Parent Bank financial statements and reports

Parent Bank reclassified financial statements

Reclassified statement of income

	2005 (€/mil)	2004 (1) (€/mil)	Change 2005 / 2004 (%)
A. Net interest income	1,556	1,380	+12.8
B. Net commissions	1,424	1,375	+3.6
C. Income from credit disposals, assets held to maturity and repurchase of non-hedged financial liabilities	14	9	+55.6
D. Dividends on equity shareholdings	746	787	-5.2
E. Income from other financial assets and liabilities	211	65	n.s.
TOTAL OPERATING INCOME	**3,951**	**3,616**	**+9.3**
F. Net adjustments to loans	-217	-150	+44.7
G. Net adjustments to other financial assets	-	-	-
NET OPERATING INCOME	**3,734**	**3,466**	**+7.7**
H. Personnel costs	-1,441	-1,484	-2.9
I. Other administrative costs	-874	-817	+7.0
L. Net adjustments to tangible and intangible assets	-344	-340	+1.2
- Operating costs (H+I+L)	-2,659	-2,641	+0.7
M. Other net income (expenses)	441	373	+18.2
N. Impairment of goodwill	-	-	-
O. Profits (losses) on equity investments	-42	110	n.s.
P. Profits (losses) from disposals of investments	9	-3	n.s.
Q. Net provisions for risks and charges	-16	-108	-85.2
PRE-TAX OPERATING PROFIT	**1,467**	**1,197**	**+22.6**
R. Taxes for the period	-302	-199	+51.8
S. Profits (losses) on groups of discontinued operations	-	-	-
NET PROFIT	**1,165**	**998**	**+16.7**

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

The reclassified statement of income is not subject to auditing.

Reclassified balance sheet

	31/12/2005 (€/mil)	31/12/2004 (1) (€/mil)	Change 31/12/2005 - 31/12/2004 (%)
ASSETS			
A. Cash and cash equivalents	515	750	-31.3
B. Financial assets (other than credit and assets held to maturity)	8,532	8,905	-4.2
C. Assets held to maturity	2,312	1,444	+60.1
D. Loans to banks	44,575	37,986	+17.3
E. Loans to customers	67,232	58,028	+15.9
F. Hedging derivatives	809	924	-12.4
G. Changes in fair value of assets in hedged portfolios (+/-)	-	-	-
H. Shareholdings	9,473	9,415	+0.6
I. Tangible assets	1,432	1,562	-8.3
L. Goodwill	613	565	+8.5
M. Other intangible assets	203	248	-18.1
N. Tax assets	1,523	2,200	-30.8
O. Non-current assets and groups of assets being disposed	28		n.s.
P. Other assets	2,753	2,746	+0.3
Total assets	**140,000**	**124,773**	**+12.2**
LIABILITIES AND SHAREHOLDERS' EQUITY			
A. Due to banks	44,721	37,130	+20.4
B. Due to customers	51,916	44,258	+17.3
C. Securities in circulation	25,026	23,809	+5.1
D. Financial liabilities held for trading	1,328	2,430	-45.3
E. Financial liabilities evaluated at fair value	-	-	-
F. Hedging derivatives	751	885	-15.1
G. Provision for financial liabilities of generically hedged items (+/-)	-23	10	n.s.
H. Tax liabilities	140	184	-23.9
I. Liabilities on groups of assets being disposed	-	-	-
L. Other liabilities	3,660	4,190	-12.6
M. Provisions for risks and charges	1,586	1,437	+10.4
N. Group net shareholders' equity	10,895	10,440	+4.4
Total liabilities and shareholders' equity	**140,000**	**124,773**	**+12.2**

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

The reclassified balance sheet is not subject to auditing.

Report on Parent Bank Operations

Parent Bank results

In 2005, the Bank achieved better income results than the previous year, in a scenario characterized by the positive performance of financial markets and the persistent weakness of the economic cycle.

Revenues, represented by the total operating income, reached 3,951 million euro, a 9.3% increase on 2004. The income from current operations came to 1,467 million euro, with a 22.6% increase compared to the previous year, due to the satisfactory performance of revenues, the reduction in provisions for risks and charges and the increase in other operating income. Net income grew by 16.7% to 1,165 million euro.

The Statement of Income results for 2005 were determined by adopting the international accounting principles (IAS/IFRS), as already mentioned in the chapter "Group results" of the Report on Group Operations. In order to make the comparison with the previous years as homogeneous as possible, the pro forma figures for 2004 were reclassified according to full IAS. This reclassification takes into account also the transfer of branches between the Parent Bank and commercial banks in Triveneto and Emilia, completed in November 2004 and January 2005.

Net interest income

Net interest income for 2005 was 1,556 million euro, up 12.8% on the previous year. This movement is essentially due to the growth in trading volumes, only partially eroded by the reduction in the total spread between interest-earning assets and interest-bearing liabilities.

The spread of the short-term operations with Italian customers declined compared to 2004, due to the closing of the mark-up and, to a lesser extent, the mark-down. This trend was negatively affected by a market characterized by an excessive loan offer from the system, which raised the level of competitiveness, and by a surplus of liquidity which bolstered the interest-bearing component of demand deposits.

Net interest income

	2005 (€/mil)	2004 (1) (€/mil)	Change 2005 / 2004 (%)
Interest income and similar revenues	4,144	3,493	+18.6
Interest expenses and similar charges	-2,588	-2,113	+22.5
Net interest income	**1,556**	**1,380**	**+12.8**

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

Total operating income

	2005 (€/mil)	2004 (1) (€/mil)	Change 2005 / 2004 (%)
Net interest income	1,556	1,380	+12.8
Net commissions	1,424	1,375	+3.6
- management, dealing and advisory services	814	751	+8.4
- asset management	*705*	*665*	*+6.0*
- securities dealing and safekeeping, and currency dealing	*109*	*86*	*+26.7*
- loans and guarantees	218	219	-0.5
- collection and payment services	121	121	-
- deposits and current accounts	255	264	-3.4
- other services	16	20	-20.0
Income from credit disposals, assets held to maturity and repurchase of non-hedged financial liabilities	14	9	+55.6
Dividends on equity shareholdings	746	787	-5.2
Income from other financial assets and liabilities	211	65	n.s.
Total operating income	**3,951**	**3,616**	**+9.3**

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

Total operating income

In 2005, total operating income was 3,951 million euro, up 9.3% compared to the previous year.

Net commissions amounted to 1,424 million euro, 3.6% up on 2004. This growth was driven by management, dealing and advisory services (+8.4%), in the asset management component as well as in securities dealing and safekeeping and currency dealing. Both components benefited from the positive performance of financial markets (the Comit index has risen by 13.8% since the end of 2004) and the more favorable environment for placement transactions on the bond markets. The growth of commissions in this area more than offset the decrease of the other components.

The income from credit disposals, assets held to maturity and repurchase of non-hedged financial liabilities, amounting to 14 million euro, benefited from the positive effect (11 million euro) of the transfer without recourse of non-performing financing worth less than 50,000 euro completed in the second quarter of the year, for a total credit owed worth 122 million euro and a net value of 16 million euro.

Dividends from shareholdings in subsidiaries and associated companies for 2005 were 746 million euro, against the 787 million euro of the previous year.

Income from other financial assets and liabilities includes the current result, actually achieved or evaluated at fair value, of the transactions in financial instruments, profit or losses obtained on the available-for-sale portfolio and minority dividends from shareholdings entered into the available-for-sale portfolio. This item came to 211 million euro, compared to 65 million euro in 2004. The largest contribution came from dealings in securities (including about 50 million euro from disposal of available-for-sale shareholding investments), foreign exchanges and derivative contracts as well as from the conversion of the FIAT loan, which generated a positive differential of 53 million euro compared to the negative evaluation of the implicit derivative of 167 million euro registered on the first adoption of the IAS/IFRS principles on 1 January 2005. The disposal of the FIAT shares, completed in January 2006, generated a further capital gain of approximately 11 million euro which will be entered in the accounts in 2006. The item includes also the price differential on the repurchase of own bonds, generally above par, following the decline in rates and the economic impact of the closing of their hedging derivatives.

Net operating income

Net operating income went up by 7.7% compared to the previous year and reached 3,734 million euro.

Its growth, less dynamic than total operating income, was affected by the increase in adjustments on the performing portfolio, which rose to 172 million euro, taking into account also the current economic scenario. Conversely, net adjustments on doubtful loans reduced considerably, evidence that the risk profile of the credit portfolio has improved, and reached 45 million euro, a significantly lower figure than that registered in the previous year, which included some relevant positions. The net effect resulted in a 44.7% rise of net value adjustments due to deterioration of loans.

Pre-tax operating profit

Pre-tax operating profit was 1,467 million euro. The 22.6% growth compared to 2004 was mainly due to the aforementioned trend of income, a reduction in personnel costs and in net allocations to the provisions for risks and charges and to the increase in other net income.

More specifically, personnel costs were 1,441 million euro and went down by 2.9% compared to the previous year. A positive contribution was given by the headcount rationalization and turnover implemented in the two previous years through the staff leaving incentives, also through the use of the "Fund for staff in the banking industry". The result was a saving of fixed costs thanks to the leaving of employees with a considerable seniority and their partial replacement with young new staff. The effectiveness of these actions more than compensated for the ordinary dynamics of payroll, which includes the increases introduced by the renewal of the national collective labor contract in February 2005, the effect of the turnover for the year and higher provisions due to staff leaving incentive charges following the positive trend of the results. The Bank's headcount went down by an average of 0.7% compared to 2004. On the basis of the new accounting principles, personnel costs include atypical employment contracts, costs of stock options in favor of employees, the remuneration of Directors, the net provisions to the social security funds, to defined benefit pension plans, to employee termination indemnities funds as well as the allocations for length of service awards. This item does not include costs for employees with contracts for specific projects, which are amortized on a

Net operating income

	2005 (€/mil)	2004 (1) (€/mil)	Change 2005 / 2004 (%)
Total operating income	3,951	3,616	+9.3
Net adjustments to loans	-217	-150	+44.7
Net adjustments to other financial assets	-	-	-
Net operating income	**3,734**	**3,466**	**+7.7**

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

three-year basis starting from the conclusion of the projects to which they refer.

The other administrative costs net of related recoveries totaled 874 million euro, a 7% increase compared to 2004. This growth is closely associated with the centralization in the Parent Bank of joint commercial banks activities predominantly in the IT and logistics areas. The services provided to commercial banks are regulated by specific outsourcing agreements, whose repayments are entered into the item "Other net income". Following the integration of the banks in the Triveneto area and Emilia with Banca Popolare dell'Adriatico, all the contracts in existence as of the end of 2004 were reviewed with the purpose of makingthe treatment of all the banking networks, including Sanpaolo Banco di Napoli, uniform and the new contracts became effective on 1 January 2005. This operation led to the Parent Bank managing in a centralized way the various assets and their costs previously attributed to the individual banks. As a result it was not possible to make a direct comparison of the trend for these specific items with those related to 2004. Assuming a homogeneous consolidation area, the other administrative costs rose by 0.8% overall, affected by promotion, advertising and marketing expenses mainly related to the sponsoring of the 2006 Winter Olympics in Turin and by professional and insurance fees generated especially by the growth of insurance premiums, mortgage investigation costs and by the professional fees for mandatory projects.

Net adjustments to tangible and intangible assets amounted to 344 million euro, 1.2% up on 2004, due to higher amortization, connected specifically to the centralization of IT investments of the commercial banks into the Parent Bank.

Pre-tax operating profit

	2005 (€/mil)	2004 (1) (€/mil)	Change 2005 / 2004 (%)
Net operating income	3,734	3,466	+7.7
Operating costs	-2,659	-2,641	+0.7
- personnel costs	-1,441	-1,484	-2.9
- other administrative costs	-874	-817	+7.0
- net adjustments to tangible and intangible assets	-344	-340	+1.2
Other net income (expenses)	441	373	+18.2
Impairment of goodwill	-	-	-
Profits (losses) on equity shareholdings	-42	110	n.s.
Profits (losses) from disposals of investments	9	-3	n.s.
Net provisions for risks and charges	-16	-108	-85.2
Pre-tax operating profit	**1,467**	**1,197**	**+22.6**

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

Other administrative costs (1)

	2005 (€/mil)	2004 (2) (€/mil)	Change 2005 / 2004 (%)
IT costs	257	266	-3.4
Property costs	183	176	+4.0
General expenses	87	85	+2.4
Professional and insurance fees	121	103	+17.5
Utilities	53	50	+6.0
Promotion, advertising and marketing expenses	89	58	+53.4
Indirect personnel costs	61	61	-
Indirect duties and taxes	23	18	+27.8
Other administrative costs	**874**	**817**	**+7.0**

(1) Expenses are expressed net of their recoveries.

(2) Pro forma figures reconstructed on a homogeneous basis, including the impact of branch migration.

The increase of the other net income (+18.2%), which came to 441 million euro in 2005, is due to the repayments for outsourcing contracts made by the commercial banks, to the income and repayment of services provided to third parties and to extraordinary income.

In 2005, there was a loss of shareholdings for 42 million euro, predominantly due to the write-down of Cassa dei Risparmi di Forlì. This figure compares to 110 million euro of income registered in the previous year, connected to the effect of the so-called "clean-up" of the financial statements from transactions of exclusively tax-related nature and to the capital gain from the sale of own shares.

The income from disposal of investments was 9 million euro, against 3 million euro of losses in 2004, due to the sale of properties and PCs to third parties.

The net allocations to the provisions for risks and charges amounted to 16 million euro overall, an 85.2% decrease in comparison with 2004. This difference was created by the release of exceeding funds with respect to the evaluation of likely disbursement risks connected with the taxation case, the renegotiation of subsidized mortgage loans and by lower provisions for legal disputes.

Net profit

Net profit was 1,165 million euro, with a 16.7% increase compared with 2004.

The results of the IAS Statement of Income were recognized for IRES and IRAP taxation purposes partly as current taxation and partly as deferred taxation, so the adoption of the new accounting principles did not generate a relevant tax impact compared to the past.

With a tax charge of 302 million euro, the tax rate for the period was 20.6%, 4 points higher than in 2004. The difference in this index was caused by a larger taxable amount for IRAP starting from 1 January 2005 and by the non-deductibility of the write-down for Cassa dei Risparmi di Forlì in accordance with the provisions introduced by the tax reform in relation to the exclusion of expenses and income from shareholding investments from taxable income. 2004 had benefited from the accounting of income from non-taxable shareholdings for over 100 million euro.

Net profit

	2005 (€/mil)	2004 (1) (€/mil)	Change 2005 / 2004 (%)
Pre-tax operating profit	1,467	1,197	+22.6
Taxes for the period	-302	-199	+51.8
Profits (losses) on groups of discontinued operations	-	-	-
Net profit	**1,165**	**998**	**+16.7**

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

Operating volumes and organization

Customer financial assets

At the end of 2005, customer financial assets reached 217.7 billion euro, up 11.8% over the twelve months. This movement is due to the increase in direct and indirect deposits, thanks to both asset management and asset administration.

In greater detail, direct customer deposits were 76.9 billion euro, a 13% increase compared to the end of 2004.

Within the total aggregate, deposits for domestic branches went up by 6.6% to 66 billion euro, thanks to the increase in demand deposits, bonds and repurchase agreements.

Direct customer deposits with foreign banks were 10.9 billion euro, a 78.8% increase year on year due to the considerable growth of deposits and securities issued.

Indirect deposits grew thanks to the high level of placements as well as the positive performance of financial markets. Investors privileged professional asset management, focusing on products with the highest added value.

The Bank's asset management stock reached 67.4 billion euro, rising by 8.6% over the twelve months. This movement benefited from net positive deposits worth 2.6 billion euro. The products that mostly contributed to that figure were the bonds structured in funds, portfolio management in funds and life branch policies.

Mutual funds and portfolio management in funds amounted to 45.8 billion euro,a 7.1% increase compared to the end of 2004. This increase was due to the positive trend of net deposits – the opposite of the trend registered last year – and to the performance effect. The good performance of the financial markets with regard to fund types, resulted in a growth of products with the highest added value, particularly of equity and balanced funds whose weight on the total went from 32.3% at the end of December 2004 to 35.3% at the end of 2005. Among low-risk profile types, liquidity funds saw a decrease in their incidence in customer portfolios in favor of bond funds, a trend that had already been identified in 2004. The Bank's share in the mutual funds market, calculated on the harmonized series defined for eurozone countries, was 7.8% as of 31 December 2006.

Customer financial assets

	31/12/2005		31/12/2004 (1)		Change 31/12/05-31/12/04
	(€/mil)	%	(€/mil)	%	(%)
Asset management	67,413	31.0	62,100	31.9	+8.6
Asset administration	73,368	33.7	64,604	33.2	+13.6
Direct deposits	76,942	35.3	68,067	34.9	+13.0
Customer financial assets	**217,723**	**100.0**	**194,771**	**100.0**	**+11.8**

(1) IAS compliant balance (cf full IAS) including the impact of transition to IAS 32 and 34 (financial instruments). Figures take into account branch migration.

Direct customer deposits (1)

	31/12/2005		31/12/2004 (2)		Change 31/12/05-31/12/04
	(€/mil)	%	(€/mil)	%	(%)
Current accounts and deposits	66,034	85.8	61,965	91.0	+6.6
- certificates of deposits	35,632	46.3	31,733	46.6	+12.3
- commercial paper	373	0.5	404	0.6	-7.7
- bonds	17,943	23.3	17,388	25.5	+3.2
- subordinated liabilities	5,822	7.5	6,519	9.6	-10.7
- repurchase agreements and securities loaned	5,201	6.8	4,840	7.1	+7.5
- other deposits	1,063	1.4	1,081	1.6	-1.7
Foreign branch deposits	10,908	14.2	6,102	9.0	+78.8
Direct customer deposits	**76,942**	**100.0**	**68,067**	**100.0**	**+13.0**

(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). Figures take into account branch migration.

The life insurance branch grew by 13.2% to 19.8 billion euro during 2005 and confirmed the positive trend shown in the previous year. This figure benefited from 1.6 billion euro of net premiums, an increase due to the positive performance effect. Customers opted for both traditional policies as well as index and unit linked policies, mainly with an investment content.

It is also worth highlighting the growth in asset administration, which registered higher trading volumes boosted by the positive trend of the financial markets. The year-end figure was 73.4 billion euro, up 13.6% since the start of the year.

Loans to customers

Loans to customers, including debt securities and non-performing financing, were 67.2 billion euro, with a year-on-year increase of 15.9%. Excluding NPF, financing to customers was 66.7 billion euro, thanks to the increase of short-term as well as medium-/long-term financing (+16,5% and +15,4% respectively).

Medium-/long-term financing to the retail sector showed a positive trend. In the course of the year, the Parent Bank's domestic branches issued mortgage loans for 3 billion euro, with a positive annual variation of 17.5% compared to the volume achieved in the previous year. Growth was sustained by low interest rates and by the upward trend of the real estate market, with prices still on the increase. The offering of longer term (on average) mortgages showed a similar trend, with an expansion of the loan to value financing (up to 100% of the property purchase price) and combined with insurance schemes aimed at protection from the rising of interest rates and increasing repayment flexibility.

Analysis of loans to customers by counterparty shows an annual increase of all the components (except only for other loans). In greater detail, financing to households and non-financial compa-

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	45,814	68.0	42,777	68.9	+7.1
Portfolio management	1,770	2.6	1,809	2.9	-2.2
Life technical reserves and financial liabilities	19,829	29.4	17,514	28.2	+13.2
Asset management	**67,413**	**100.0**	**62,100**	**100.0**	**+8.6**

(1) IAS compliant balance (cf full IAS) including the impact of transition to IAS 32 and 39 (financial instruments). Figures take into account branch migration.

Change in asset management

	2005 (€/mil)	2004 (1) (€/mil)
Net inflow for the period	2,648	-10
- mutual funds and fund-based portfolio management	1,164	-1,941
- portfolio management	-158	-732
- life policies	1,642	2,663
Performance effect	2,665	2,037
Change in asset management	**5,313**	**2,027**

(1) Pro forma figures including the impact of branch migration.

