 million euro, an increase of 27.8% compared to 2004.

The improvement in net profit should be seen in the light of the increase in income from insurance business which rose from 306 to 418 million euro, a growth of 36.6%. The rise was positively influenced by the performance of the financial component which benefited from the realization of capital gain on the portfolio of available for sale securities. At the end of the year, valuation reserves for financial assets available for sale stood at 91 million euro, as against 94 million at the beginning of the year.

The rise in revenues was partly offset by the 28.4% growth in operating costs that rose from 74 to 95 million euro. The trend in costs should be seen in relation to the strengthening of the governance and operating structures of the Company and the higher expenses connected to the growth of volumes.

The securities portfolio stood at 46,628 million and is made up for 59% by securities valuated at fair value, mainly for unit- and index-linked products, and for 41% by available for sale securities, mainly for policies available for revaluation. The policy portfolio, totaling 44,811 million, consists of 22,087 million in life technical reserves, 22,402 million in financial unit- and index-linked policies classified as deposits, 246 million in specific asset policies and, finally, 76 million in technical reserves for the casualty branches.

During the year, A.I.P. recorded a life inflow of 8.1 billion euro, in terms of premiums issued, gross of those ceded as re-insurance, including products classified as insurance and deposits of financial policies.

A.I.P.

	2005	2004 pro forma	Change 2005 / 2004 pro forma (%)
STATEMENT OF INCOME (€/mil)			
Net interest income	-	-	-
Net commissions	-	-	-
Income from credit disposals, assets held to maturity and repurchase of non-hedged financial liabilities	-	-	-
Dividends and income from other financial assets and liabilities	-	-	-
Profits (losses) on equity shareholdings	-	-	-
Income from insurance business (1)	418	306	+36.6
Total operating income	**418**	**306**	**+36.6**
Net adjustments to loans	2	-	n.s.
Net adjustments to other financial assets	-	-	-
Net operating income	**420**	**306**	**+37.3**
Personnel costs	-30	-21	+42.9
Other administrative costs	-62	-52	+19.2
Net adjustments to tangible and intangible assets	-3	-1	n.s.
Operating costs	*-95*	*-74*	*+28.4*
Other net income (expenses)	15	13	+15.4
Impairment of goodwill	-1	-	n.s.
Profits (losses) from disposals of investments	-	-	-
Net provisions for risks and charges	-18	-	n.s.
Pre-tax operating profit	**321**	**245**	**+31.0**
Taxes for the period	-92	-68	+35.3
Profits (losses) on groups of discontinued operations	-	-	-
Profit attributable to minority interests	-4	-1	n.s.
Net profit	**225**	**176**	**+27.8**
ALLOCATED CAPITAL (€/mil)	**889**	**799**	**+11.3**
RATIOS (%)			
Profitability	25.3	22.0	
Cost / Income ratio	22.7	24.2	
	31/12/2005	31/12/2004 pro forma	Change 31/12/05-31/12/04 pro forma (%)
OPERATING DATA (€/mil)			
Life technical reserves and financial liabilities	44,489	38,936	+14.3
- life technical reserves	22,087	19,795	+11.6
- life financial liabilities	22,402	19,141	+17.0
Life flows	8,118	8,542	
OPERATING STRUCTURE			
Employees	475	369	+28.7

(1) All the Company's operative revenues are recorded under "Income from insurance business".

Asset Management and International Private Banking

The Asset Management and International Private Banking sector comprises Sanpaolo IMI Asset Management SGR, dedicated to providing collective and individual asset management products to the Group networks as well as institutional investors, Sanpaolo Bank (Luxembourg), which operates in international private banking, and Sanpaolo Fiduciaria.

Total operating income for the Sector in 2005 was 344 million euro, a rise of 5.8% thanks to the increase in commission revenues at Sanpaolo IMI Asset Management and Sanpaolo Bank (Luxembourg). The contribution to the net profit of the Group was 187 million euro, a growth of 29.9% compared to the 144 million of the previous year, reformulated pro forma in consideration of the demerger of the insurance companies. Besides the effect of the good performance of revenues, the result was also obtained through the fall in operating costs and the release by Sanpaolo Bank (Luxembourg) of funds for risks and charges prudently provided for in the preceding year on the incorporation of IMI Bank.

Assets under management in the Sector reached 123.1 billion euro at the end of December 2005, a rise of 14.4% on an annual basis. Asset management increased by 9.3% due mainly to the trend in fund-based portfolio management and portfolio management.