Mutual funds by type

	31/12/2005 (%)	31/12/2004 (1) (%)
Equity	18.5	17.2
Balanced	16.8	15.1
Bond	36.8	34.7
Liquidity	27.9	33.0
Total mutual funds	**100.0**	**100.0**

(1) Figures have been reconstructed according to the new fund classification criteria adopted by Assogestioni as of January 2005.

nies accounts for over 98% of loans to customers, which went up by 15.9% as of 31 December 2005.

Financing interest rates increased considerably in comparison with the previous years, due to ongoing low interest rates. This trend was accompanied by the Bank's decision to support businesses with advisory services aimed at improving the financial structure of the companies and by offering products targeted to small and medium size companies which help develop investments in research and development and in new technology. With regards to households, in addition to the growing number of home mortgage loans, the financing of consumer credit highlighted another upward trend.

Quality of the loan portfolio

Pursuant to the new accounting principles, net doubtful loans as of the end of 2005 include the financing due/overdue by more than 180 days which totaled 1,171 million euro, 9.2% down on the previous year. More specifically, with regards to loans to customers:

- Non-performing financing amounted to 333 million euro, with a 10% reduction, thanks also to the transfer without recourse of non-performing financing of less than 50,000 euro. It accounted for 0.5% of the Bank's net loans and its percentage of coverage was 81.3%;
- problem and restructured financing for 413 million euro declined by 19.8% over the twelve months. The coverage ratio was 26.3%;
- financing due/overdue by more than 180 days was 363 million euro, in line with the figure registered at the end of 2004, with a coverage ratio of 15.9%;
- unsecured financing to countries at risk was 16 million euro, against 25 million euro as of the end of 2004.

Coverage of doubtful loans was substantially adequate to ensure the recoverability of the presumed realizable value of their portfolios.

Loans to customers (1)

	31/12/2005		31/12/2004 (2)		Change 31/12/05-31/12/04
	(€/mil)	%	(€/mil)	%	(%)
Short-term financing	26,603	39.6	22,831	39.4	+16.5
Medium-/long-term financing	40,101	59.6	34,742	59.9	+15.4
Financing to customers excluding NPF	**66,704**	**99.2**	**57,573**	**99.3**	**+15.9**
Non-performing financing	333	0.5	370	0.6	-10.0
Financing to customers	**67,037**	**99.7**	**57,943**	**99.9**	**+15.7**
Debt securities held in the portfolio	195	0.3	85	0.1	+129.4
Non-performing debt securities	-	0.0	-	0.0	-
Debt securities	**195**	**0.3**	**85**	**0.1**	**+129.4**
Loans to customers	**67,232**	**100.0**	**58,028**	**100.0**	**+15.9**

(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). Figures take into account branch migration.

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	15,581	23.2	13,618	23.5	+14.4
Financing to family businesses and non-financial companies	37,398	55.6	32,141	55.4	+16.4
Financing to financial companies	13,192	19.6	11,332	19.5	+16.4
Financing to governments and public entities	732	1.1	701	1.2	+4.4
Other	134	0.2	151	0.3	-11.3
Financing to customers	**67,037**	**99.7**	**57,943**	**99.9**	**+15.7**
Debt securities	**195**	**0.3**	**85**	**0.1**	**+129.4**
Loans to customers	**67,232**	**100.0**	**58,028**	**100.0**	**+15.9**

(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). Figures take into account branch migration.

At the end of 2005, lump-sum provisions adjusting the performing portfolio amounted to 443 million euro, equivalent to 0.7% of performing loans and with a 0.5% growth compared to the figure registered at the end of the previous year.

Activities on financial markets

The control of treasury activities and the management of financial risks of the domestic banking networks are carried out centrally at the Parent Bank.

As regards treasury activity, the Parent Bank guarantees direct access to money markets, foreign exchange and securities markets as well as to the payment systems. It also controls the Group's liquidity policy.

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

The Bank's security portfolio as of 31 December 2005 (including Group's securities) amounted to 12.5 billion euro, with a 15.9% increase compared to the amounts registered at the end of 2004 (10.8 billion euro). Excluding the stock component, the portfolio consisted of securities held for trading or designated at fair value for 4.6 billion euro, held-to-maturity securities for 2.3 billion euro, available for sale securities for 0.8 billion euro, securities reclassified among "loans and receivables" for 4.5 billion euro, of which 195 million euro related to customers and 4.3 billion euro related to securities issued by banks, predominantly by Group banks.

At the end of 2005, the portfolio was made up of securities issued by EU countries (39%), securities by banking and financial issuers (57%), corporate securities (3%) and mutual investment funds (2%). With the objective of maximizing income opportunities, portfolio management kept the collateral necessary to manage the liquidity through securities eligible for refinancing with the European Central Bank. At the same time, it met the network's needs for repurchase agreement operations with customers.

In 2005, the Parent Bank traded securities on its own behalf for 32 billion euro and carried out repurchase agreement transactions for 270.5 billion euro, of which 128.4 billion euro concluded on the MTS/PCT platform.

Shareholdings

The Parent Bank's shareholdings as of 31 December 2005 amounted to 11,020 million euro, of which 9,473 million euro classified in the item "Shareholdings" and 1,547 million euro under "Available-for-sale financial assets – Equities"

Equity investments

This balance sheet item includes "relevant" shareholdings, i.e. those held in subsidiaries and in companies on which the Bank has a significant influence. As at 31 December 2005, it totaled 9,473 million euro. This item registered a clear increase in comparison with 31 December 2004, when it was 58.5 million euro, generated by an increase in purchases and subscriptions (92.3 million euro), by a decrease in sales (0.7 million euro) and by

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	333	0.5	370	0.6	-10.0
Problem and restructured financing	413	0.6	515	0.9	-19.8
Financing to countries at risk	16	0.0	25	0.1	-36.0
Financing due/overdue by more than 180 days	363	0.6	362	0.6	+0.3
Defaulted securities held in the portfolio	-	0.0	-	0.0	-
Doubtful loans - customers	**1,125**	**1.7**	**1,272**	**2.2**	**-11.6**
Performing financing	65,912	98.0	56,671	97.7	+16.3
Performing debt securities held in the portfolio	195	0.3	85	0.1	+129.4
Loans to customers	**67,232**	**100.0**	**58,028**	**100.0**	**+15.9**
Non-performing and problem financing - banks	-		-		-
Financing due/overdue by more than 180 days - banks	-		-		-
Financing to countries at risk - banks	46		18		+155.6
Defaulted securities held in the portfolio - banks	-		-		-
Total doubtful loans - customers and banks	**1,171**		**1,290**		**-9.2**

(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). Figures take into account branch migration.

other net decreases for 33.1 million euro (mainly referred to write-downs).

The main transactions concluded in the course of the year that affected the shareholdings portfolio, in addition to that illustrated in the chapter Action points and initiatives in the year, were:

- a further 8.5% stake of Cassa dei Risparmi di Forlì acquired for 65.7 million euro, which brought the existing shareholding in the company held by SANPAOLO IMI to 38.3%. The investment is the result of the put option exercised by Fondazione Cassa dei Risparmi di Forlì. The shareholding was adjusted by a net amount of 45.7 million euro in order to adapt it to the fair value;
- participation in the option of converting the 2004 dividend of the subsidiary Banque Palatine (formerly Banque Sanpaolo) into shares, which resulted in the subscription of new shares issued for a value of 10.5 million euro;
- purchase of a 2.7% minority interest in the subsidiary Neos Banca for 8.8 million euro.

Other shareholdings

The remaining equity investments concluded by the Parent Bank are included in “Available-for-sale financial assets – Equities”. As at 31 December 2005, this item was 1.547 million euro, with a net increase of 180 million euro compared to the figure registered at the end of 2004. The increase was mainly due to fair value adjustments for 173 million euro (of which 106 million euro gross of taxes concerning the investment in Santander) net of the disposals completed during the year.

Among the transactions completed during the year, it is worth highlighting:

- the acceptance of the Composition Proposal put forward by Parmalat’s Extraordinary Commissioner as a completion of the

Interbank position, securities and derivatives

	31/12/2005 (€/mil)	31/12/2004 (1) (€/mil)	Change 31/12/05-31/12/04 (%)
Interbank			
Assets (2)	40,315	35,058	+15.0
Liabilities	44,721	37,130	+20.4
Portfolio securities (2) (3)	**12,471**	**10,759**	**+15.9**
Derivatives			
Hedging derivatives (notional)	26,713	28,143	-5.1
Dealing derivatives (notional)	99,317	109,958	-9.7

(1) IAS compliant balance (cf full IAS) including the impact of transition to IAS 32 and 39 (financial instruments).
(2) The figure does not include securities classified in loans & receivebles, reported among "Securities" (4,260 million euro at 31 December 2005 and 2,928 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.

Shareholdings

	31/12/2005 (€/mil)	31/12/2004 (1) (€/mil)	Change 31/12/05-31/12/04 (%)
Equity investments (2)	**9,473**	**9,415**	**+0.6**
Qualified investments	9,473	9,415	+0.6
Goodwill arising on application of the equity method	**1,547**	**1,367**	**+13.2**
- Santander Central Hispano	*586*	*480*	*+22.1*
- IXIS Asset Management Group S.A.	*216*	*192*	*+12.5*
- Banca d'Italia	*185*	*185*	*-*
- Banca delle Marche S.p.A.	*92*	*92*	*-*
- IXIS Corporate & Investment Bank	*91*	*85*	*+7.1*
- other	*377*	*333*	*+13.2*

(1) IAS compliant balance (cf full IAS) including the impact of transition to IAS 32 and 39 (financial instruments).
(2) The list is given in the Explanatory Notes - Part B (Section 10).
(3) Included in the caption "Available for sale financial assets - Equity".

Group restructure, with the allocation of 1.765% of Parmalat's share capital;
- the transfer of the shareholding in SAVE (2.17%) to IMI Investimenti for an overall total of 13.7 million euro. As a result of this operation, the Bank entered a capital gain of essentially the same amount in the Statement of Income, taking into account also the reallocation of the equity reserve generated when adopting the international accounting principles;
- the transfer of the shareholding in Autostrada "Serenissima" (5.8%) to Fin. Opi.. The transfer was completed for a price of 45.7 million euro, accompanied by the entry of a capital gain for about 40 million euro in the Statement of Income, taking into account also the reallocation of the equity reserve generated when adopting the international accounting principles;

Considering the evaluation of the other shareholdings, the Bank created a specific evaluation reserve for the securities owned by AFS worth 401 million euro.

Capital and Reserves

Shareholders' equity and regulatory ratios

The Bank's shareholders' equity as at 31 December 2005 of 10,895 million euro, registered the following movements during the year:

Movements in Bank's shareholders' equity

	(€/mil)
Shareholders' equity at 31 December 2004 (1)	**11,090**
Adoption of IAS 32, 39 and IFRS 4	-538
Shareholders' equity at 1 Janaury 2005	**10,552**
Decreases	**-884**
- Dividends	-873
- Net change in valuation reserves	-11
Increases	**1,227**
- Net profit	1,165
- Net change in valuation reserves	-
- Net change in own shares	-
- Stock option accounting	62
Shareholders' equity at 31 December 2005	**10,895**

For further details concerning the changes of all the components of the Bank's shareholders' equity, see Part B – Section 14 – liabilities in the Explanatory Notes and Part F for the Regulatory Capital.

The ratio between the Bank's regulatory capital and the total of weighted assets generated by the credit and market risk at the end of 2005 showed a total solvency ratio of 13.8%. The ratio between the tier 1 capital and the total of the weighted assets was 10.6%.

Own shares

As the Parent Bank did not carry out any purchases or sales during the year, its portfolio as of 31 December 2005 contained 4,015,919 SANPAOLO IMI shares (nominal value 11.2 million euro), equivalent to 0.21% of the share capital and worth 42.5 million euro overall (book value of 10.585 euro per share), classified as a negative component among shareholders' equity items in accordance with the IAS/IFRS principles.

In view of the quantity of own shares in its portfolio, the Bank has the same amount allocated in the unavailable reserve, pursuant to the legislation.

The distribution network

At the end of December 2005, the Bank's distribution network consisted of 1,415 domestic branches, 13 foreign branches and 19 representative offices abroad.

During the year, the distribution network was restructured by transferring the Sanpaolo branches operating in the province of Venice to Cassa di Risparmio di Venezia and the branches operating in Friuli Venezia Giulia to Friulcassa. Sanpaolo acquired the branches operating in the provinces of Lodi, Milan and Rome from Cassa di Risparmio di Padova e Rovigo and Cassa di Risparmio in Bologna.

With regards to multi-channel activity in relation to the private and retail segment, the number of direct banking contracts managed by Sanpaolo went up by over 560,000, a 21.1% increase with respect to the figure as of 31 December 2004 reclassified consistently. Internet banking contracts with companies reached 33,000 units (a 2% increase since the beginning of the year). Service to retail customers is also provided through the network of Bancomat automatic tellers (1,944 ATMs at the end of the year) and the POS terminals (38,879).

Distribution network

	31/12/2005	31/12/2004 pro forma (1)	Change 31/12/05-31/12/04 pro forma (%)
Banking branches and area offices	1,428	1,384	+3.2
- Italy	1,415	1,371	+3.2
- Foreign	13	13	-
Representative offices	19	18	+5.6

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

Personnel

At the end of the year, the Bank's staff was made up of 21,059 employees plus 11 workers with an atypical contract, for a total of 21,070 resources. The change registered in December 2004, homogeneously reclassified to take into account the transfer of branches to the North East bank networks, was +269 resources (+1.3%).

There was a total of 660 new employees and 240 redundancies, 38 of which through an incentive.

In the course of the year the Bank implemented infra-group mobility, which led to the acquisition of 55 resources from other Group Companies and the transfer of 85 resources.

In January 2005 the Bank completed the reorganization of the distribution network through the acquisition of the branches in Rome, Milan and Lodi of Cassa di Risparmio di Padova e Rovigo and Cassa di Risparmio in Bologna and the transfer of the remaining branches in the Triveneto area to Cassa di Risparmio di Venezia and Friulcassa. As a result of this process, the number of Parent Bank employees went up by 42 units.

The increase in the number of employees in 2005 (partially due to the incentivized redundancies of December 2004) was a considerable investment in supporting commercial development. Over two thirds of the income was generated by the branch network and the structured under direct business control.

Thanks to the introduction of new resources the Bank was also able to complete the generational turnover process that started at the end of 2003 using the "Income, employment and re-training fund for staff in the banking industry" ("Fondo di Solidarietà per il sostegno del reddito, dell'occupazione e della riqualificazione professionale del Personale del Credito").

This process had a positive impact on the qualitative composition of staff but also allowed personnel costs to be kept under control. These went down in 2004 despite the increases ensuing following the renewal of the national collective labor contract in February 2005.

Stock option programs

With regard to stock option programs, see the Explanatory Notes – Part I.

Personnel

	31/12/2005	%	31/12/2004 pro forma (1)	%	Change 31/12/05-31/12/04 pro forma	(%)
Period-end headcount (2)	**21,059**	**100**	**20,765**	**100**	**294**	**+1.4**
Executives	404	1.9	366	1.8	38	+10.4
Managers	7,551	35.9	7,363	35.4	188	+2.6
- of which: third and fourth level managers	*2,585*	*12.3*	*2,575*	*12.4*	*10*	*+0.4*
Remaining personnel	13,104	62.2	13,036	62.8	68	+0.5
Other personnel (3)	**11**		**36**		**-25**	**-69.4**
Total	**21,070**		**20,801**		**269**	**+1.3**

(1) 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.

(2) The headcount has been calculated applying IAS accounting standards and includes personnel on secondment from other Group companies but excludes personnel on transfer away from the company.

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

Supplementary information

Administrative and management bodies

In compliance with the recommendation expressed by CONSOB with the Communication No. 1574/1997 and pursuant to Art. 15 of the Articles of Association, the Board of Directors appointed some of its members to the Executive Committee (which consists of the President, the Vice President and the Managing Director) and set the number of members, its delegations, duration, working rules and powers. The Board also elected a Managing Director and a General Manager establishing their attributions.

The Executive Committee exercises its powers within the context of the strategies, direction and plans laid out by the Board, with faculty of sub-power of attorney and the obligation to report quarterly to the same Board on the activity performed, the decisions made and the powers of attorney conferred. In particular, the Executive Committee is given powers concerning loan issue (up to a fifth of the Company's portfolio) and, generally, operational powers regarding Group guarantees to financial institutions, the recovery of loans, legal and pre-legal proceedings on non-recovered assets and liabilities, administration procedures against the Company and shareholdings - except in the case of exclusive competence of the Board of Directors - personnel and expenditure. The Executive Committee has also been given, in general, the faculty to assume any urgent provision in the interests of the Company, referring it to the Board at its next meeting.

Powers concerning the granting of loans have also been attributed to the Group Credit Committee presided over by the Managing Director and composed of the managers of the competent company structures.

The Managing Director is responsible for the global coordination of the Group activities, according to the directions given by the Board of Directors. More specifically, he is responsible for defining the Bank and Group's activities of strategic direction, governance and control, supervising the Group planning process, monitoring the consistent development of plans and budgets and the central control of risks. Other responsibilities assigned to the Managing Director include the activities in the Savings and Assurance sector (Assicurazioni Internazionali di Previdenza, Banca Fideuram and Sanpaolo Imi Asset Management) and the supervision of shareholdings.

The General Manager, head of the operating and executive structure, is responsible for all the Functions pertinent to the banking activity, with the relative governance and support structures, as well as the banking networks operating on domestic and transnational territory, specialist companies controlling specific markets, territories and businesses such as public entities (Banca OPI), investment banking (Banca IMI), private equity, consumer credit (Finemiro Banca), leasing (Sanpaolo Leasint) and tax collection (Gest Line).

In the light of the division of expertise described above, the Board of Directors has attributed to the Managing Director and the General Manager powers to be exercised within the context of the strategies, direction and plans laid out by the same Board, with faculty of sub-power of attorney and the obligation to report quarterly to the Board on the activity performed, the decisions made and the powers of attorney conferred.

In particular, the Managing Director and the General Manager are attributed powers concerning loan issue and operational powers, Group guarantees to financial institutions, financial risk management and control, recovery of loans, legal and pre-legal proceedings on non-recovered assets and liabilities, administration procedures against the Company and costs, as well as powers in matters concerning personnel and structures within the context of the management directions approved by the administrative bodies.

Finally, the Managing Director and the General Manager have been assigned, in general and within the context of their respective attributions, or in the execution of decisions made by superior Bodies, all powers necessary for the ordinary management of the Company, unless otherwise reserved specifically to other Bodies pursuant to the Articles of Association or by exclusive mandate of the Board of Directors.

Transactions with related parties

Information on transactions and the Bank's relationship with related parties are given in Part H of the Explanatory Notes to these Financial Statements. Pursuant to Art. 78 of CONSOB Deliberation No. 11971/99 and subsequent modifications, Part H of the Explanatory Notes illustrates the remuneration to Directors, Auditors and to the General Manager of the Parent bank as well as the stock option plans reserved to them.

The shares of the Parent Bank and subsidiaries held by Directors, Auditors and the Parent Bank's General Manager and by other entities pursuant to Art. 79 of CONSOB Deliberation No. 11971/99 are also reported in Part H of the Explanatory Notes.

The detailed list of the Group companies and shareholdings as of 31 December 2005 is given in the Consolidated Explanatory Notes (Part B – Section 10).

Offices held by the Directors in other companies.

In accordance with the recommendations of the Disciplinary Code of Listed Companies issued by Borsa Italiana, Part H of the Explanatory Notes provides the list of the offices of Director or Auditor held by SANPAOLO IMI's Directors in other companies listed in regulated markets (also abroad), in financial, banking or insurance companies or other companies of a considerable size.

Other legal information

Planning Document on Information Security Management

The Planning Document on Security, provided for by Art. 34, subsection 1, letter g), of D.Lgs. 196 of 30/6/2003, "Code for the protection of personal data", was prepared in accordance with that envisaged by Rule 19 of the Technical Regulations, attachment B, to D.Lgs. 196/2003. Further updates will be completed within the terms provided for by the law.

Developments after the end of the year

On the basis of the available data on the first months of 2006, the Bank's operational figures continue to grow in comparison with 2005. Customer financial assets benefited from the increase in direct deposits, asset management and assets administered. Assets administered were boosted by the good performance of net deposits and the favorable trend of the financial markets. Loans to customers also registered a positive trend, mainly due to the short-term component.

With regard to the economic result for the early months of 2006 and the prospective evolution of operational volumes and income, the considerations made for the Group are confirmed.

Turin, 23 March 2006

The Board of Directors

Parent Bank financial statements

Parent Bank balance sheet

(euro)

Assets		Total as at 31/12/2005	Total as at 31/12/2004 (mix model excluding IAS 32/39)
10.	Cash and cash equivalents	514,611,533	-
10. It	*Cash and deposits with central banks and post offices*		*750,300,526*
20.	Financial assets held for trading	5,164,645,177	-
30.	Financial assets designated as at fair value	1,011,804,413	-
40.	Available for sale investments	2,355,409,299	-
50.	Held-to-maturity investments	2,312,335,104	-
20. It	*Treasury bills and similar bills eligible for refinancing with central banks*		*1,011,312,946*
50. It	*Bonds and other debt securities*		*10,230,138,333*
60. It	*Shares, quotas and other equities*		*283,739,142*
60.	Loans to banks	44,574,593,513	-
30. It	*Loans to banks*		*34,938,873,311*
70.	Loans to customers	67,231,819,968	-
40. It	*Loans to customers*		*57,203,792,342*
80.	Hedging derivatives	809,429,193	-
90.	Changes in fair value of assets in hedged portfolios		-
100.	Equity investments	9,473,155,124	-
70. It	*Equity investments*		*2,046,428,318*
80. It	*Investments in Group companies*		*8,603,832,763*
110.	Tangible assets	1,431,657,896	1,562,328,297
120.	Intangible assets	815,893,087	793,802,262
	of which:		
	- goodwill	*612,745,215*	*565,245,216*
130.	Tax assets	1,522,724,055	
	a) current	*919,466,492*	
	b) advanced	*603,257,563*	-
140.	Non-current assets and disposal groups classified as held for sale	28,495,907	-
150.	Other assets	2,753,153,681	-
120. It	*Own shares or quotas*		*42,508,503*
130. (a)	*Other assets*		*5,389,445,386*
140. It	*Accrued income and prepaid expenses*		*2,305,977,327*
	Total assets	**139,999,727,950**	**125,162,479,456**

(a) The caption differs from the Italian GAAP figure as it includes the effect of the first-time application of IAS other than No. 32 and 39 and any reclassification.

(euro)

Liabilities and shareholders' equity		Total as at 31/12/2005	Total as at 31/12/2004 (mix model excluding IAS 32/39)
10.	Due to banks	44,720,937,580	
10. It	*Due to banks*		*37,028,879,091*
20.	Due to customers	51,915,456,080	
20. (b)	*Due to customers*		*42,900,434,957*
30.	Securities issued	25,026,177,308	
40.	Financial liabilities held for trading	1,328,304,751	
30. It	*Securities issued*		*18,847,173,296*
50.	Financial liabilities designated as at fair value through profit and loss		
60.	Hedging derivatives	751,177,947	
70.	Changes in fair value of liabilities in hedged portfolios	(22,937,873)	
110. It	*Subordinated liabilities*		*6,588,319,755*
80.	Tax liabilities	139,440,660	-
	a) current	*64,005,340*	
	b) deferred	*75,435,320*	
90.	Liabilities included in disposal groups classified as held for sale		
100.	Other liabilities	3,660,288,671	
50. (b)	*Other liabilities*		*6,131,629,782*
60. It	*Accrued expenses and deferred income*		*1,538,005,133*
40. It	*Public funds administered*		*27,198,203*
110.	Provisions for employee termination indemnities	539,818,922	475,671,445
120. (a)	Provisions for risks and charges:	1,046,275,453	960,935,264
	a) post-retirement benefit obligations	*188,983,690*	*15,802,000*
	b) other	*857,291,763*	*945,133,264*
130.	Valuation reserves	445,357,377	
140.	Redeemable shares		
150.	Equity securities		
160.	Reserves	3,318,456,052	
140. (b)	*Reserves*		*3,609,730,912*
170.	Share premium reserve	769,131,370	724,718,927
180.	Capital	5,239,223,741	5,217,679,141
190.	Own shares (-)	(42,508,503)	
200.	Profit (loss) for the period	1,165,128,414	1,112,103,550
	Total liabilities and shareholders' equity	**139,999,727,950**	**125,162,479,456**

(a) The caption 120 Provisions for risks and charges as at 31/12/2004 does not correspond to the It GAAP figure as it does not include the Tax provision, reclassified among the other liabilities (tax liabilities).

(b) The captions differ from the Italian GAAP figures as they include the effect of the first-time application of IAS other than No. 32 and 39 and any reclassification.

Parent Bank statement of income

(euro)

Statement of income		Total as at 31/12/2005	Balances as at 31/12/2004 according to IAS/IFRS (*)
10.	Interest income and similar revenues	4,123,682,473	
10. It	*Interest income and similar revenues* *of which:* *– on loans to customers* – on debt securities		*3,557,431,943* *2,561,809,334* 345,121,140
20.	Interest expenses and similar charges	(2,587,632,181)	
20. It	*Interest expenses and similar charges*		*(2,145,532,313)*
30.	**Net interest income**	**1,536,050,292**	**1,411,899,630**
40.	Commission income	1,524,249,525	
40. It	*Commission income*		*1,499,725,424*
50.	Commission expense	(100,370,482)	
50. It	*Commission expense*		*(90,383,031)*
60.	**Net commissions**	**1,423,879,043**	**1,409,342,393**
70.	Dividends and similar revenues	784,941,360	
30. (a) It	*Dividends and other revenues* *a) on shares, quotas and other equities* *b) on investments* *c) on investments in Group companies*		*825,361,578*
80.	Profits (losses) on financial trading activities	114,658,464	
90.	Fair value adjustments from hedge accounting	(2,610,776)	
100.	Profit (loss) from sale or repurchase of: a) loans b) available-for-sale financial assets c) held-to-maturity investments d) financial liabilities	93,956,880 13,820,171 94,200,431 8,791 (14,072,513)	
110.	Profits (losses) on financial assets and liabilties designated as at fair value	2,859,619	
60. It	*Profits (losses) on financial transactions*		*131,975,652*
120.	**Net interest and other banking income**	**3,953,734,882**	**3,778,579,253**
130.	Impairment losses/write-backs to: a) loans b) available-for-sale financial assets c) held-to-maturity investments d) other financial transactions	(196,288,481) (199,707,130) (168,193) - 3,586,842	
120. It	*Adjustments to loans and provisions for guarantees and commitments*		*(289,630,391)*
130. It	*Write-backs of adjustments to loans and provisions for guarantees and commitments*		*144,238,933*
150. It	*Adjustments to financial fixed assets*		*(290,848,187)*
160. It	*Write-backs of adjustments to financial fixed assets*		*33,039,673*
140.	**Net result of financial activities**	**3,757,446,401**	**3,375,379,281**
150	Administrative costs: *a) personnel* *b) other*	(2,314,812,631) *(1,440,886,567)* *(873,926,064)*	(2,371,121,649) *(1,540,608,603)* *(830,513,046)*
160.	Net provisions for risks and charges	(16,148,588)	(108,705,377)
170.	Net adjustments to tangible assets	(184,122,629)	(181,311,299)
180	Net adjustments to intangible assets	(160,263,004)	(159,261,524)
190	Other operating income (expenses)	440,654,741	364,191,428
200	**Operating costs**	**(2,234,692,111)**	**(2,456,208,421)**
210	Profits (losses) on investments in associates and companies subject to joint control	(64,767,580)	
220	Net result of fair value adjustments to tangible and intangible assets	-	
230	Impairment of goodwill	-	
240	Profits (losses) on disposal of investments	9,322,910	
180.(a) It	*Extraordinary income*		*478,897,362*
190.(a) It	*Extraordinary expense*		*(75,080,002)*
250	**Operating profits (losses) before tax from continuing operations**	**1,467,309,620**	**1,322,988,220**
260	Income taxes for the period	(302,181,206)	(210,884,670)
270	**Net profit (loss) after tax from continuing operations**	**1,165,128,414**	**1,112,103,550**
280	Profits (losses) on discontinued operations		
290	**Profit (loss) for the period**	**1,165,128,414**	**1,112,103,550**

(*) Balances reconstructed on the basis of IAS/IFRS, excluding IAS 32 and 39, whose transaction date is fixed at 1 January 2005.

(a) The captions differ from the Italian GAAP figures as they include the effect of the first-time application of IAS other than No. 32 and 39 and any reclassification.

Statement of income/expenses in the Parent Bank financial statements for the year as at 31 December 2005

Caption/Value	2005 (€/mil)	2004 (€/mil)
A. Capital gains/losses in the year		
1. Capital gains (losses) from real-estate revaluation pursuant to special laws		
2. Valuation reserves:	131	n.a.
available-for-sale financial assets	128	n.a.
- capital gains (losses) from valuation in shareholders' equity	*209*	*n.a.*
- returns to current year statement of income	*(81)*	*n.a.*
financial flow coverage	3	n.a.
3. Exchange differences in foreign investments	-	-
4. Actuarial profits (losses) on fixed pension plans	(141)	n.a.
Total A	**(10)**	-
B. Net profit in the statement of income	**1,165**	**1,112**
C. Total income/expenses in the year (A+B)	**1,155**	**1,112**
D. Impact of transitions to accounting standards as at 1/1/2005 and 1/1/2004		
1. Capital gains (losses) due to the fair value recording of tangible assets as cost replacement		168
2. Valuation reserves:	283	n.a.
available-for-sale financial assets	307	n.a.
financial flow coverage	(24)	n.a.
3. Profit reserves	(355)	(594)
Total D	**(72)**	**(426)**
E. Total income/expenses in the year (C+D)	**1,083**	**686**

Statement of changes of the Parent Bank shareholders' equity

(€/mil)

	Share capital	Legal reserve	Share issue pre-miums	Extraor-dinary reserve	Fair value valuation reserve as cost replace-ment	AFS reserve	Cash Flow Hedge reserve	Reserve for actuarial profits and losses	Reserve for instru-ments at fair value	Reserve for stock option plans	Available reserve for purchase of own shares	Non-available reserve for purchase of own shares	Own shares	Reserve pursuant to art.13 sub-sec. 6 Legisl. Decree 124/93	Reserve pursuant to Law 342/2000	Reserve pursuant to Legisl. Decree 213/98	Profit for the period	Total
Shareholders' equity as at 31 December 2004 according to Italian GAAP	5,218	1,044	725	2,042							957	43	-	5	4	16	1,036	11,090
Changes to opening balances as at 1/1/05 due to FTA IAS (net of deferred taxation) (*)				-954	168	308	-23		1	5			-43					-538
Shareholders' equity as at 1 January 2005 according to IAS/IFRS	5,218	1,044	725	1,088	168	308	-23		1	5	957	43	-43	5	4	16	1,036	10,552
Allocation of profit for 2004:																		
- extraordinary reserve				163													-163	
- dividend distributed																	-873	-873
Exercise of stock option rights	21		44							-9								56
Recording of costs for stock options										6								6
Changes in valuation reserves:																		
- valuation differences						209	2											211
- returns to current year statement of income from sales						-81												-81
- recording of actuarial losses								-141										-141
Profit for the period																	1,165	1,165
Shareholders' equity as at 31 December 2005	5,239	1,044	769	1,251	168	436	-21	-141	1	2	957	43	-43	5	4	16	1,165	10,895

(*) See IAS/IFRS reconciliation statements prepared according to IFRS 1, par. 39 illustrated in appendix to Part B of the Explanatory Notes and related notes.

Parent Bank statement of cash flow

(€/mil)

INDIRECT METHOD	Amount 2005	Amount 2004 (*)
A. OPERATIONS		
1. Management activities		
- profit for the year	1,165	998
- capital gains/losses on financial assets held for trading and on assets/liabilities designated as at fair value	(38)	11
- capital gains/losses on hedging activities	3	n.a.
- net value adjustments/write-backs due to impairment	265	151
- net value adjustments/write-backs on tangible and intangible assets	344	341
- net provisions for risks and charges and other costs/revenues	101	86
- unpaid duties and taxes	298	212
- net adjustments/write-backs on groups of discontinued operations, net of taxes		
- other adjustments	(746)	(827)
2. Liquid assets generated/absorbed by financial assets		
- financial assets held for trading	(503)	1,873
- financial assets designated as at fair value	523	n.a.
- available-for-sale financial assets	509	n.a.
- due from banks: repayable on demand	2,843	4,079
- due from banks: other loans	(9,432)	(14,552)
- loans to customers	(9,386)	6,088
- other assets	666	(89)
3. Liquid assets generated/absorbed by financial liabilities		
- due to banks: repayable on demand	3,391	(1,863)
- due to banks: other deposits	4,200	1,166
- due to customers	7,658	2,588
- securities issued	1,218	(420)
- financial liabilities held for trading	(1,102)	103
- financial liabilities designated as at fair value		
- other liabilities	(913)	(1,699)
Net liquid assets generated/absorbed by operations	1,064	(1,753)
B. INVESTMENTS		
1. Liquid assets generated by		
- sale of investments		986
- dividends received from investments	746	827
- sale/reimbursement of financial assets held to maturity		1,014
- sale of tangible assets		
- sale of intangible assets		
- sale of business divisions		
2. Liquid assets absorbed by		
- purchase of investments	(123)	
- purchase of financial assets held to maturity	(869)	
- purchase of tangible assets	(72)	(201)
- purchase of intangible assets	(163)	(140)
- purchase of business divisions		
Net liquid assets generated/absorbed by investments	(481)	2,486
C. FUNDING ACTIVITIES		
- issue/purchase of own shares	56	(9)
- issue/purchase of capital instruments		
- dividend distribution and other uses	(874)	(715)
Net liquid assets generated/absorbed by funding activities	(818)	(724)
NET LIQUID ASSETS GENERATED/ABSORBED DURING THE YEAR	(235)	9

(*) The cash flow statement as at 31/12/2004 was drawn up on the basis of the equity balances as at 1/1/2004 and 31/12/2004 adjusted as a result of the transition to IAS/IFRS, except for IAS 32 and 39 whose transition date is 1/1/2005.

(€/mil)

RECONCILIATION Captions	Amount 2005	Amount 2004
Cash and liquid balances at the beginning of the period	750	741
Total liquid assets generated/absorbed during the year	(235)	9
Cash and cash equivalents: effect of movements in exchange rates		
Cash and cash equivalents at the close of the year	515	750

Explanatory Notes to the Parent Bank financial statements

Part A – Accounting policies

A.1 General information

A.2 Information on the main aggregate values of the financial statements

A.3 Fair Value of Financial Instruments

Part B - Information on the Parent Bank balance sheet

Assets

Liabilities

Part C - Information on the Parent Bank statement of income

Part D – Segment Reporting

Part E - Information on risks and risk hedging policies

Part A – Accounting policies

PART A.1 GENERAL INFORMATION

Section 1 – Statement of compliance with international accounting standards

SANPAOLO IMI exercised the right to draw up the financial statements for the year 2005 in compliance with the IAS/IFRS international accounting standards, as granted by art. 4, sub-section 2 of D.Lgs. 38/05.

The Financial Statements 2005 were drawn up in compliance with the accounting standards issued by IASB (including the SIC and IFRIC interpretation documents) approved by the European Commission until December 31, 2005, pursuant to the EU Regulation No. 1606 of July 19, 2002.

More specifically, starting from the Half Year Report on the first six months of 2005, the documentation and the financial statements were prepared in application of the aforesaid international accounting standards and on the basis of the provisions of art. 81 of CONSOB Regulation No. 11971, as amended by the Deliberation No. 14990 of April 15, 2005.

With regard to the Half Year Report as at June 30, 2005, the Company's reconciliation statements of the shareholders' equity and of the statement of income were published as required by IFRS 1 and by the abovementioned regulations issued by CONSOB. The appendix to Part B of the Explanatory Notes contains a summary of the effects that the transition to the IAS/IFRS international accounting standards had on the Bank's shareholders' equity as at January 1, 2005.

Section 2 – Basis of preparation

When preparing the financial statements, especially with regard to the Balance Sheet and the Explanatory Notes, the Bank applied the provisions illustrated in the Circular No. 262 issued by the Bank of Italy on December 22, 2005, taking into account the provisional regulations established for 2005 and integrating the information whenever required by the international accounting standards or deemed appropriate from the point of view of relevance or significance.

In terms of interpretation and application support, the following documents were used, even though they have not been approved by the European Commission:
- Framework for the Preparation and Presentation of Financial Statements issued by the International Accounting Standards Board (issued in 2001 by IASB);
- Implementation Guidance, Basis for Conclusions, IFRIC and any other documents drawn up by IASB or the IFRIC to provide further guidance on the accounting principles issued;
- Interpretation Documents for the application of IAS/IFRS in Italy issued by the Italian Accounting Standards Authority and the Italian Bankers' Association (ABI).

The Financial Statements results were compared with the figures from the previous year, adequately reclassified in order to render the content of some of the captions uniform to the new regulations of Bank of Italy. SANPAOLO IMI exercised the rights, as set forth by IFRS 1, to postpone the first time application of IAS 32 and 39 regarding financial instruments to January 1, 2005. As a result, the above-mentioned captions were entered in the Financial Statements as at December 31, 2004 in accordance with the previous national accounting standards, as they are not comparable on a homogeneous basis with those relating to 2005.

As for the information on the Explanatory Notes, the figures for the captions affected by IAS other than 32 and 39 are compliant with IAS/IFRS as at December 31, 2004 and with the information requirements set forth in the Bank of Italy Instructions. With regard to the data as at December 31, 2004 for the captions affected by IAS 32 and 39, as it is not possible to compare them on a homogeneous basis, as already mentioned, Part L of the Explanatory Notes contains an extract of the informational details published in the financial statements for last year.

This solution is considered suitable, because the lack of uniformity in captions, classifications and detailed information would have made it impossible to provide tables that are consistent or consequential to those provided for the year 2005.

For the purposes of the Report on Parent Bank Operations, in order to enable a homogeneous comparison and offer the opportunity to make uniform comments on operations and management, the reclassified balance sheet and statement of income have been provided as at December 31, 2005 compared with the same figures determined on a pro forma basis related to December 31, 2004.

The Financial Statements are in euro, except for the Explanatory Notes, which are expressed in millions of euro.

In order to implement the amendments made to the Italian Civil Code in relation to financial statements following the coming into effect of the reform of Company Law (D.Lgs. No. 6 of January 17, 2003 and delegated provisions applicable to the law No. 366 of October 3, 2001), the information provided in the Explanatory Notes was adequately and consistently integrated, if not otherwise required by the special regulations issued by Bank of Italy.

The Financial Statements of SANPAOLO IMI S.p.A. are composed of the Balance Sheet, the Statement of Income, the Statement of Changes in the Shareholders' Equity, the Cash Flow Statement (drawn up in accordance with the 'indirect' method) and the Explanatory Notes.

In compliance with the law (art. 2429 of the Italian Civil Code), the Bank's Financial Statements will be made available at the Bank's registered offices, together with an integral copy of the latest Financial Statements approved by the subsidiaries and a statement containing essential figures taken from the 2005 financial statements of the subsidiaries should they be submitted for approval to their Shareholders' meetings after the publication of the Bank's Financial Statements.

In compliance with the CONSOB regulations (art. 77 of the Deliberation No. 11971 of May 14, 1999 and subsequent amendments) the following documents will also be made available at the registered offices: the Consolidated Financial Statements, the Report by the Auditing Company, a statement summarizing the essential figures from the latest financial statements of associated companies and the minutes of the Shareholders' meeting that approved the Financial Statements.

The Financial Statements will be published together with the documents required by art. 2435 of the Italian Civil Code.

Section 3 – Events subsequent to the date of the financial statements

As shown in the Report on Operations, no events occurred after the closing of the financial year which required an adjustment to the results of the Financial Statements as at December 31, 2005.