Asset Management and International Private Banking contributed 9% of the consolidated net profit for 2005 and absorbed 1% of capital. RORAC reached 165.5%, confirming the characteristically high values of the business line and can be attributed to the limited absorption of capital with respect to the large volumes of assets managed by the Sector that are placed by the Group's banking networks nationwide. Profitability grew in comparison with the previous year due to the increase in contribution to Group profit. The cost/income ratio was 36.3%, a fall compared to 2004.

Sanpaolo IMI Asset Management

Sanpaolo IMI Asset Management controls the companies Sanpaolo IMI Asset Management Luxembourg and Sanpaolo IMI Alternative Investments for the promotion and management of, respectively, funds under Luxembourg law and alternative funds.

With reference to the company structure, during the year the merger by incorporation of the totally controlled company Sanpaolo IMI Institutional Asset Management, the SGR specialized in management and advisory services for institutional customers, into Sanpaolo IMI Asset Management was completed. The operation will create a single presidium of business processes and therefore lead to greater operational efficiency and synergies of purpose and cost obtained through the integration of management, commercial and product development structures.

Initiatives taken to rationalize/strengthen the offer range included:
- in mutual funds, broadening of the Luxembourg Sanpaolo International Fund through the creation of two new "absolute return" compartments (active ABS and prudent ABS);
- the approval, starting from 1 March 2006, of the disposal of open pension funds to A.I.P., in line with the Group's decision to focus the complementary assurance offer in A.I.P.;
- increasing the individual management range by the introduction of GP Investimento Private, divided into three balanced lines, and restyling the GP MultiPrivate and GP PrivateSolution products to improve the flexibility of response to growing investor requirements for personalization;
- with regard to speculative funds, liquidation of the funds of the Obiettivo line and placement of the Delta Diversified Fund aimed at giving absolutely positive performances.

Asset Management and International Private Banking

	2005	2004 pro forma	Change 2005 / 2004 pro forma (%)
STATEMENT OF INCOME (€/mil)			
Net interest income	6	10	-40.0
Net commissions	321	302	+6.3
Income from credit disposals, assets held to maturity and repurchase of non-hedged financial liabilities	-	-	-
Dividends and income from other financial assets and liabilities	17	7	+142.9
Profits (losses) on equity shareholdings	-	6	n.s.
Income from insurance business	-	-	-
Total operating income	**344**	**325**	**+5.8**
Net adjustments to loans	-	-1	n.s.
Net adjustments to other financial assets	-	-	-
Net operating income	**344**	**324**	**+6.2**
Personnel costs	-61	-62	-1.6
Other administrative costs	-57	-60	-5.0
Net adjustments to tangible and intangible assets	-7	-10	-30.0
Operating costs	*-125*	*-132*	*-5.3*
Other net income (expenses)	7	2	n.s.
Impairment of goodwill	-	-	-
Profits (losses) from disposals of investments	-	3	n.s.
Net provisions for risks and charges	7	-16	n.s.
Pre-tax operating profit	**233**	**181**	**+28.7**
Taxes for the period	-46	-37	+24.3
Profits (losses) on groups of discontinued operations	-	-	-
Profit attributable to minority interests	-	-	-
Net profit	**187**	**144**	**+29.9**
REVENUES FROM THE SECTOR (€/mil)	**344**	**325**	**+5.8**
INCOME FROM THE SECTOR (€/mil)	**233**	**181**	**+28.7**
ALLOCATED CAPITAL (€/mil)	**113**	**108**	**+4.6**
RATIOS (%)			
Profitability	165.5	133.3	
Cost / Income ratio	36.3	40.6	
	31/12/2005	31/12/2004 pro forma	Change 31/12/05-31/12/04 pro forma (%)
OPERATING DATA (€/mil)			
Assets under management (1)	123,076	107,540	+14.4
Asset management	79,127	72,390	+9.3
- mutual funds and fund-based portfolio management	74,728	69,358	+7.7
- portfolio management	4,399	3,032	+45.1
Total interest-earning assets	4,137	4,549	-9.1
Total interest-bearing liabilities	4,373	5,554	-21.3
OPERATING STRUCTURE			
Employees	696	694	+0.3

(1) Includes management of institutional customers and third parties.

Central Functions

Central Functions covers holding activities, finance, the management of shareholding investments (including the Group's shareholdings in Cassa di Risparmio di Firenze, Cassa dei Risparmi di Forlì and Banca delle Marche), the Group's credit policy and the Macchina Operativa Integrata. The principal component is made up of entities carrying out activities of governance, support and control of the other Group Business Sectors.

The income results therefore 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.