Section 4 – Other aspects

As previously mentioned, while preparing the Half Year Report as at June 30, 2005, the documentation required by IFRS 1 of the effects of the transition to the IAS/IFRS international accounting standards on equity and income was provided.

As was stated at that time, an update on the transition could be provided once some of the documents issued by IASB were approved by the EU (with particular reference to the integrations to IAS 39 on Fair Value Option), in the light of the issuing of new accounting standards approved by the European Commission, the Bank did not exercise its Fair Value Option, and therefore the effects on equity indicated in the documents on the transition to IAS/IFRS presented with the Half Year Report as at June 30, 2005 are confirmed, except for some insignificant roundings.

These effects are illustrated in the appendix to Part B of the Explanatory Notes, where the various captions of the Shareholders' Equity that were amended as a result of the transition have been highlighted, in application of the criteria set forth in D.Lgs. No. 38/2005.

As for the recording of actuarial profits and losses resulting from the valuation of the specific benefit plans in favor of employees, the European Commission, through EC Regulation No. 1910/2005 of November 8, 2005, approved an amendment to IAS 19, introducing the possibility of recording these profits/losses directly in the Shareholders' Equity, without prejudice to the previous options of using the corridor method or, alternatively, directly recording them into the Statement of Income.

Starting from December 31, 2005, SANPAOLO IMI resolved to apply this new option as a replacement of the corridor method used for the first-time application of the international accounting standards and for preparing the Half Year Report as at June 30, 2005.

The actuarial profits or losses resulting at the close of 2005 are stated in a special reserve balancing the reduction or addition to the balance sheet asset or liability recorded.

Use of Estimates and Assumptions in Preparing the Financial Statements

The preparation of financial statements requires the use of estimates and assumptions that may have a significant effect on the amounts stated in the balance sheet and statement of income, and on the potential assets and liabilities reported in the financial statement.

Estimates are based on available information and subjective evaluations, often founded on past experience, which are used to formulate reasonable assumptions to be made in measuring operating phenomena. Given their nature, the estimates and assumptions used may vary from year to year, and hence it cannot be excluded that current amounts carried in the financial statements may differ significantly in future financial years as a result of changes in the subjective evaluations made.

The main cases for which subjective evaluations are required to be made by management include:
- the measurement of impairment losses on loans and, generally, other financial assets;
- the determination of the fair value of financial instruments to be used in statement schedules;
- the use of measurement models for determining the fair value of financial instruments not listed on active markets;
- the evaluation of the appropriateness of amounts stated for goodwill and other intangible assets;
- the measurement of personnel funds and provisions for risks and charges;
- estimates and assumptions on the collectability of deferred tax assets.

The information provided on the accounting policies applied for the main aggregate values of the financial statements includes the necessary details for identifying the main assumptions and subjective evaluations made in preparing the financial statements. For further detail on the break-down and relative carrying values of the specific statement captions affected by estimates, see the relevant sections of the Explanatory Notes.

Mandatory Audits

The Bank's Financial Statements are subject to the financial audit of PricewaterhouseCoopers S.p.A., in application of the shareholders' resolution carried in the meeting on April 29, 2004, which confirmed the appointment of the said auditing company for the audit of the Financial Statements, the Half Year Report and the Annual Report on Form 20-F for 2004, 2005 and 2006.

Audit of the Half Year Report and Schedules Relating to the Transition to International Accounting

SANPAOLO IMI prepared and published its report on Group operations for the half year of 2005, in accordance with Law and the provisions set forth by Consob.

The Half Year Report was duly audited by PricewaterhouseCoopers S.p.A. in limited financial audit form, in compliance with the recommendations of Consob Communications no. 97001574 of February 20, 1997, no. 10867 of July 31, 1997 and no. 5025723 of April 15, 2005, and in application of the aforementioned shareholders' resolution carried in the meeting on April 29, 2004.

In compliance with the aforementioned Consob Communication no. 5025723 of April 15, 2005, the reconciliation schedules on shareholders' equity as at January 1, 2004, December 31, 2004, and January 1, 2005, and the results as at June 30, 2005, required by IFRS 1 for the transition to international accounting standards, were duly audited by PricewaterhouseCoopers S.p.A.

PART A.2 INFORMATION ON THE MAIN AGGREGATE VALUES OF THE FINANCIAL STATEMENTS

Basis of Preparation of Financial Statements

The measurement bases adopted in the preparation of the financial schedules in compliance with IAS/IFRS in force as at December 31, 2005 are illustrated below.

Standardized purchase and sale of financial assets

As regards standardized purchases and sales of financial assets, that is those transactions governed by agreements requiring that the assets be handed over within a set period of time established by regulations or market conventions, it was decided to make reference to the settlement date.

1 - Financial assets held for trading

The "financial assets held for trading" category includes:
- debt securities or equities acquired mainly for the purpose of obtaining profits in the short term;
- derivative contracts, except those designated as hedging instruments.

Financial assetsheld for trading are initially recorded in the balance sheet at their fair value, which generally corresponds to the amount paid.

The subsequent valuation is made on the basis of the evolution of the fair value, any changes being recorded in the statement of income.

Equities and related derivative contracts for which fair value cannot be set precisely are accounted at cost, and adjusted for value losses. These losses in values are not restored.

The fair value of financial instruments listed on active markets is represented by the related market price. If no such active market exists for the asset, the fair value is obtained by taking into account the prices provided by external operators and by using measurement models that are mainly based on objective financial variables as well as the prices recorded on recent transactions and market prices for similar financial instruments.

Derivatives are treated as assets if the fair value is positive and as liabilities if the fair value is negative. The Bank offsets current positive and negative values arising from transactions made with the same counterparty where such offset has been expressly provided for under the terms of the contract, and the Bank intends to proceed with the settlement on such a basis.

A derivative embedded in a host instrument is split from it if:
a) the economic features and the risks of the embedded derivative are not strictly correlated to the economic features and the risks of the host contract;
b) a separate instrument with the same terms and conditions of the embedded derivative would meet the definition of derivative;
c) the instrument that includes the embedded derivative is not measured at fair value, its value adjustment being recorded in the statement of income.

2 - Available-for-sale financial assets

These assets are different from loans and financing, held-to-maturity investments, investments held for trading. These include debt securities and equities that cannot be qualified as control, affiliation or joint-control.

Available-for-sale financial assets are carried in the financial statements at fair value, usually corresponding to the amount paid to purchase the instrument including negotiation costs or income directly attributable to the assets.

After the initial recording, available-for-sale financial assets are measured at fair value and entered to counterbalance a specific reserve under equity.

Certain unlisted equities, the fair value of which cannot be reliably established or verified, also taking into account the importance of the range of values obtainable from the valuation models generally adopted by the market, are stated in the financial statements at cost, and adjusted for any impairment losses verified.

The results of the measurements are recorded in a specific reserve under equity and are included in the statement of income at the time of disposal or where an impairment loss is incurred.

The Bank assesses whether an event has given rise to an impairment loss and determines its amount by making reference to its past experience on asset evaluation and using all the information available that is based on facts that have already occurred and data that can be observed at the valuation date.

As regards debt securities, the information that is considered as being particularly relevant to assessing whether an impairment loss has occurred is as follows:
- the issuer is experiencing major financial difficulties as proved by non-performance or default on payment of interest or capital;
- bankruptcy proceedings are likely to be opened;
- financial instruments are no longer dealt with on an active market;
- the economic conditions that affect the financial flows of the issuer have worsened;
- the issuer's rating has been downgraded and negative news indicates that the financial situation of the issuer has worsened.

As regards equities, any impairment losses will be established by taking into account relevant information which includes any changes that have occurred in the technological, market, economical or legal environment in which the issuer operates. A significant and/or prolonged reduction in the fair value of equities below their cost may be considered as objective evidence of impairment.

Impairment losses on equities cannot give rise to write-backs in the statement of income if the reason for the writedown ceases to exist. Such write-backs therefore are only recorded in a specific reserve under equity.

Any write-back of debt securities, instead, is recorded in the statement of income.

As regards debt securities classified as being available for sale, the related yield, calculated on the basis of the amortized cost method, is recorded in the statement of income, as are the effects of exchange differences.

Exchange differences relating to available-for-sale capital instruments, instead, are recorded in a specific reserve under equity.

3 - Held-to-maturity financial assets

The held-to-maturity financial assets are represented by non-derivative financial instruments, with fixed or determinable payments and fixed maturity that the Bank intends to, and can, hold until maturity.

Held-to-maturity financial assets are stated at amortized cost, using the effective interest method. Gains and losses arising on financial assets held to maturity are recorded in the statement of income where such assets are eliminated or their value is impaired, as well as through amortization.

Impairment losses are calculated as the difference between the book value of assets and the present value of expected future financial flows, discounted at the market interest rate increased by the credit-spread, and they are entered under caption 100 of the Statement of Income.

In the event of write-backs, these are recorded in the statement of income but only to the extent of the amortized cost of the financial assets.

4 - Loans and guarantees granted

Loans are represented by financial assets that are not derivatives, including debt securities, with fixed or determinable payments, that are not quoted on active markets and that have not been classified from the day of acquisition under available for sale financial assets.

When loans are first recorded, they are entered in the balance sheet at their fair value, which generally corresponds to the amount paid/drawn, plus any direct transaction costs/income, if tangible and determinable and they are subsequently stated at amortized cost using the effective interest rate method. Short-term loans, including on demand loans, are not valued at the amortized cost as the effect of applying the effective interest rate criterion is insignificant.

The value at which loans are carried in the financial statements is regularly tested to establish if, due to any losses in value, they may have to be stated at their net carrying amount. The main information considered pertinent to establishing impairment includes:
- the borrower/issuer is experiencing major financial difficulties as proved by non-performance or default on payment of interest or capital;
- bankruptcy proceedings are likely to be opened;
- the economic conditions that affect the financial flows of the borrower/issuer have worsened;

- debt servicing difficulties are being experienced in the country of residence of the borrower/issuer;
- the borrower/issuer's rating has been downgraded due to negative news indicating that the financial situation of the issuer has worsened;
- negative trends in individual commodity sectors.

Impairment testing further takes into account any securities pledged.

As regards the classification of impaired exposures under the various risk categories (non-performing, problem, restructured and overdue exposures), the Bank referred to the provisions issued by the Bank of Italy on the subject, as integrated by internal regulations which prescribe automatic rules and criteria for the transfer of loans to the various risk categories.

The classification is carried out by the operating structures independently or subject to the assessment/availability of central and local functions specialized in loan monitoring and recovery, with the exception of loans due/overdue by more than 180 days, for which classification is carried out by automatic procedures.

Any adjustments for impairment to the carrying amount of loans are calculated taking into account the extent to which loans have become impaired, whether they are valued on an individual or collective basis, as detailed below.

The following are evaluated on an individual basis:
- non-performing loans: loans to borrowers in a state of insolvency or similar state.
- problem loans: loans to borrowers suffering temporary difficulties which are likely to be overcome in an acceptable period of time.
- restructured loans: loans in respect of which the bank (or a pool of banks), owing to the deterioration of the economic-financial standing of the borrower, allows that the original contractual terms be changed in order to avoid a loss; loans to enterprises which are expected to stop trading are not restructured loans.

The net carrying amount of impaired exposures that are evaluated on an individual basis, which is formalized by resolutions issued by the Administrative Bodies of the Parent Bank and the subsidiaries which have been especially authorized to deal with the matter, is the net present value of the expected future financial flows of principal and interest of the various exposures.

The net present value of financial flows is determined with reference to the estimated future financial flows, their timing and the applicable discount rate.

As regards impaired exposures, the estimated future cash flows and their timing (constituting expected repayment schedules) are determined on analytical assumptions made by the departments in charge of loan assessment and, where such assumptions are not available, on lump-sum estimates based on statistics of internal historical data and sector studies.

As for the discount rates used for the estimated future cash flows shown in the expected repayment schedules of impaired exposures, the Bank used the actual original interest rates for short- and medium-term loans. As for short-term loans, the reference rates are those rates applied to contract types with similar risk features.

The following are evaluated on a collective basis:
- expired exposures: exposures to subjects that are not classified under the previous risk categories which, at the end of the period, show loans due or overdue by more than 180 days. The assessment is made on a historical statistical basis.
- exposures subject to country risk: unsecured loans to borrowers residing in countries experiencing debt servicing difficulties are valued applying writedown percentages defined by the banking association. The loans that are classified in the categories previously defined according to their objective status of difficulty/insolvency are valued on an individual basis.
- performing loans: to borrowers who, at the balance sheet date, have not yet shown any specific insolvency risks. Collective adjustments to performing loans are calculated by applying a model developed on the basis of Risk Management methodologies used by banks in the Group to assess the credit impairment that it is believed to have occurred at the reference date ("incurred"), the extent of which is not known at the time the assessment is made.

The model used involves the following stages:
- allocation of the loan portfolio based on:
  a. customer segments;
  b. business sectors;
  c. geographical location;
- calculation of the loss given default for each portfolio, based on historical experience and the time interval between the default event and its formal occurrence which takes place when the loan is actually classified as a doubtful loan;
- application of corrective factors calculated on the basis of the qualitative analysis of the portfolio, with particular reference to the risk concentration and the impact of the current economic cycle on the various economic sectors.

Writedowns, whether specific or general, are made by entering a "value adjustment" to reduce the value of the asset shown in the balance sheet, on the basis of the aforementioned criteria. These writedowns, however, may be reinstated by means of write-backs recorded in caption 130 of the statement of income where all net value adjustments on loans are recorded, in the event that the reason for such writedowns ceases to apply or the amount recovered on the loans is higher than the original writedown booked in the records.

Considering the methodology used to calculate the writedowns of impaired exposures, the mere passage of time, and the fact that the expected repayment dates are, as a result, brought closer, implies an automatic reduction of the implicit financial charges previously deducted from the value of the loans. Also this effect is entered under caption 130 of the Statement of Income.

If the loans are disposed, they are removed from the balance sheet and the resulting net profit (or loss) is recorded in the statement of income only when all the risks and rewards of ownership connected with the loans have been transferred to the assignee.

If, despite the title to the loan passing to the purchaser, the Bank still maintains control over the cash flows arising from the loans as well as the risks and rewards connected with it, the loan is shown in the financial statements with a liability recorded to reflect the proceeds received from the purchaser.

The financial guarantees issued which do not represent derivative contracts are evaluated taking into account the regulations of IAS 39 which include, on the one hand, the recording of the commissions received, pursuant to IAS 18 and, on the other hand, the evaluation of risks and charges connected with the guarantees applying the criteria set forth in IAS 37. This valuation, in accordance with the provisions of the Bank of Italy, is entered in the financial statements against "Other liabilities".

5 - Financial assets designated as at fair value

The IAS/IFRS accounting standards approved by the European Commission enable the classification of any financial asset thus defined at the moment of acquisition as financial instruments designated at fair value with a counterbalance in the Statement of Income, regardless of the reason for holding such assets.

In line also with IASB, the Bank classified in this category only debt securities with embedded derivatives or debt securities subject to financial hedging.

Financial assets designated as at fair value are initially recorded in the balance sheet at their fair value, which generally corresponds to the amount paid.

The subsequent valuation is made on the basis of the evolution of the fair value, any changes being recorded in the statement of income (caption 110).

6 - Hedging transactions

According to the financial policies adopted, the Bank makes use of derivative contracts to hedge against interest rate, exchange rate and credit risk as well as the risk on highly probable forecast transactions.

The hedging transactions used for the above-mentioned risks aim at covering potential losses attributable to certain types of risks through gains that may arise on hedging instruments.

The Bank uses the following types of hedging transactions:
- hedging of exposures against the risk of changes in the fair value (attributable to the various types of risk) of assets and liabilities recorded in the financial statements or portions of these, of groups of assets and liabilities, and of irrevocable commitments, and of portfolios of financial assets and liabilities, including core deposits, as permitted by IAS 39 approved by the European Commission;
- hedging of the variability of cash flows of assets/liabilities recorded in the financial statements or of highly probable forecast transactions.

In order to activate hedging relationships, the Bank formally documents the relationship between the hedging instruments and hedged items and includes the objectives of the risk management, the hedging strategy and the methods used to assess the effectiveness of the hedging. At the start and on an ongoing basis the Bank verifies, through prospective and retrospective tests, that the hedging is highly efficient in compensating for changes in the fair value or in the cash flows expected of the hedged items. Retrospective effectiveness tests are passed if the ratio between the change in fair value of the hedging instruments and that of the hedged items is between 80 and 125%.

The hedging relationship ceases to exist when: (i) the derivative is not, or has ceased to be, highly effective as a hedge, (ii) it expires, or is sold, terminated or exercised, (iii) the hedged item matures, is sold or repaid, or presents impairment, and (iv) the forecast transaction is no longer deemed highly probable.

Fair Value Hedge Accounting

If fair value hedges are in place, any changes in the fair value of hedging instruments and hedged items (as regards the part attributable to the hedged risk and in the case of hedge effectiveness), are recorded in the statement of income. The differences between the changes in value represent the ineffective portion of the hedge and give rise to a net economic impact, entered under caption 90.

When a hedge ceases to exist for reasons other than the sale of the hedged item, the fair value hedging adjustment made to the latter, recorded in the financial statements until such time that the effective hedge was in place, is recorded in the statement of income on the basis of the amortized cost method in the case of interest-bearing financial instruments, or as a lump sum in all other cases.

Cash Flow Hedge

With regard to cash flow hedges, the fair value gain or loss associated with the portion of the cash flow hedge deemed effective is recognized initially in shareholder's equity. When the cash flows that have been hedged against eventually occur and are recorded in the statement of income, the aforementioned gains or losses on the hedging instrument are transferred from shareholders' equity to the corresponding caption in the statement of income.

When a cash flow hedge relating to a forecast transaction expires or is no longer effective, any cumulative gain or loss existing in equity at the time remains in equity under a specific reserve account until such transaction actually takes place (or the forecast transaction is no longer expected to occur). When the transaction occurs, such amount is recognized in the statement of income under caption 80 "net dealing income".

7 - Equity investments

The companies in which the Group has the power to set administrative, financial and management policies and where the Group usually holds more than half of the voting rights are considered subsidiaries.

The companies in which the Group holds 20% or more of the voting rights and the companies where the Group has a significant influence on administrative, financial and management decisions by virtue of the legal and actual relationships in existence are considered associated.

The companies for which a contractual agreement is in existence requiring the approval of administrative, financial and management decisions by the Group and the other participants in the control are considered joint-controlled.

Equity investments in subsidiaries, associated and joint-controlled companies are stated in the financial statements at cost, as adjusted for any impairment losses verified.

Adjustments to investments for impairment are entered in the statement of income under caption 210.

8 - Tangible Assets

Tangible assets include:
- land
- functional property
- property investments
- electrical equipment
- furniture and fittings, machinery and equipment.

"Functional property" is represented by assets either owned by the Bank or held under a finance lease contract, that are used by the Group to carry out its business activity or for administration purposes, whose useful life extends beyond the financial year.

"Property investments" are represented by assets either owned by the Bank or held under a finance lease contract, for the purpose of collecting lease rentals and/or held for capital appreciation.

Tangible assets are initially recorded at cost increased by any ancillary charges directly attributable to the acquisition and installation of the assets. Tangible assets, including property investments, are subsequently entered in the financial statements at cost, reduced by any depreciation and provisions for impairment.

Any expenses incurred after the date of purchase increase the book value of the asset or are recorded as separate assets only where their use gives rise to an increase in future economic benefits. Other types of subsequent expenditures are charged to the statement of income of the year in which they are incurred.

With regard to properties, the components related to land and buildings represent a separate asset for accounting purposes and are determined at the moment of acquisition.

As land is expected to have an indefinite life, no depreciation is provided on the part that relates to the land. Similarly, no depreciation is provided on works of art included under tangible assets, as their useful life cannot be estimated and generally the related value does not depreciate due to the passage of time.

Buildings and other tangible assets, unlike works of art, have a limited useful life and therefore are depreciated on the basis of their residual useful life.

The useful life of tangible assets subject to depreciation is periodically assessed. If the initial estimates are adjusted, their depreciation is amended accordingly.

9 - Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance that are held to be used over a period of more than one year. They include goodwill and software either developed internally or purchased from third parties.

Goodwill arises on the acquisition of subsidiaries, associated entities and business units, and represents the excess of the purchase amount paid over the net fair value of the Bank's share of assets acquired and the liabilities assumed on the date of acquisition. Goodwill is not systematically amortized; in fact it is regularly reviewed for impairment. Goodwill is allocated to cash-generating units for the purpose of impairment testing. An impairment loss will be recorded where the recoverable amount is lower than its current book value in the financial statements. The recoverable amount is represented by the greater of the fair value of the cash-generating unit, net of selling costs, and the value in use, represented by the present value of the future cash flows expected to be produced by the cash-generating unit and arising on its disposal at the end of its useful life.

Internal costs incurred to develop software are capitalized in the financial statements under intangible assets, only upon verification of the technical feasibility of the projects involved and their completion as well as their ability to generate future economic benefits. At the development stage, these assets are valued at cost, inclusive of any direct ancillary costs and any costs relating to internal staff employed on the development. If the results of the trial testing are negative, then the costs are charged to the statement of income.

Intangible assets arising on software developed internally or acquired externally are amortized on a straight-line basis, starting from the date of completion and implementation, over an estimated useful life of three years. Where the recoverable amount of such assets is lower than their book value, the difference is recorded in the statement of income under caption 180.

10 – Discontinued operations

Discontinued operations may include "individual assets" or "groups of assets", according to the definitions and conditions set forth by IFRS 5.

To this purpose, the assets being described are those "available for immediate sale" in their current conditions, whose sale is deemed highly likely, in the sense that the search for a buyer must have already started and the sale is scheduled to be completed within a year from the recording in the financial statements.

These assets are valued at the lower between the book value and the fair value, net of sale costs. If the discontinued assets can be depreciated, the depreciation process will cease from the moment they are classified among discontinued operations.

"Individual" discontinued asset values, as with the net results deriving from their subsequent disposal, are carried under the relevant captions of the statement of income.

The balance, whether positive or negative, of income or charges relating to discontinued "groups of operations" are stated in the statement of income net of current and deferred taxation under caption 280.

11 – Current and deferred taxation

Income tax, calculated according to domestic tax regulations, is accounted for as a cost in compliance with the accruals concept, in line with the method followed to include, in the financial statements, the costs and income that generated them. Therefore, they represent the balance of current and deferred taxation relating to the net result for the period.

The net balance between the Bank's tax position before tax authorities in Italy and abroad is recorded among Current tax assets and liabilities. More specifically, these captions include the net balance of current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax charges due for the period, assessed according to the tax regulations currently in force, and the current tax assets represented by advances paid and other tax credits for withholding taxes borne or tax credits of previous financial years for which the Bank has requested compensation with taxes of subsequent years.

Current tax assets also include tax credits in respect of which a tax refund claim has been filed with the relevant tax authorities.

Considering the Group's adoption of the domestic tax consolidation, the tax positions attributable to the Bank and those originated by other Group companies are managed separately from an administrative point of view.

Deferred taxation is calculated according to the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of the assets and liabilities and their value for taxation purposes, which will determine taxable income or deductible amounts in the future. "Temporary taxable differences" are those differences that will determine taxable income in the future whereas "temporary deductible differences" are those that will determine deductible amounts in the future.

Deferred tax liabilities are calculated by applying the rates set by the current laws to the temporary taxable differences for which there is the possibility of an actual payment of tax and to the temporary deductible differences whose recovery is reasonably certain. Deferred taxes and liabilities related to the same tax and due in the same period are compensated.

In the years in which temporary deductible differences are higher than temporary taxable differences, the anticipated taxes are recorded among "Deferred tax assets" in the balance sheet assets. Conversely, in the years in which temporary taxable differences are higher than temporary deductible differences, the deferred taxes are recorded among "Deferred tax liabilities" in the balance sheet liabilities.

If deferred tax assets and liabilities refer to items affecting the Statement of Income, the counterbalance is represented by income taxes.

If advanced and deferred taxes refer to transactions recorded in the shareholders' equity directly without influencing the Statement of Income (such as adjustments for the first-time application of IAS/IFRS, valuations of the available-for-sale financial instruments or of the derivative contracts hedging financial flows) they are entered as counterbalance to the shareholders' equity, involving the specific reserves when applicable (e.g. valuation reserves). On the other hand, anticipated and deferred taxes referring to adjustments for the first-time application of IAS/IFRS, which will be reallocated into the statement of income upon settlement or valuation of underlying assets/liabilities, are transferred to IAS/IFRS in the transition year among advanced and deferred taxes with a counterbalance in the statement of income. This transfer is not counterbalanced in the Bank's statement of income.

Deferred taxation on equity reserves that will become taxable "however used" is charged against shareholders' equity. Deferred taxation relating to revaluations arising on conversion to the euro, credited directly to a specific reserve named "Reserve pursuant to article 21 of D.Lgs. no. 213/98," which qualify for deferred taxation, is charged directly against this reserve.

Deferred taxation on equity reserves that will become taxable "only if distributed" is not recorded in the financial statements, considering the unavailability of the shareholders' equity components that comprise these items and because the conditions for taxation are not likely to occur.

Deferred taxation referring to the companies included in the tax consolidation is registered in the financial statements of the companies themselves, in application of the accrual concept and considering that the tax consolidation is limited to the settlement of the current tax positions.

12 - Provisions for risks and charges

Provisions for risks and charges are liabilities with an uncertain amount or expiry. They are recorded in the financial statements if:
- a current (legal or implicit) obligation exists owing to a past event;
- it is likely that financial resources will be used to fulfill the obligation;
- it is possible to make an estimate of the likely future cash outflow.

The sub-caption "post-retirement benefit obligations" includes provisions booked according to IAS 19 "Employee Benefits" to balance the technical deficit of the supplementary defined pension benefit plan.

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The actuarial value of the Bank's commitments is calculated by an external actuary using the Projected Unit Credit Method.

For employee provisions, this method, which falls within the scope of general techniques relating to so-called "accrued benefits," takes into account each period of service by the employee with the company as an additional unit of benefit entitlement. Hence, the actuarial liability must be quantified exclusively on the basis of the employee's length of service as at the date of measurement. The overall liability is therefore usually recalculated based on the ratio of total years of service matured as at the date of measurement to the total number of years of service accrued at the time the benefit will be paid. Furthermore, the above method takes into account any future salary increases due for any reason (inflation, seniority and promotion, contract renewal, etc.), up until the time the employment relationship is terminated. With regard to employee pension commitments, the above corrective measures are not applied as the commitment is fully matured.

The discount rate used for the evaluations is based on the market rate of zero coupon bonds, considered most representative of market performance, taking into account the expected future cash outflows of the pension fund.

The current year accrual to the statement of income is equal to the sum of the annual interest matured on the average present value of pension benefits at the beginning of the year and the average present value of services rendered by the employees in service during the year, net of the yield expected in the year on the pension fund assets invested.

To this end, the discount rate used to calculate the interest on the average present value of pension benefits is the discount rate of benefits forecast at the beginning of the year, and the rate used to calculate the yield expected on the pension fund assets is the yield rate of pension fund investments forecast at the beginning of the year.

More specifically, the Bank’s commitment is calculated as the algebraic sum of the following values:
- average present value of pension benefits. As illustrated above, only the years of service already accrued are taken into account for employees in service, also considering future salary increases;
- the current value of the assets of the pension fund.

Resulting actuarial gains and losses are stated in a specific valuation reserve balancing the specific asset or liability.
As required by IAS 19, as amended by EC Regulation no. 1910/2005 of November 8, 2005, in the case of defined benefit plans that spread risks between the various entities under joint control, the information reported in the Explanatory Notes, as required by section 120 A of IAS 19, refers to the plans taken on a collective basis.

“Other funds” include provisions made to cover estimated losses on legal disputes, including revocatory actions, sums paid in connection with the renegotiation of subsidized home mortgage loans (Law no. 133/99 and that dictated by Budget Law 2001 and other regional laws), the estimated amounts payable in relation to customer disputes in respect of dealing activities in securities, other sums payable in connection with legal or implicit obligations existing at the end of the financial year, including accruals for incentive voluntary redundancy payments, other welfare and social contributions.

Where the liability crystallizes after a significant period of time, the Bank calculates the amount of the provision and of the accruals based on the present value of the sums that will eventually be paid out in respect of such liability. The discount rate used is gross of taxes and is such that it reflects current market valuations of the present value of currencies and the specific risks associated with the liability.

If the accruals are discounted to present value, the amount of the provisions included in the financial statements increases in each financial year to reflect the passage of time. This increase is recorded in the statement of income under caption 160.

“Other funds” include provisions to set up the reserve necessary to pay out seniority bonuses to employees that become payable at the terms set forth under company by-laws. These provisions have also been accrued on the basis of an independent actuary by adopting the methods recommended by IAS 19 dealt with earlier. Actuarial profits and losses are entered in the financial statements as a counterbalance of the statement of income, as the other options envisaged by IAS 19 cannot be applied.

The provisions made are re-examined at each balance sheet date and adjusted to reflect the best current estimates. When it looks unlikely that resources will be needed to produce economic benefits to meet the obligation, the accrual is reversed.

The caption ‘provisions for risks and charges’ does not include however the writedowns owing to the deterioration of guarantees given, the derivative contracts assimilated to the former according to international accounting standards. These writedowns are included under ‘Other liabilities’.

Termination indemnities

The liability relating to staff termination indemnities is shown in the financial statements based on its actuarial value, the latter being the quantifiable benefit due to employees according to a defined benefit plan.

Again in this case, the present value of the Bank’s commitments is calculated by an external expert using the Projected Unit Credit Method, illustrated above.

The annual discount rate adopted for the calculations is assumed to be equal to the market rate at the end of the period as regards zero coupon bonds, deemed most representative of market performance, with the average remaining life of the liability taken into consideration.

The amount of termination indemnities accrued in the year and charged to the statement of income under personnel costs is equal to the sum of the average present value of entitlements matured by current employees in the year, and the annual interest accrued on the present value of the Bank's commitments at the beginning of the year, calculated using the discount rate applied to expected future payments to estimate the liability at the end of the previous financial year.

Resulting actuarial gains or losses are stated in a special reserve balancing the reduction or addition to the balance sheet liability recorded.

13 - Debts and securities issued

Loans to banks and to customers include all the technical forms of funding among banks and with customers (deposits, current accounts, loans). These encompass operating debts, including those related to finance lease contracts.

Securities issued, both listed and unlisted, including investment certificates and certificates of deposits, are shown in the financial statements net of any repurchased portions.

Debts and securities issued are entered in the financial statements at the fair value of the liabilities, usually corresponding to the amounts collected or the issuing price of the securities, adjusted to take into account the charge/income directly attributable to the liabilities.

Debts and securities issued, except for repayable on demand and short-term customer deposits, are valued at amortized cost using the effective interest rate method.

The difference between the cost incurred to repurchase the securities issued and their respective book value is recorded in the statement of income. The sale of any repurchased securities is, from the point of view of the accounting procedures, like a new placing and therefore gives rise to a change in the average book value of the related liabilities.

14 - Financial liabilities held for trading

Financial liabilities held for trading include the negative results of the valuations of dealing derivatives and liabilities referring to technical losses on securities.

15 – Financial liabilities designated as at fair value

As already mentioned, the Bank resolved not to designate financial liabilities at fair value.

16 - Currency transactions

Foreign currency transactions are recorded in euros, applying the exchange rate applicable as at the date of the transaction.

Monetary items are translated at the exchange rate applicable as at the end of the period. Non-monetary items that are not hedged against the exchange rate risk and which are not measured at fair value are translated at the rate applicable as at the date when they are first included in the financial statements.

Exchange differences arising on the settlement of monetary and non-monetary items are recorded in the statement of income.

The exchange differences arising on the translation of monetary items using rates that differ from those applied when the transaction was initially recorded or those applicable as at end of the previous are recorded in the statement of income.

The exchange differences arising on the translation of non-monetary items at rates that differ from those used when the transaction was originally booked in the records, if applicable based on the above-mentioned principle, are recorded in the financial statements as follows:
- in the statement of income if the non-monetary items are hedged against exchange rate risk, as regards the effective portion of the hedge;
- otherwise, either in the statement of income or in the balance sheet under shareholders' equity if the non-monetary items are valued at fair value, based on the principles for recording the related changes in fair value in the financial statements.

17 - Other information

Valuation reserves

Valuation reserves are composed of the valuation reserves of available-for-sale investments, derivative contracts hedging financial flows, reserves created for the recording of actuarial profits and losses on specific benefit plans and revaluation reserves set up in previous years in application of special laws and not allocated to other components of the Bank's shareholders' equity in previous years, net of the related deferred taxation. This caption includes also the fair value revaluations of tangible assets as a replacement of the cost, always net of the related deferred taxation, carried out during the first-time application of IAS/IFRS.

Own shares

Own shares purchased are entered in the financial statements as a negative component of the Bank's shareholders' equity and therefore they are not evaluated.

In the event that they are sold on the market, any difference between the purchase cost and the selling price is recorded under shareholders' equity.

Accruals, Prepayments and Deferrals

Accruals, prepayments and deferrals for the year which include income and charges for the period, matured on assets and liabilities, are shown in the financial statements as an increase or decrease of the assets and liabilities they relate to.

Stock option plans

For stock option plans in favor of employees deliberated from November 7, 2002 whose amount is represented by shares issued by the Bank, the accounting method applied is that indicated by IFRS 2 concerning payments based on shares.

According to this accounting method, the options granted are valued at the fair value prevailing at the grant date, which coincides with the date the plan is approved by the competent bodies. Such fair value represents a component of personnel costs allocated over the accrual period of the rights assigned, entered as a counterbalance to an unavailable component of the shareholders' equity.

The fair value of the options is calculated on the basis of a valuation model that takes into account not only the exercise price but also the volatility of the stock price of the options, the expected dividend yield and the risk-free interest rate at grant date.

In the event that the options are not exercised owing to the non-occurrence of certain conditions, not dependent on market trends, the cumulative cost included in the financial statements in respect of the stock option plans is reversed in the statement of income, the corresponding entry being in shareholders' equity under a specific reserve not available for distribution.

If the stock options are exercised, the cumulative cost stated in the specific reserve of shareholders' equity is charged as an addition to share premiums.

Failure to exercise the stock option rights due to market conditions does not give rise to a reversal of the cumulative cost, but the equity amount recorded as the corresponding entry to personnel costs in the period over which the plan matures becomes available for distribution.

Revenue and cost recognition

Revenue arising from the sale of goods or rendering of services is included in the financial statements using the fair value of the sale proceeds received, as long as the following conditions are met:
- the Bank has transferred to the purchaser all the risks and rewards of the ownership of the goods;
- the value of sale proceeds can be reliably assessed;
- it is likely that economic benefits will accrue to the Bank.

Revenue is entered in the financial statements according to the accrual concept. In particular:
- interest is accounted for on the basis of the accruals concept which takes into account the effective interest earned;
- default or late payment interest are accounted for at the time they are received;
- dividends are recorded when the right to receive the payment matures and therefore at the time when the distribution is resolved upon.

As regards the trading activity in financial instruments, the difference between the fair value of the instruments and the amount paid or received is recorded in the statement of income where the fair value can be reliably assessed, a valuation model based on market parameters is used, and prices applied to recent transactions in the same market where the instrument is traded can be verified. If these conditions do not exist, the estimated difference is recorded in the financial statements on a straight-line basis over the duration of the operations.

Revenue and costs are recorded in the statement of income for the periods to which they relate. If the above matching can only be done generally or indirectly, then the costs are allocated to more than one accounting period according to rational procedures and on a systematic basis. Those costs that cannot be matched with the related revenues are immediately charged to the statement of income.

PART A.3 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the value at which an asset can be traded, or a liability extinguished, in a free trade between parties with equal contractual power.

The fair value of financial instruments listed on active markets coincides with the active market price. With regard to the identification of the active market, the Bank approved specific rules and procedures aimed at setting the prices and assessing the reliability of the prices acquired. The market price, considered representative of fair value, for assets owned by the Bank is taken at the bid price, whilst for assets to be acquired, the market price is taken at the asking price. If the bid and ask prices are not available, current fair value is evaluated at the price of the last transaction made. Where financial assets and liabilities are matched in terms of market risk, reference is made to average market prices in order to establish their fair value.

Financial assets with more than one listing price on distinct active markets are designated at the price the Bank deems most favorable.

If no market price exists for a financial instrument in its entirety, but only for its components, the fair value is calculated on the basis of the relevant market prices of the components.

For a considerable portion of the assets and liabilities held or issued by SANPAOLO IMI, market prices are not available. In these cases, appropriate measurement techniques were employed which involved the net present value of future cash flows, using parameters based on the market conditions prevailing at the date of the financial statements.

Since the measurement results may be significantly influenced by the assumptions made, mainly as concerns the timing of future cash flows, the discount rates used, the credit risk evaluation methods and the estimated fair values would not necessairly be realized if the financial instruments were sold immediately.

In determining the fair value of the financial instruments reported in the tables of the Explanatory Notes - Part B, where required by Bank of Italy Circular no. 262 of December 22, 2005 and summarized in the statement given in the appendix to Part B, the following methods and key assumptions have been adopted:
- for debt securities owned by the Bank, regardless of the classifications in the categories included in IAS 39, the Bank has adopted a specific procedure for determining the situations in which a new active market can be defined, which can be based on the analysis of trading volumes, range of prices and on the number of shares identified on the market. If there is no active market, a comparable price can be identified having the same financial characteristics of the instruments or, ultimately, cash flows can be discounted, taking into account any element that can influence the value of the instrument (e.g. credit risk, volatility and lack of liquidity).
- for financial assets and liabilities with a residual term equal to or less than 18 months, fair value was reasonably assumed to equal carrying value;
- for loans and deposits on demand (funding), the maturity date of contractual obligations was assumed to be immediate and to coincide with the date of the financial statements; hence fair value was taken at the carrying value;
- for medium-/long-term loans to customers, fair value was measured using internally defined measurement techniques involving the time discounting of residual contractual flows at current interest rates, adjusted to take into account the credit rating of each individual borrower (or the probability of default resulting from the rating) and loss given default;
- for impaired assets, fair value was taken at book value;
- for medium-/long-term liabilities, consisting of unsecured securities or deposits, fair value was measured by time discounting contractual flows at rates which the Bank, at the time of measurement, could reasonably apply on the market of reference at the date of the financial statements for similar deposits; in case of tier 1 subordinated loans, the substantial impossibility of an anticipated repurchase/reimbursement and the existence of potential clauses/options in favor of the issuer were taken into account;
- for medium-/long-term debt and fixed rate, structured securities issued, singly hedged for fair value variations, fair value was taken at the book value adjusted as a result of the fair value hedging attributable to the hedged risk is an approximation, assuming that no significant changes occurred in the issuer's credit spread in comparison with the origination and that no other particular and significant risk element exist which may have an impact on the fair value.

The parameters used and the methods adopted can differ among the various financial institutions which, in case of a change in the assumption, can generate results that are significantly different. IAS/IFRS exclude some financial instruments (e.g. deposits on demand) and non-financial instruments (e.g. goodwill, tangible assets, equity investments, etc.) from the fair value option, and therefore the overall fair value may not represent an estimate of the Bank's economic value.