In 2005, Central Functions reported a loss of 234 million euro, mainly due to the share of costs not allocated to operating functions and only partly offset by greater revenues attributable to the treasury financial margin linked to derivative transactions, the positive impact of the conversion of the FIAT loan and dividends from minority investments. The improvement on 2004, which recorded losses of 329 million euro, is due to higher financial revenues and lower operating costs, especially personnel costs. Furthermore, 2004 had also benefited from the recording in the profits on groups of discontinued operations, from the capital gain of 55 and 58 million euro, respectively for the disposal of the last share in Fincomsumo and the real-estate spin-off.

Secondary information

In accordance with the Group's management approach and organizational decisions, the disclosure by Geographical Sectors constitutes the secondary information required by IAS 14. There follows a summary report of the main operating data for Italy, that is the area where the majority of the Group's activities are concentrated, Europe and the rest of the world.

	Italy	Europe	Rest of the world	Group total
REVENUES FROM THE SECTOR (€/mil) (1)				
2005	7,504	843	55	8,402
2004	6,825	728	46	7,599
Change 2005 / 2004 (%)	+9.9	+15.8	+19.6	+10.6
TOTAL INTEREST-EARNING ASSETS (€/mil) (2)				
31/12/2005	167,541	11,631	6,596	185,768
31/12/2004	150,810	8,586	4,518	163,914
Change 31/12/2005 - 31/12/2004 (%)	+11.1	+35.5	+46.0	+13.3

(1) Total operating income.
(2) Excluding the Banca IMI group.

Developments after the end of the year

Economic background

Trend indicators for the first two months of the year confirmed a cooling of the United States economy in real terms, the beginning of a phase of cyclical recovery in the eurozone and the solid base of growth in Japan, seen in the last part of 2005. Although inflation remained under control worldwide, input costs and, in some countries, production costs, continued to rise.

In the United States, the Federal Reserve (Fed) again raised policy rates 25 basis points at the end of January, bringing them to 4.5%. The Chairman of the Fed, Bernanke, who replaced Greenspan in setting American monetary policy, suggested that the restrictive cycle could be coming to an end.

The ECB's January bulletin highlighted fears over prices and the stability of financial markets in the medium-term, respectively caused by tensions on oil markets and possible asset inflation in the property markets of some countries. After a rise of 25 basis points in March, which brought the rate to 2.5%, markets expect further restrictive monetary actions during the year.

The positive performance of share indices in January fueled the trend for investors to look for financial instruments with high returns. Consequently, mutual funds showed an outflow from liquid asset and bond funds towards mixed funds. Investor expectations of positive signs in the performance of the major world stock markets during the year have fed hopes for good growth in asset administration also in 2006.

Group performance and significant events after the end of the year

The growth in Group transactions seen in the previous year continued in the early part of 2006.

Customer financial assets performed positively, mainly due to the growth of direct deposits, specifically current accounts and deposits, and indirect deposits. With regard to the latter, securities broking, placement of mutual funds, fund-based portfolio management and portfolio management were particularly active, benefiting from the positive performance of the financial markets.

In the compartment of mutual funds, the new flexible "absolute return" funds were activated at the beginning of 2006 and have met with particular customer approval: deposits of around three billion euro were made in the first two months.

With regard to credit activities, short- and medium-/long-term loans to customers continue to record over 10% growth in the twelve months.

Income margins for the period benefited from the performance of operational aggregates and customer preference for products with a higher added value. Compared to the same period for the preceding year, medium-/long-term financing to families for home purchases (+30%), personal loans (+70%) and industrial loans to small- and medium-sized enterprises (+60%) were particularly lively. The start of a restrictive phase in ECB monetary policy is increasing the contribution of sight deposits. On the contrary, pressure is growing for a reduction in the margins of short-term loans.

The economic results for early 2006 would seem to be above budget forecasts, for both revenues and cost containment, and therefore support expectations of reaching the objectives set by the 2006-2008 Industrial Plan for the current year, excepting extraordinary and unforeseeable events.

Future prospects

2006 is expected to see the first actions contained in the Three-year Plan: its ambitious goals have led the SANPAOLO IMI Group to define programs aimed at increasing income by raising the number of customers and improving cross-selling, accompanied by rendering the available resources more efficient, in financial terms and in relation to human capital.

Customer relations have been significantly strengthened, exploiting the initiatives taken in 2005 to increase retention of existing customers and acquire new ones. In the first two months of this year there has been rise in the number of customers of the commercial banks, reversing the trend seen in the preceding year.

Income margins could benefit from the widening of the customer base, as well as improvement of the spread, favored by the recovery in rates, and the development of financial services for businesses and families, in a market environment that is showing signs of improvement in the index of company and consumer confidence.