Part B - Information on the Parent Bank balance sheet

Assets

SECTION 1 - CASH AND CASH EQUIVALENTS – CAPTION 10

1.1 Cash and cash equivalents: break-down

(€/mil)

	Total 31/12/2005
a) Cash	458
b) Sight deposits at central banks	57
Total	515

SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING – CAPTION 20

2.1 Financial assets held for trading: break-down by type

(€/mil)

Caption/Value	Total 31/12/2005	
	Listed	Unlisted
A. Cash assets		
1. Debt securities	1,077	782
1.1 Structured securities	-	2
1.2 Other debt securities	1,077	780
2. Equities	285	-
3. OICR shares	201	-
4. Financing	-	-
5. Impaired assets	-	-
6. Assets sold and not cancelled	1,550	-
Total A	**3,113**	**782**
B. Derivative instruments		
1. Financial derivatives	-	1,262
1.1 dealing	-	1,099
1.2 connected with the fair value option	-	2
1.3 other	-	161
2. Derivative contracts	-	8
2.1 dealing	-	7
2.2 connected with the fair value option	-	-
2.3 other	-	1
Total B	**-**	**1,270**
Total (A + B)	**3,113**	**2,052**

2.2 Financial assets held for trading: break-down by debtor/issuer

(€/mil)

Caption/Value	Total 31/12/2005
A. Cash assets	
1. Debt securities	1,859
a) Governments and central banks	360
b) Other public entities	49
c) Banks	1,263
d) Other issuers	187
2. Equities	285
a) Banks	
b) Other issuers:	285
- insurance companies	
- financial institutions	
- non-financial companies	285
- other	
3. OICR shares	201
4. Loans	-
a) Governments and central banks	-
b) Other public entities	-
c) Banks	-
d) Other entities	-
5. Impaired assets	-
a) Governments and central banks	-
b) Other public entities	-
c) Banks	-
d) Other entities	-
6. Assets sold and not cancelled	1,550
a) Governments and central banks	1,550
b) Other public entities	-
c) Banks	-
d) Other issuers	-
Total A	**3,895**
B. Derivative instruments	
a) Banks	1,010
b) Customers	260
Total B	**1,270**
Total (A + B)	**5,165**

2.3 Financial assets held for trading: derivative instruments

(€/mil)

Type of derivative/Underlying asset	Interest rates	Currencies and gold	Equities	Loans	Other	Total 31/12/2005
A. Listed derivatives						
1) Financial derivatives:	-	-	-	-	-	-
• with underlying asset exchange	-	-	-	-	-	-
- purchased options						-
- other derivatives						-
• without underlying asset exchange	-	-	-	-	-	-
- purchased options						-
- other derivatives						-
2) Credit derivatives:	-	-	-	-	-	-
• with underlying asset exchange						-
• without underlying asset exchange						-
Total A	-	-	-	-	-	-
B. Unlisted derivatives						
1) Financial derivatives:						
• with underlying asset exchange	-	293	-	-	-	293
- purchased options		73				73
- other derivatives		220				220
• without underlying asset exchange	778	-	190	-	1	969
- purchased options	3		190			193
- other derivatives	775				1	776
2) Credit derivatives:	-	-	-	8	-	8
• with underlying asset exchange				3		3
• without underlying asset exchange				5		5
Total B	778	293	190	8	1	1,270
Total (A + B)	778	293	190	8	1	1,270

SECTION 3 - FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE – CAPTION 30

3.1 Financial assets designated as at fair value: break-down by type

(€/mil)

Caption/Value	Total 31/12/2005	
	Listed	Unlisted
1. Debt securities	7	754
1.1 Structured securities		13
1.2 Other debt securities	7	741
2. Equities	-	-
3. OICR shares	-	-
4. Loans	-	-
4.1 Structured	-	-
4.2 Other	-	-
5. Impaired assets	-	-
6. Assets sold and not cancelled	-	251
Total	**7**	**1,005**
Cost	**7**	**1,000**

In line also with IASB, the Bank classified in this category only debt securities with embedded derivatives or debt securities subject to financial hedging.

3.2 Financial assets designated as at fair value: break-down by debtor/issuer

(€/mil)

Caption/Value	Total 31/12/2005
1. Debt securities	**761**
a) Governments and central banks	
b) Other public entities	
c) Banks	671
d) Other issuers	90
2. Equities	-
a) Banks	
b) Other issuers:	-
- insurance companies	
- financial institutions	
- non-financial companies	
- other	
3. OICR shares	
4. Loans	-
a) Governments and central banks	
b) Other public entities	
c) Banks	
d) Other entities	
5. Impaired assets	-
a) Governments and central banks	
b) Other public entities	
c) Banks	
d) Other entities	
6. Assets sold and not cancelled	**251**
a) Governments and central banks	
b) Other public entities	
c) Banks	251
d) Other entities	
Total	**1,012**

SECTION 4 - AVAILABLE-FOR-SALE FINANCIAL ASSETS – CAPTION 40

4.1 Available-for-sale financial assets: break-down by type

(€/mil)

Caption/Value	Total 31/12/2005	
	Listed	Unlisted
1. Debt securities	518	209
1.1 Structured securities	-	-
1.2 Other	518	209
2. Equities	686	861
2.1 Designated as at fair value	685	665
2.2 Valued at cost	1	196
3. OICR shares	-	-
4. Loans	-	10
5. Impaired assets	-	-
6. Assets sold and not cancelled	32	39
Total	**1,236**	**1,119**

Certain unlisted equities, the fair value of which cannot be reliably established or verified, also taking into account the importance of the range of values obtainable from the valuation models generally adopted by the market, are stated in the financial statements at cost, as adjusted for any impairment losses verified.

4.2 Available-for-sale financial assets: break-down by debtor/issuer

(€/mil)

Caption/Value	Total 31/12/2005
1. Debt securities	**726**
a) Governments and central banks	396
b) Other public entities	75
c) Banks	50
d) Other issuers	205
2. Equities	**1,548**
a) Banks	1,091
b) Other issuers:	457
- insurance companies	41
- financial institutions	268
- non-financial companies	148
- other	
3. OICR shares	
4. Loans	**10**
a) Governments and central banks	
b) Other public entities	
c) Banks	10
d) Other entities	
5. Impaired assets	**-**
a) Governments and central banks	
b) Other public entities	
c) Banks	
d) Other entities	
6. Assets sold and not cancelled	**71**
a) Governments and central banks	32
b) Other public entities	
c) Banks	
d) Other entities	39
Total	**2,355**

At the balance sheet date there were no available-for-sale financial assets subject to hedging.

SECTION 5 - INVESTMENTS HELD TO MATURITY – CAPTION 50

5.1 Investments held to maturity: break-down by type

(€/mil)

Type of transaction/Value	Total 31/12/2005	
	Book value	Fair value
1. Debt securities	546	546
1.1 Structured securities		
1.2 Other debt securities	546	546
2. Loans		
3. Impaired assets		
4. Assets sold and not cancelled	1,766	1,764
Total	**2,312**	**2,310**

5.2 Investments held to maturity: break-down by debtor/issuer

(€/mil)

Type of transaction/Value	Total 31/12/2005
1. Debt securities	**546**
a) Governments and central banks	528
b) Other public entities	18
c) Banks	
d) Other issuers	
2. Loans	-
a) Governments and central banks	
b) Other public entities	
c) Banks	
d) Other entities	
3. Impaired assets	-
a) Governments and central banks	
b) Other public entities	
c) Banks	
d) Other entities	
4. Assets sold and not cancelled	**1,766**
a) Governments and central banks	1,766
b) Other public entities	
c) Banks	
d) Other entities	
Total	2,312

Investments sold and not cancelled are entirely represented by debt securities sold through reverse repurchase agreements.

At the balance sheet date there were no held-to-maturity investments subject to hedging due to exchange rate risk and credit risk.

SECTION 6 - LOANS TO BANKS - CAPTION 60

6.1 Loans to banks: break-down by type

(€/mil)

Type of transaction/Value	Total 31/12/2005
A. Due to central banks	**68**
1. Tied bonds	33
2. Compulsory reserve	35
3. Repurchase agreements	-
4. Other	-
B. Due to banks	**44,507**
1. Current accounts and demand deposits	2,006
2. Tied bonds	27,881
3. Other financing:	10,360
3.1 Repurchase agreements	8,642
3.2 Finance leases	-
3.3 Other	1,718
4. Debt securities	2,714
4.1 Structured securities	-
4.2 Other debt securities	2,714
5. Impaired assets	-
6. Assets sold and not cancelled	1,546
Total (book value)	**44,575**
Total (fair value)	**44,553**

Investments sold and not cancelled are entirely represented by debt securities sold through reverse repurchase agreements.

For the criteria for determining the fair value, see Part A - Accounting policies.

There are no amounts due to banks subject to macro- or micro-hedging and no financial leasing operations in place with banks.

SECTION 7 - LOANS TO CUSTOMERS - CAPTION 70

7.1 Loans to customers: break-down by type

(€/mil)

Type of transaction/Value	Total 31/12/2005
1. Current accounts	7,762
2. Repurchase agreements	1,019
3. Mortgage loans	31,534
4. Credit cards, personal loans, loans on salary	939
5. Financial leases	-
6. Factoring	304
7. Other transactions	24,370
8. Debt securities	195
8.1 Structured securities	-
8.2 Other debt securities	195
9. Impaired assets	1,109
10. Assets sold and not cancelled	
Total (book value)	67,232
Total (fair value)	**68,201**

The Bank has no financial leasing operations in place with customers.

For the criteria to determine the fair value, see Part A – Accounting policies.

7.2 Loans to customers: break-down by debtor/issuer

(€/mil)

Type of transaction/Value	Total 31/12/2005
1. Debt securities:	**195**
a) Governments	
b) Other public entities	
c) Other issuers	195
- non-financial companies	5
- financial companies	190
- insurance companies	
- other	
2. Loans to:	**65,928**
a) Governments	282
b) Other public entities	450
c) Other entities	65,196
- non-financial companies	36,565
- financial companies	12,377
- insurance companies	803
- other	15,451
3. Impaired assets:	**1,109**
a) Governments	
b) Other public entities	1
c) Other entities	1,108
- non-financial companies	850
- financial companies	12
- insurance companies	
- other	246
4. Assets sold and not cancelled:	-
a) Governments	
b) Other public entities	
c) Other entities	-
- non-financial companies	
- financial companies	
- insurance companies	
- other	
Total	**67,232**

7.3 Loans to customers: assets subject to micro-hedging

(€/mil)

Type of transaction/Value	Total 31/12/2005
1. Loans subject to fair value hedging:	3,226
a) interest rate risk	3,226
b) exchange rate risk	-
c) credit risk	-
d) other risks	-
2. Loans subject to financial flow hedging:	89
a) interest rate	89
b) exchange rate	-
c) other	-
Total	**3,315**

The Bank has no financial leasing operations in place with customers.

SECTION 8 - HEDGING DERIVATIVES - CAPTION 80

8.1 Hedging derivatives: break-down by type of contract and underlying asset

(€/mil)

Type of derivative/Underlying asset	Interest rates	Currencies and gold	Equities	Loans	Other	Total 31/12/2005
A. Listed derivatives						
1) Financial derivatives:	-	-	-	-	-	-
• With underlying asset exchange	-	-	-	-	-	
- Purchased options						-
- Other derivatives						-
• Without underlying asset exchange	-	-	-	-	-	-
- Purchased options						-
- Other derivatives						-
2) Credit derivatives:	-	-	-	-	-	-
• With underlying asset exchange						-
• Without underlying asset exchange						-
Total A	-	-	-	-	-	-
B. Unlisted derivatives						
1) Financial derivatives:	805	4	-	-	-	809
• With underlying asset exchange	-	4	-	-	-	4
- Purchased options						-
- Other derivatives		4				4
• Without underlying asset exchange	805	-	-	-	-	805
- Purchased options	6					6
- Other derivatives	799					799
2) Credit derivatives:	-	-	-	-	-	-
• With underlying asset exchange						-
• Without underlying asset exchange						-
Total B	805	4	-	-	-	809
Total (A + B)	805	4	-	-	-	809

8.2 Hedging derivatives: break-down by hedged portfolio and type of hedging

(€/mil)

Transaction/Hedging type	Fair Value						Cash flows	
	Specific					Generic	Specific	Generic
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Other			
1. Available-for-sale financial assets								
2. Loans	9							
3. Held-to-maturity investments								
4. Portfolio								
Total assets	**9**	-	-	-	-	-	-	-
1. Financial liabilities	788				5		1	
2. Portfolio						6		
Total liabilities	**788**	-	-	-	**5**	**6**	**1**	-

The fair value of generic hedging derivatives can be attributed to the macrohedge relationship on core deposit.

SECTION 9 - VALUE ADJUSTMENT OF FINANCIAL ASSETS SUBJECT TO MACRO-HEDGING - CAPTION 90

At 31 December 2005 the Bank had no assets subject to macro-hedging.

SECTION 10 - INVESTMENTS IN ASSOCIATES AND COMPANIES SUBJECT TO JOINT CONTROL – CAPTION 100

10.1 Investments in subsidiaries, companies subject to joint control or significant influence: information on investments

Name	Registered office	Share %	Voting rights %
A. Exclusive subsidiaries			
Banca d'Intermediazione Mobiliare I.M.I. S.p.A.	Milan	100.00	
Banca OPI S.p.A.	Rome	100.00	
Banca Popolare dell'Adriatico S.p.A.	Teramo	100.00	
Banka Koper D.D.	Slovenia	63.93	
BN Finrete S.p.A. in liquidation	Naples	99.00	
Cardine Suisse S.A. in liquidation	Switzerland	100.00	
Cassa di Risparmio di Padova e Rovigo S.p.A.	Padua	100.00	
Cassa di Risparmio di Venezia S.p.A.	Venice	100.00	
Cassa di Risparmio in Bologna S.p.A.	Bologna	100.00	
Cioccolato Feletti S.p.A. in liquidation	Pont Saint Martin (Aosta)	95.00	100 (a)
Consorzio Studi e Ricerche Fiscali - Gruppo SANPAOLO IMI	Rome	55.00	
Cotonificio Bresciano Ottolini - C.B.O. S.r.l. in liquidation	Salò (Brescia)	97.58	
Farbanca S.p.A. (b)	Casalecchio di Reno (Bologna)	22.69	
Friulcassa S.p.A.	Gorizia	100.00	
GEST Line S.p.A.	Naples	100.00	
IMI Investimenti S.p.A.	Turin	100.00	
Imifin S.p.A. in liquidation	Rome	100.00	
Immobiliare 21 S.r.l.	Milan	100.00	
ISC Euroservice GmbH in liquidation	Germany	80.00	
Neos Banca S.p.A. (formerly Finemiro Banca S.p.A.)	Bologna	99.49	
New Step S.p.A. (now - Eurizon Financial Group S.p.A.)	Turin	100.00	
Sanpaolo U.S. Holding Co. in liquidation	United States of America	100.00	
Sanpaolo Banco di Napoli S.p.A.	Naples	100.00	
Sanpaolo Bank S.A.	Luxembourg	100.00	
Sanpaolo Fiduciaria S.p.A.	Milan	100.00	
Sanpaolo IMI Asset Management Sgr S.p.A.	Milan	100.00	
Sanpaolo IMI Bank (International) S.A.	Madeira	100.00	
Sanpaolo IMI Bank Ireland Plc	Ireland	100.00	
Sanpaolo IMI Capital Company I.L.L.C. (c)	United States of America	4.31	
Sanpaolo IMI Insurance Broker S.p.A.	Bologna	100.00	
Sanpaolo IMI International S.A.	Luxembourg	100.00	
Sanpaolo IMI Internazionale S.p.A.	Padua	100.00	
Sanpaolo IMI Private Equity S.p.A.	Bologna	100.00	
Sanpaolo IMI U.S. Financial Co.	United States of America	100.00	
Sanpaolo Leasint S.p.A. - Società di Leasing Internazionale	Milan	100.00	
Sep - Servizi e Progetti S.p.A.	Turin	100.00	
Studi e Ricerche per il Mezzogiorno (d)	Naples	16.67	
B. Companies subject to joint control			
Allfunds Bank S.A.	Spain	50.00	
Cassa dei Risparmi di Forlì S.p.A.	Forlì	38.25	

(cont'd 10.1)

Name	Registered office	Share %	Voting rights %
C. Companies subject to significant influence			
Aeroporto di Napoli S.p.A. in liquidation	Naples	20.00	
Banque Palatine S.A. (formerly Banque Sanpaolo S.A.)	France	40.00	
Cassa di Risparmio di Firenze S.p.A.	Florence	18.66	
Cbe Service S.p.r.l.	Belgium	31.70	
Centradia Group Limited in liquidation	United Kingdom	30.45	
Consorzio Bancario Sir S.p.A. in liquidation	Rome	32.84	
Cr Firenze Gestion Internationale S.A.	Luxembourg	20.00	
Liseuro S.p.A.	Udine	35.11	
Società Gestione per il Realizzo S.p.A.	Rome	28.31	
Trivimm S.r.l.	Verona	23.00	

(a) A further 5% share is held by Sanpaolo Fiduciaria S.p.A. by virtue of the appointment granted by a third party in its capacity as owner but in the interest of SANPAOLO IMI, which therefore provides voting indications during shareholders' meetings .

(b) Company included among significant investments as it is subject to single management, pursuant to clause 26 – paragraph 1 – D.Lgs. 87/92.

(c) The share refers to the total equity. The share of the ordinary capital owned is 100%.

(d) Company included among significant investments as the share that the Group holds is essentially a controlling one.

10.2 Investments in subsidiaries, companies subject to joint control or significant influence: accounting information

(€/mil)

Name	Total assets	Total revenues	Profit (loss)	Shareholders' equity	Book value	Fair value
A. Exclusive subsidiaries						
Banca d'Intermediazione Mobiliare I.M.I. S.p.A.	30,140	41,587	169	592	304	
Banca OPI S.p.A.	28,252	1,755	96	910	529	
Banca Popolare dell'Adriatico S.p.A.	3,204	282	17	271	372	
Banka Koper D.D.	1,815	171	17	174	154	
BN Finrete S.p.A. in liquidation	2	-	-	-	-	
Cardine Suisse S.A. in liquidation (a)	1	-	-	1	-	
Cassa di Risparmio di Padova e Rovigo S.p.A.	15,358	1,031	120	1,010	860	
Cassa di Risparmio di Venezia S.p.A.	5,474	409	54	392	285	
Cassa di Risparmio in Bologna S.p.A.	10,262	901	102	838	705	
Cioccolato Feletti S.p.A. in liquidation	-	-	-	-	-	
Consorzio Studi e Ricerche Fiscali - Gruppo SANPAOLO IMI	1	2	-	-	-	
Cotonificio Bresciano Ottolini - C.B.O. S.r.l. in liquidation (b)	-	-	-	-	-	
Farbanca S.p.A.	171	8	1	29	6	
Friulcassa S.p.A.	3,755	328	26	266	312	
GEST Line S.p.A.	1,652	260	52	41	9	
IMI Investimenti S.p.A.	1,124	292	141	1,111	973	
Imifin S.p.A. in liquidation	1	-	-	-	-	
Immobiliare 21 S.r.l.	2	-	-	-	-	
ISC Euroservice GmbH in liquidation (c)	-	-	-	-	-	
Neos Banca S.p.A. (formerly Finemiro Banca S.p.A.)	2,474	276	22	128	83	
New Step S.p.A. (now - Eurizon Financial Group S.p.A.)	5,602	-	(3)	5,598	674	
Sanpaolo U.S. Holding Co. in liquidation	6	2	2	6	3	
Sanpaolo Banco di Napoli S.p.A.	21,568	1,636	201	1,411	1,197	
Sanpaolo Bank S.A.	4,638	1,164	63	336	253	
Sanpaolo Fiduciaria S.p.A.	11	6	2	8	4	
Sanpaolo IMI Asset Management Sgr S.p.A.	493	858	96	176	135	
Sanpaolo IMI Bank (International) S.A.	1,363	187	-	180	150	
Sanpaolo IMI Bank Ireland Plc	8,989	120	15	547	515	
Sanpaolo IMI Capital Company I.L.L.C.	1,062	82	-	1,051	45	
Sanpaolo IMI Insurance Broker S.p.A.	18	9	2	5	2	
Sanpaolo IMI International S.A.	1,143	28	23	1,134	810	
Sanpaolo IMI Internazionale S.p.A.	136	6	1	118	100	
Sanpaolo IMI Private Equity S.p.A.	254	22	12	247	248	
Sanpaolo IMI U.S. Financial Co.	4,189	87	-	-	-	
Sanpaolo Leasint S.p.A. - Società di Leasing Internazionale	5,814	243	24	114	82	
Sep - Servizi e Progetti S.p.A.	8	14	1	4	2	
Studi e Ricerche per il Mezzogiorno	1	1	-	1	-	
B. Companies subject to joint control						
Allfunds Bank S.A.	113	118	9	39	18	
Cassa dei Risparmi di Forlì S.p.A.	2,946	188	3	214	148	

(cont'd 10.2) (€/mil)

Name	Total assets	Total revenues	Profit (loss)	Shareholders' equity	Book value	Fair value
C. Companies subject to significant influence						
Aeroporto di Napoli S.p.A. in liquidation (d)	-	-	-	-	-	
Banque Palatine S.A. (formerly Banque Sanpaolo S.A.) (e)	8,173	433	34	458	165	
Cassa di Risparmio di Firenze S.p.A. (f)	21,626	746	121	1,280	329	527
Cbe Service S.p.r.l. (c)	-	-	-	-	-	
Centradia Group Limited in liquidation (g)	3	6	(2)	(26)	-	
Consorzio Bancario Sir S.p.A. in liquidation (d)	1	-	-	(500)	-	
Cr Firenze Gestion Internationale S.A.	32	60	16	18	-	
Liseuro S.p.A.	9	4	-	4	-	
Società Gestione per il Realizzo S.p.A. (d)	63	36	5	25	1	
Trivimm S.r.l.	2	1	-	1	-	
Total					**9,473**	

(a) Financial statements as at 31/10/2004
(b) Financial statements as at 31/10/2005
(c) Financial statements as at 30/06/2005
(d) Financial statements as at 31/12/2004
(e) Consolidated financial statements as at 31/12/2005
(f) Consolidated financial statements as at 30/09/2005
(g) Consolidated financial statements as at 31/12/2004

The difference between the value entered in the Bank's balance sheet of the significant investments and the lower value of the corresponding portion of shareholders' equity highlighted in the latest financial statements published by the subsidiaries is usually due to goodwill and the higher market value of the assets owned by the subsidiaries. In particular:
- the 164 million euro difference related to **Consorzio Bancario Sir S.p.A.** is connected to the IMI-Sir dispute, illustrated in details in Part E – section 4 – Operating risks – Information on legal disputes under way;
- with regard to the equity investments in **Cassa di Risparmio di Firenze S.p.A** the negative difference of 90 million euro compared to the pro-quota of shareholders' equity is due to the economic value given to the investment, considering the market price and the prospective income potential;
- as for the equity investment in **Banca Popolare dell'Adriatico S.p.A.** the difference of 101 million euro is due to the higher economic value of the investment;
- the differences of 66 million euro for **Cassa dei Risparmi di Forlì S.p.A.**, 43 million euro for **Banka Koper D.D.** and 46 million euro for **Friulcassa S.p.A.** are due to goodwill paid, also in relation to the companies' prospective income capacity;
- the one million euro difference in **Sanpaolo IMI Private Equity S.p.A.** is due to the implicit capital gains concerning some equity investments in the company's portfolio.

10.4 Commitments re. investments in subsidiaries

The agreement entered into by the bank with the majority shareholders in Banka Koper D.D. aimed at the acquisition of a controlling holding in the company, provided that SANPAOLO IMI guarantee, in case the Public Offer launched on the entire capital of the company in March 2002 is successful, a put option on the shares owned by the relevant shareholders that had not contributed to the Public Offer; this right was extended to each shareholder who had contributed at least one share to the Public Offer. Each shareholder could exercise the put in the 30 days following 31 March, 30 June, 30 September and 31 December of each year starting from 30 days subsequent to 31 December 2002 and up to 30 days after 30 June 2006. The price was the Public Offer price increased by the interest calculated at the rate paid by Banka Koper for deposits to one year and one day in Slovenian Tolar for the period running from the last day of validity of the Public Offer to the day of exercise of the option, reduced by the dividends received on the shares that were the subject of the option; the operation led to the recording of about 84 million euro (33.25% of the share capital) under "Put options issued" in the Explanatory Notes, Part B – Other information and Part E;

It is also worth highlighting that on 7 December 2005, SANPAOLO IMI signed an agreement to acquire a holding of 80% in Banca Italo Albanese from the Capitalia Group and from the Albanian Ministry of Finance. The operation led to the recording of a commitment worth 29 million euro (36 million euro was the price agreed, net of an advance of seven million euro) in Part B of the Explanatory Notes – Other information. SANPAOLO IMI also entered into a put and call agreement with the third shareholder European Bank for Reconstruction for the acquisition of the remaining 20% of the capital. This led to the recording of nine million euro under "put options issued" in the Explanatory Notes Part B – Other information and Part E.

10.5 Commitments re. investments in companies subject to joint control

The purchase contract for shares in Cassa dei Risparmi di Forlì S.p.A., executed on 29 November 2000 between Fondazione CR Forlì (seller) and SANPAOLO IMI and Cassa di Risparmio di Firenze (purchasers), provides that the purchasers transfer to the Fondazione an option to sell a maximum number of ordinary shares representing 51.35% of the CR Forlì capital, exercisable in several tranches, at the unit price of 8.11 euro per share for the first two tranches and at a determined price with reference to the fair market value for the remaining tranches. The put option may be exercised by the Fondazione from 12 June 2002 and up to the 15th day before the expiry of the first period for the termination of the Shareholders' Agreement entered into by the same parties (31 December 2008). On 12 May 2003 Fondazione CR Forlì exercised the option to purchase on the first tranche of 8,335,370 ordinary shares (representing 8.75% of share capital) at a price of 68 million euro for the SANPAOLO IMI quota; subsequently, on 15 November 2005 it exercised the option to purchase on the second tranche of 8,103,596 ordinary shares (representing 8.48% of capital) at a price of 66 million euro for the SANPAOLO IMI quota. After these acquisitions, the holding of SANPAOLO IMI went up to 38.25%. The option on the part of share capital still owned by Fondazione CR Forlì (21.29%) led to the recording of 82 million euro under "put options issued" in the Explanatory Notes Part B – Other information as well as in Part E.

10.6 Commitments re. investments in companies subject to significant influence

1 May 2005 saw the expiry of the Shareholders' Agreement executed on 15 November 1999 between Cassa di Risparmio di Firenze, BNP Paribas and SANPAOLO IMI concerning the capital investment of the Cassa di Risparmio di Firenze. Subsequently, on 28 September 2005 SANPAOLO IMI, in acknowledging the lengthy period in which the agreement had not been renewed, decided to exercise its option to purchase ordinary shares in the Cassa di Risparmio di Firenze, held by the Ente, of 10.78% of capital. The exercise of the option, the validity of which was disputed by the Ente, provided for a price of 3 euro per share, which represented 1.5 times the "base value" of Cassa di Risparmio di Firenze share, to be calculated in this case by taking into account the evaluation methods normally used for the sector.
Because of the dispute by the Ente, the arbitration process required by the agreement was initiated. The board of arbitrators was set up following the appointment of its chair by the Florence court, but has not yet released a decision. As the outcome of the call exercise and of the potential evolution of the dispute were still uncertain at the closing of the financial statements, no purchase commitment was recorded.

The key features of the commitments and of the existing options on equities currently included among available-for-sale financial assets are illustrated below:

- with regard to the agreement entered into on 16 July 2003 by SANPAOLO IMI with the Foundation shareholders of the Banca delle Marche S.p.A., which led to purchase of 7% of that credit company, SANPAOLO IMI acknowledged to the Foundations a put option on 8% of the Bank's capital, that can be exercised by 31 December 2006. The unit price of exercising the put option will be the greater amount between: (i) 1.8 euro, increased by interest at the Euribor rate at a month (base 365) from the date of fulfillment of the contract to the date of exercise of the option, less the dividends received by the Foundations in the same period and (ii) 1.8 euro increased by any rise in shareholders' equity per share of Banca delle Marche S.p.A. from 31 December 2002 to the date of exercise of the option on the basis of the last financial statements or half-year financial report, whichever is closer. The operation led to the recording of about 109 million euro under "Put options issued" in the Explanatory Notes, Part B – Other information and in Part E.
  With regard to the shareholders' agreements valid up to 31 December 2006, which the parties may agree to extend, SANPAOLO IMI's right of pre-emption was acknowledged on the purchase of residual shares that the Foundations may decide to sell, with the exception of limited situations, as well as the right of co-selling (at a price not less than the purchase price) if the pre-emption right is not exercised.
- On September 22, 2005 SANPAOLO IMI, together with a pool of other banks, issued a "purchase offer" on some Si Holding shares held by shareholders other than the offerers, subject to certain conditions. This led to the recording of 35 million euro (representing the acquisition of around 23% of the share capital) among the commitments in Part B of the Explanatory Notes.

The derivative contracts illustrated above did not lead to any recording in the Financial Statements, considering that the exercise prices correspond to the fair value.

Other information on equity investments

The information pursuant to clause 10 of the Law 72/83 is as follows:

(€/mil)

	31/12/2005
Cost before revaluation	9,430
Law 72/83	43
Total revaluations	43
Gross book value	9,473

SECTION 11 - TANGIBLE ASSETS – CAPTION 110

11.1 Tangible assets: break-down of assets valued at cost

(€/mil)

	Total 31/12/2005	Total 31/12/2004
A. Functional assets		
1.1 owned by the Bank	**1,070**	**1,145**
a) land	500	507
b) buildings	396	439
c) fixtures and fittings	52	53
d) electrical equipment	99	123
e) other	23	23
1.2 leased	**37**	**60**
a) land	12	10
b) buildings	15	14
c) fixtures and fittings		
d) electrical equipment	10	35
e) other		1
Total A	**1,107**	**1,205**
B. Tangible assets held for investment		
2.1 owned by the Bank	**325**	**357**
a) land	154	163
b) buildings	171	194
1.2 leased	-	-
a) land		
b) buildings		
Total B	**325**	**357**
Total (A + B)	**1,432**	**1,562**

As highlighted in Part A – Accounting policies, the depreciation rates match the useful life of the assets.

Tangible assets	Depreciation rate applied (range %)
Property	
- Land	na
- Buildings	3.75%
Fixtures, fittings and equipment	
- Fixtures and fittings	from 24% to 30%
- Electrical equipment	40%
- Others	from 30% to 60%

11.3 Tangible assets: annual changes

(€/mil)

	Land	Buildings	Fixtures and fittings	Electrical equipment	Other	Total
A. Gross opening balance	**517**	**1,092**	**313**	**944**	**401**	**3,267**
A.1 Total net decreases in value		639	260	786	377	2,062
A.2 Net opening balance	**517**	**453**	**53**	**158**	**24**	**1,205**
B. Increases	**3**	**15**	**13**	**59**	**21**	**111**
B.1 Purchases	2	2	13	56	21	94
B.2 Capitalized improvement expenses		12				12
B.3 Write-backs						-
B.4 Positive fair value changes charged to:	-	-	-	-	-	-
a) shareholders' equity						-
b) statement of income						-
B.5 Positive exchange differences						-
B.6 Transfer from assets held for investment						-
B.7 Other changes	1	1		3		5
C. Decreases	**8**	**57**	**14**	**108**	**22**	**209**
C.1 Sales	3	2		3		8
C.2 Amortization/depreciation		41	12	92	22	167
C.3 Value adjustments due to deterioration charged to:						-
a) shareholders' equity						-
b) statement of income	1	3	1			5
C.4 Negative fair value changes charged to:						-
a) shareholders' equity						-
b) statement of income						-
C.5 Negative exchange differences						-
C.6 Transfer to:						-
a) tangible assets held for investment						-
b) assets being disposed of	4	11	1			16
C.7 Other changes				13		13
D. Closing balance	**512**	**411**	**52**	**109**	**23**	**1,107**
D.1 Total net decreases in value		670	272	817	388	2,147
D.2 Gross closing balance	**512**	**1,081**	**324**	**926**	**411**	**3,254**
E. Valued at cost						-

In the course of 2005, during the rationalization of the Group's distribution network, Functional assets, referring mainly to properties, were transferred from Cassa di Risparmio di Padova e Rovigo and Cassa di Risparmio in Bologna to SANPAOLO IMI for one million euro, included in caption B.1 Purchases, and from SANPAOLO IMI to Cassa di Risparmio di Venezia and Friulcassa for two million euro, included in caption C.1 Sales.

The other increases refer mainly to profit from disposal.

11.4 Tangible assets held for investment: annual changes

(€/mil)

	Total	
	Land	Buildings
A. Gross opening balance	**163**	**339**
A.1 Total net decreases in value	145	
A.2 Net opening balance	**163**	**194**
B. Increases	**1**	**26**
B.1 Purchases		
B.2 Capitalized improvement expenses		22
B.3 Net positive fair value changes		
B.4 Write-backs		
B.5 Positive exchange differences		
B.6 Transfer from tangible assets		
B.7 Other changes	1	4
C. Decreases	**10**	**49**
C.1 Sales	3	32
C.2 Amortization/depreciation		12
C.3 Net negative fair value changes		
C.4 Adjustments for impairment		
C.5 Negative exchange differences		
C.6 Transfer to other asset portfolios	7	5
a) tangible assets		
b) assets being disposed of	7	5
C.7 Other changes		
D. Net closing balance	**154**	**171**
D.1 Total net decreases in value		150
D.2 Gross closing balance	**154**	**321**
E. Evaluated at fair value	**170**	**292**

The other increases refer mainly to profit from disposal.

The fair value is determined on the basis of the outcome of external assessments.

11.5 Commitments to purchase tangible assets

No commitments to purchase tangible assets were in existence as at the reference date.

Other information on tangible assets

Pursuant to clause 10 of the Law 72/83, below is the information on the revaluations of properties owned by the Bank as at 31/12/05:

(€/mil)

	31/12/2005
Law 823/73 (a) (1)	11
Law 576/75 (a) (1)	16
Law 72/83 (a) (1)	159
Other (a) (1)	60
Law 218/90 (b) (2)	777
Law 408/90 (a) (1)	116
Law 413/91 (a) (1)	73
Merger of Banca Provinciale Lombarda and Banco Lariano (1)	91
First Time Adoption IAS (3)	266
Total revaluations	1,569

(a) Revaluated by the Bank and by the incorporated companies.
(b) Higher values attributed during the company transformation.

(1) Revaluation referring to properties.
(2) Of which 767 million euro for properties and 10 million euro for works of art.
(3) Of which 246 million euro for land and 20 million euro for works of art.

SECTION 12 - INTANGIBLE ASSETS – CAPTION 120

12.1 Intangible assets: break-down by type of asset

(€/mil)

Asset/Value	Total 31/12/2005		Total 31/12/2004	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill		**613**		**565**
A.2 Other intangible assets	**203**		**229**	
A.2.1 Assets valued at cost				
a) Intangible assets generated internally	168		191	
b) Other assets	35		38	
A.2.2 Assets designated as at fair value				
a) Intangible assets generated internally				
b) Other assets				
Total	**203**	**613**	**229**	**565**

Break-down of caption "goodwill" *(€/mil)*

	31/12/2005
Merger by incorporation of Banco di Napoli	563
Purchase of bank branches from Cassa di Risparmio in Bologna	39
Purchase of bank branches from Cassa di Risparmio di Padova e Rovigo	9
Purchase of the Hong Kong branch from the former Banco di Napoli	2
Total	**613**

The tests carried out according to the method illustrated in Part B - Section 13 of the assets of the Consolidated Explanatory Notes did not detect the occurrence of lengthy losses of value of intangible assets.

12.2 Intangible assets: annual changes

(€/mil)

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		Definite life	Indefinite life	Definite life	Indefinite life	
A. Opening balance	**565**	**360**		**71**		**996**
A.1 Total net decreases in value		169		33		202
A.2 Net opening balance	**565**	**191**		**38**		**794**
B. Increases	**48**	**103**		**33**		**184**
B.1 Purchases	48	87		33		168
- business aggregations	48					48
B.2 Increases in internal intangible assets		16				16
B.3 Write-backs						-
B.4 Positive fair value changes						-
- shareholders' equity						-
- statement of income						-
B.5 Positive exchange differences						-
B.6 Other changes						-
C. Decreases	**-**	**126**		**36**		**162**
C.1 Sales						-
C.2 Adjustments		126		34		160
- Amortization		126		34		160
- Writedowns						-
+ shareholders' equity						-
+ statement of income						-
C.3 Negative fair value changes						-
- shareholders' equity						-
- statement of income						-
C.4 Tranfers to assets being disposed of						-
C.5 Negative exchange differences						-
C.6 Other changes				2		2
D. Closing balance	**613**	**168**		**35**		**816**
D.1 Total net adjustments		295		67		362
E. Gross closing balance	**613**	**463**		**102**		**1,178**
F. Valued at cost						-

Goodwill increased due to the acquisition of branches from Cassa di Risparmio di Padova e Rovigo for nine million euro and from Cassa di Risparmio in Bologna for 39 million euro, as part of the Group distribution network rationalization project.

The assets generated internally consist of software already in production and under amortization for 83 million euro, software under development for 85 million euro, whose requisites (illustrated in Part A – Accounting policies) have been verified. This software will be subject to amortization once it comes into use.

Other intangible assets essentially refer to software purchased by third parties and currently being amortized.

SECTION 13 - TAX ASSETS AND LIABILITIES - CAPTION 130 AND CAPTION 80 UNDER LIABILITIES

13.1 Advanced tax assets: break-down

(€/mil)

	IRES (33%)	IRES (4.25%)
A Temporary deductible differences		
Adjustment of loans deductible in future years	75	
Provisions for future charges	231	
Higher tax value of equity investments, securities and other assets	196	
Extraordinary charges for voluntary redundancy incentives	36	
Other	187	
B Temporary taxable differences		
Costs deducted off balance sheet (art. 109 TUIR)	53	
Capital gains in instalments	3	
Differences between book and tax value (art. 128 TUIR)	1	
Lower tax value of equity investments, securities and other assets	148	
Other	-	
Total	520	

13.2 Deferred tax liabilities: break-down

(€/mil)

	IRES (33%)	IRES (4.25%)
A Temporary taxable differences		
Costs deducted off balance sheet (art. 109 TUIR)		7
Lower tax value of securities and other assets		17
Other	16	-
B Temporary deductible differences		
Adjustment of loans deductible in future years		9
Higher tax value of securities and other assets		3
Total	16	12

13.3 Change in advanced taxes (with corresponding caption under statement of income)

(€/mil)

	Total 31/12/2005	Total 31/12/2004
1. Initial amount	**520**	**864**
2. Increases	**261**	**48**
2.1 Advanced taxes recognized during the year	110	48
a) from previous years		
b) due to adoption of different accounting standards		
c) write-backs		
d) other	110	48
2.2 New taxes or increases in fiscal rates		
2.3 Other increases	151	
3. Decreases	**261**	**392**
3.1 Advanced taxes cancelled during the year	252	192
a) reallocation	252	192
b) writedowns due to irrecoverability		
c) adoption of different accounting standards		
3.2 Decreases in fiscal rates		
3.3 Other decreases	9	200
4. Final amount	**520**	**520**

Other increases include 142 million euro related to advanced taxes generated by the transition to IAS/IFRS, three million euro of assets from advanced taxes connected with the transfer of companies among the companies included in the tax consolidation, and six million euro related to advanced taxes not recorded in previous years connected with tax losses of merged companies.

Other decreases, worth nine million euro, refer to the definition of the tax debt for the year 2004 (three million euro) and, for the remaining part, to the advanced taxes not recorded in previous years and used this year.

The aforesaid changes do not have an effect on the Bank's statement of income.

13.4 Change in deferred taxes (with corresponding caption under statement of income)

(€/mil)

	Total 31/12/2005	Total 31/12/2004
1. Initial amount		
2. Increases	28	-
2.1 Deferred taxes recognized during the year	12	-
a) from previous years		
b) due to adoption of different accounting standards		
c) other	12	
2.2 New taxes or increases in fiscal rates		
2.3 Other increases	16	
3. Decreases	-	-
3.1 Deferred taxes cancelled during the year	-	-
a) reallocation		
b) due to adoption of different accounting standards		
c) other		
3.2 Decreases in fiscal rates		
3.3 Other decreases		
4. Final amount	28	-

Other increases, amounting to 16 million euro, are due to deferred taxes on transfers settled during the year with companies included in the tax consolidation following the recording of 48 million euro of goodwill in the financial statements.

Therefore this caption does not have an effect on the statement of income.

13.5 Change in advanced taxes (with corresponding caption under shareholders' equity)

(€/mil)

	Total 31/12/2005	Total 31/12/2004
1. Initial amount		
2. Increases	226	166
2.1 Advanced taxes recognized during the year	226	-
a) from previous years		
b) due to adoption of different accounting standards	226	
c) other		
2.2 New taxes or increases in fiscal rates		
2.3 Other increases		166
3. Decreases	143	166
3.1 Advanced taxes cancelled during the year	1	166
a) reallocation	1	
b) writedowns due to irrecoverability		
c) due to adoption of different accounting standards		166
3.2 Decreases in fiscal rates		
3.3 Other decreases	142	
4. Final amount	83	-

The increases due to the changes of accounting standards refer to advanced taxes arising from the transition to IAS/IFRS as at 1 January 2005. Of these amounts, 142 million euro related to temporary differences reallocated in the Bank's statement of income, were transferred to assets for advanced taxes as a counterbalance of the statement of income and recorded under "Other decreases". The new taxes due to adoption of different accounting standards also include 70 million euro relating to actuarial losses charged to shareholders' equity.

The closing balance refers to advanced taxes allocated following the writedown of derivative contracts aimed at hedging financial flows.

13.6 Change in deferred taxes (with corresponding caption under shareholders' equity)

(€/mil)

	Total 31/12/2005	Total 31/12/2004
1. Initial amount	11	13
2. Increases	48	-
2.1 Deferred taxes recognized during the year	30	-
a) from previous years		
b) due to adoption of different accounting standards	29	
c) other	1	
2.2 New taxes or increases in fiscal rates	18	
2.3 Other increases		
3. Decreases	12	2
3.1 Deferred taxes cancelled during the year	-	-
a) reallocation		
b) due to adoption of different accounting standards		
c) other		
3.2 Decreases in fiscal rates		
3.3 Other decreases	12	2
4. Final amount	47	11

Deferred taxes recorded in the year refer to available-for-sale financial instruments. In particular, the deferred taxes recorded during the transition to IAS/IFRS as at 1 January 2005 were allocated in the caption "increases due to the change of accounting standards". The caption "new taxes or tax rate increases" includes the deferred taxes related to available-for-sale equity for which deferred taxes resulted being due following amendments to tax legislation.

SECTION 14 - DISCONTINUED OPERATIONS AND GROUPS OF OPERATIONS BEING DISPOSED, AND ASSOCIATED LIABILITIES – CAPTION 140 UNDER ASSETS AND CAPTION 90 UNDER LIABILITIES

14.1 Discontinued operations and groups of operations being disposed: break-down by type of asset

(€/mil)

	Total 31/12/2005	Total 31/12/2004
A. Single assets		
A.1 Equity investments		
A.2 Tangible assets	28	
A.3 Intangible assets		
A.4 Other non-current assets		
Total A	28	-
B. Groups of assets (operating units sold)		
B.1 Financial assets held for trading		
B.2 Financial assets designated as at fair value		
B.3 Available-for-sale investments		
B.4 Investments held to maturity		
B.5 Due from banks		
B.6 Loans to customers		
B.7 Equity investments		
B.8 Tangible assets		
B.9 Intangible assets		
B.10 Other assets		
Total B	-	-
C. Liabilities on discontinued operations		
C.1 Debts		
C.2 Securities		
C.3 Other liabilities		
Total C	-	-
D. Liabilities on groups of assets being disposed of		
D.1 Due to banks		
D.2 Due to customers		
D.3 Securities issued		
D.4 Financial liabilities held for trading		
D.5 Financial liabilities evaluated at fair value		
D.6 Provisions		
D.7 Other liabilities		
Total D	-	-

Discontinued operations are almost entirely represented by properties.

SECTION 15 - OTHER ASSETS – CAPTION 150

15.1 Other assets: break-down

(€/mil)

	Total 31/12/2005
Unprocessed transactions and positions of foreign bank branches:	1,369
- unprocessed transactions with Italian bank branches (a)	*1,032*
- amounts in transit with Italian bank branches (a)	*337*
Amount deposited with the Bank of Italy in connection with Isveimer liquidation	58
Amount deposited with the Bank of Italy in connection with Sga losses	7
Checks and other instruments held	7
Other assets for tax consolidation	134
Other items (b)	1,178
Total	**2,753**

(a) Most of the unprocessed transactions were placed in the first few days of 2006.

(b) "Other items" include 300 million euro of positions whose allocation has already been identified, which were placed in the first few days of the following year. They also include 1.3 million euro referred to the estimated realizable value of the credit arising out of the sentence of the Supreme Court in relation to the IMI Sir dispute. For information on this dispute, see Part E - Section 4 – Operating risks.

Liabilities

SECTION 1 - DUE TO BANKS – CAPTION 10

1.1 Due to banks: break-down by type

(€/mil)

Type of transaction/Value	Total 31/12/2005
1 Due to central banks	2,933
2 Due to banks	41,788
2.1 Current accounts and demand deposits	5,709
2.2 Tied deposits	23,347
2.3 Loans	7,502
2.3.1 Financial leases	
2.3.2 Others	7,502
2.4 Debts for repurchase of own capital instruments	
2.5 Liabilities corresponding to assets sold and not cancelled	5,214
2.5.1 Reverse repurchase agreements	5,214
2.5.2 Others	
2.6 Other amounts due	16
Total	44,721
Fair Value	44,802

The Bank has no financial leasing operations in place with banks.

With regard to the criteria for determining the fair value, see Part A – Accounting policies.

As at December 31, 2005 there were no subordinated amounts due to banks.

1.3 Break-down of caption 10 "Due to banks": structured amounts due

Structured amounts due as at December 31, 2005 amounted to 124 million euro.

1.4 Due to banks: debts subject to micro-hedging

(€/mil)

	Total 31/12/2005
1 Debts subject to fair value hedging	2,561
a) interest rate risk	364
b) exchange rate risk	-
c) other risks	2,197
2 Debts subject to cash flow hedging	453
a) interest rate risk	453
b) exchange rate risk	-
c) other	-
Total	3,014

SECTION 2 - DUE TO CUSTOMERS – CAPTION 20

2.1 Due to customers: break-down by type

(€/mil)

Type of transaction/Value	Total 31/12/2005
1. Current accounts and demand deposits	36,624
2. Tied deposits	8,425
3. Public funds administered	
4. Loans	93
4.1 finance leases	32
4.2 other	61
5. Debts for repurchase of own capital instruments	
6. Liabilities corresponding to assets sold and not cancelled	5,201
6.1 reverse repurchase agreements	5,201
6.2 other	-
7 Other amounts due	1,572
Total	**51,915**
Fair Value	**51,916**

With regard to the criteria for determining the fair value, see Part A of the Explanatory Notes.

2.2 Detail of caption 20 "Due to customers": subordinated liabilities

Subordinated liabilities as at December 31, 2005 amounted to 1,121 million euro.

Detailed information on subordinated liabilities can be found in Part F.

2.3 Detail of caption 20 "Due to customers": Structured liabilities

As at December 31, 2005 there were no structured liabilities to customers.

2.4 Due to customers: debts subject to micro-hedging

(€/mil)

Type of transaction/Value	Total 31/12/2005
1. Debts subject to fair value hedging:	1,122
a) interest rate risk	1,035
b) exchange rate risk	-
c) other risks	87
2. Debts subject to cash flow hedging:	-
a) interest rate risk	-
b) exchange rate risk	-
c) other	-
Total	**1,122**

2.5 Debts for finance leases

2.5.1 Debts for finance leases: break-down by time interval

(€/mil)

Type of transaction/Value	Total 31/12/2005
Debts for finance leases:	
a) within 1 year	11
b) 2-5 years	18
c) beyond 5 years	3
Total	**32**

SECTION 3 - SECURITIES ISSUED – CAPTION 30

3.1 Securities issued: break-down by type

(€/mil)

Type of security/Value	Total 31/12/2005	
	Book value	Fair value
A. Listed securities	**7,943**	**8,041**
1. Bonds	7,943	8,041
- structured	*715*	*715*
- other	*7,228*	*7,326*
2. Other securities	-	-
B. Unlisted securities	**17,083**	**17,166**
1. Bonds	14,816	14,899
- structured	*348*	*348*
- other	*14,468*	*14,551*
2. Other securities	2,267	2,267
Total	**25,026**	**25,207**

With regard to the criteria for determining the fair value, see Part A – Accounting policies.

3.2 Break-down of caption 30 "Securities issued": subordinated securities

Subordinated securities as at December 31, 2005 amounted to 4,815 million euro.

Detailed information on subordinated liabilities can be found in Part F of these Explanatory Notes.

3.3 Securities issued: securities subject to micro-hedging

(€/mil)

Type of transaction/Value	Total 31/12/2005
1. Securities subject to fair value hedging	**14,128**
a) interest rate risk	14,128
b) exchange rate risk	
c) other risks	
2. Securities subject to cash flow hedging	**796**
a) interest rate risk	796
b) exchange rate risk	
c) other	
Total	**14,924**

SECTION 4 - FINANCIAL LIABILITIES HELD FOR TRADING – CAPTION 40

4.1 Financial liabilities held for trading: break-down by type

(€/mil)

Type of security/Value	Total as at 31/12/2005		
	NV	FV	
		L	UL
A. Cash liabilities			
1. Due to banks	-	-	-
2. Due to customers	1	1	-
3. Debt securities	-	-	-
3.1 Bonds			
3.1.1 Structured	-	-	-
3.1.2 Other bonds	-	-	-
3.2 Other securities			
3.2.1 Structured	-	-	-
3.2.2 Others	-	-	-
Total A	**1**	**1**	**-**
B. Derivative instruments	**X**		
1. Financial derivatives		-	1,323
1.1 Dealing	X	-	1,110
1.2 Connected with the fair value option	X	-	52
1.3 Other	X	-	161
2. Credit derivatives			4
2.1 Dealing	X	-	1
2.2 Connected with the fair value option	X	-	-
2.3 Other	X	-	3
Total B	**X**	**-**	**1,327**
Total (A+B)	**X**	**1**	**1,327**

FV = fair value
NV = nominal or notional value
L = listed
UL = unlisted

Due to customers refers to technical exposures on non-structured and non-subordinated securities.

The Bank did not issue subordinated liabilities for dealing purposes.

4.4 Financial liabilities held for trading: derivative instruments

(€/mil)

Type of derivative/Underlying asset	Interest rates	Currencies and gold	Equities	Loans	Other	Total 31/12/2005
A. Listed derivatives						
1) Financial derivatives:	-	-	-	-	-	-
• With underlying asset exchange	-	-	-	-	-	-
- issued options						-
- other derivatives						-
• Without underlying asset exchange	-	-	-	-	-	-
- issued options						-
- other derivatives						-
2) Credit derivatives:	-	-	-	-	-	-
• With underlying asset exchange						-
• Without underlying asset exchange						-
Total A	-	-	-	-	-	-
B. Unlisted derivatives						
1) Financial derivatives:	949	181	192	-	1	1,323
• With underlying asset exchange	-	181	-	-	-	181
- issued options	-	72	-	-	-	72
- other derivatives	-	109	-	-	-	109
• Without underlying asset exchange	949	-	192	-	1	1,142
- issued options	3		192	-	-	195
- other derivatives	946	-	-	-	1	947
2) Credit derivatives:	-	-	-	4	-	4
• With underlying asset exchange	-	-	-	3	-	3
• Without underlying asset exchange	-	-	-	1	-	1
Total B	949	181	192	4	1	1,327
Total (A + B)	949	181	192	4	1	1,327

SECTION 5 - FINANCIAL LIABILITIES EVALUATED AT FAIR VALUE – CAPTION 50

At December 31, 2005 the Group did not have financial liabilities evaluated at fair value.

SECTION 6 - HEDGING DERIVATIVES– CAPTION 60

6.1 Hedging derivatives: break-down by type of contract and underlying asset

(€/mil)

Type of derivative/Underlying asset	Interest rates	Currencies and gold	Equities	Loans	Other	Total
A. Listed derivatives						
1) Financial derivatives:	-	-	-	-	-	-
• With underlying asset exchange	-	-	-	-	-	-
- issued options						-
- other derivatives						-
• Without underlying asset exchange	-	-	-	-	-	-
- issued options						-
- other derivatives						-
2) Credit derivatives:	-	-	-	-	-	-
• With underlying asset exchange						-
• Without underlying asset exchange						-
Total A	-	-	-	-	-	-
B. Unlisted derivatives						
1) Financial derivatives:	308	443	-	-	-	751
• With underlying asset exchange	-	443	-	-	-	443
- issued options						-
- other derivatives		443				443
• Without underlying asset exchange	308	-	-	-	-	308
- issued options	-					-
- other derivatives	308					308
2) Credit derivatives:	-	-	-	-	-	-
• With underlying asset exchange						-
• Without underlying asset exchange						-
Total B	308	443	-	-	-	751
Total (A + B) 31/12/05	308	443	-	-	-	751

6.2 Hedging derivatives: break-down by hedged portfolio and type of hedging

(€/mil)

Transaction/Hedging type	Fair Value						Cash flows	
	Specific					Generic	Specific	Generic
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Other risk			
1. Available-for-sale financial assets						X		X
2. Loans	237			X		X		X
3. Held-to-maturity investments	X			X		X		X
4. Portfolio	X	X	X	X	X		X	
Total assets	**237**	-	-	-	-	-	-	-
1. Financial liabilities	19				443	X	38	X
2. Portfolio	X	X	X	X	X	14	X	
Total liabilities	**19**	-	-	-	**443**	**14**	**38**	-

The fair value of generic hedging derivatives can be attributed to the macrohedge relationship to core deposits.

SECTION 7 - ADJUSTMENT FOR FINANCIAL LIABILITIES OF MACRO-HEDGED ITEMS – CAPTION 70

7.1 Value adjustment of hedged liabilities

(€/mil)

Value adjustment of hedged liabilities/Value	Total 31/12/2005
1. Positive adjustment of financial liabilities	
2. Negative adjustment of financial liabilities	(23)
Total	(23)

7.2 Liabilities subject to macro-hedging of interest-rate risk: break-down

The balance of the changes in value of liabilities subject to macro-hedging (MCH) against interest rate risk is recorded in this caption.

Taking advantage of the openings emerged during the definition of the ‘carve out’ envisaged by IAS 39, the Bank adopted the MCH only on core deposits.

SECTION 8 - TAX LIABILITIES – CAPTION 80

See Assets - section 13

SECTION 9 - LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE – CAPTION 90

See Assets - section 14

SECTION 10 - OTHER LIABILITIES – CAPTION 100

10.1 Other liabilities: break-down

(€/mil)

	31/12/2005
Amounts available to minority interests	952
Unprocessed transactions and positions of foreign bank branches:	1,161
- unprocessed transactions (a)	*1,070*
- unprocessed transactions with Italian bank branches (a)	*91*
Other liabilities for tax consolidation	78
Amounts due to personnel	262
Liabilities in connection with impairment of guarantees issued	71
Amounts to be paid to Inland Revenue for tax withheld from customers	70
Amounts to be paid to Bank of Italy - loans to restructure SGA (Law 588/96)	7
Illiquid balances from portfolio transactions	39
Amounts payable due to settlement value dates	29
Amounts to be paid to Bank of Italy in connection with Isveimer liquidation	58
Other items	933
Total	3,660

(a) Most of the unprocessed transactions were allocated in the first few days of 2006.

SECTION 11 - PROVISIONS FOR EMPLOYEE TERMINATION INDEMNITIES – CAPTION 110

11.1 Provisions for employee termination indemnities: annual changes

(€/mil)

	Total 31/12/2005	Total 31/12/2004
A. Opening balance	**476**	**529**
B. Increases	**100**	**51**
B1 Provisions during the year	39	49
B2 Other increases	61	2
C. Decreases	**36**	**104**
C1 Amounts paid	30	84
C2 Other decreases	6	20
D. Closing balance	**540**	**476**

The caption "Other increases" includes 58 million euro relating to the recording of actuarial losses resulting from an assessment by an independent actuary, which balance a specific valuation reserve and three million euro connected with the transfer of employment contracts from subsidiaries.

The caption "Other decreases" refers to transfer/assignment of employment contracts to subsidiaries.

11.2 Other information

Considering that the employee termination indemnity is a defined benefit fund, the changes connected with the actuarial evaluations are illustrated in Section 12.3 - Liabilities, together with changes to the defined benefit company pension funds.

SECTION 12 - PROVISIONS FOR RISKS AND CHARGES – CAPTION 120

12.1 Provisions for risks and charges: break-down

(€/mil)

Caption/Value	Total 31/12/2005	Total 31/12/2004
1. Company pension funds	189	16
2. Other provisions for risks and charges	857	945
2.1 legal disputes	398	377
2.2 personnel charges	223	374
2.3 other	236	194
Total	1,046	961

The caption “Company pension funds” includes:
- 35 million euro pertaining to SANPAOLO IMI accrued to balance the technical deficit of the Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino (a fund with independent legal status). The amount was allocated on the basis of the outcome of the assessment by an independent actuary;
- 154 million euro was the amount recorded of the actuarial profits/losses on defined benefit company pension funds, which balance a specific valuation reserve.

Other provisions for risks and charges include:
- provisions for “legal disputes” allocated to cover presumed losses on legal disputes, including claims from bankruptcy liquidators;
- provisions for “personnel charges” allocated to pay out seniority bonuses to employees on the basis of the assessment made by an independent actuary for 72 million euro; commitments made for voluntary redundancy incentives completed in previous years for 141 million euro; other obligations for 10 million euro;
- provisions for “other” likely risks, aimed at covering:
  - 168 million euro for the disputes currently open with Gest Line, a company that provides tax collecting services, and with network banks (formerly Cardine Bank), for which the Parent Bank provides a guarantee; the charges in connection with the renegotiation of mortgage loans and with premium transactions with customers; customer complaints for securities by defaulted issuers; other estimated cash outflow;
  - 68 million euro for tax litigation. This fund is considered appropriate for the disputes currently pending with Italian tax authorities in respect to income taxes, mainly related to the banks that were merged over time, including disputes in connection with tax credits whose repayment was requested in previous years.

For further details on legal disputes see Part E – Section 4 – Operating Risks.

12.2 Provisions for risks and charges: annual changes

(€/mil)

Caption/Component	Pension funds	Other funds	Total 31/12/2005
A. Opening balance	**16**	**945**	**961**
B. Increases	**173**	**234**	**407**
B1. Provisions during the year		83	83
B2. Changes due to the elapsing of time		12	12
B3. Changes due to discount rate adjustments		5	5
B4. Other increases	173	134	307
C. Decreases	-	**322**	**322**
C1. Use during the year		241	241
C2. Changes due to discount rate adjustments		13	13
C3. Other decreases	-	68	68
D. Closing balance	**189**	**857**	**1,046**

The allocation for the year refers mainly to the provisions to cover presumed losses on legal disputes, including claims from bankruptcy liquidators (45 million euro) as well as the provisions to cover the disputes currently pending with Gest Line (11 million euro) and other likely risks (27 million euro).

The increases due to the elapsing of time refer to the interest accrued during the year and balance the "provisions" of eight million euro and "personnel costs" for four million euro.

The increases due to the changes in the discount rate have a corresponding entry in "personnel costs" as they refer to provisions made in previous years in connection with voluntary redundancy incentives. The decreases have a corresponding caption in a reduction "of provisions".

The caption "other increases" of "pension funds" relates to:
- the recording of actuarial profits/losses on defined benefit pension funds (154 million euro), whose corresponding entry is a specific valuation reserve;
- the allocation of the cost accrued during the year in the defined benefit pension funds, amounting to 19 million euro, whose corresponding caption is in "personnel costs".

The caption "Other increases" in other funds refers mainly to:
- the increase in the fund covering the payout of seniority bonuses to employees (25 million euro), with a corresponding entry in "personnel costs";
- the increase in the "legal disputes" fund, following the branch transfers carried out as part of the group distribution network rationalization project, completed in January 2005 (six million euro);
- the reclassification among the funds for risks and charges of the fund for "tax litigation", previously included in the taxation provision (95 million euro);
- other accruals for eight million euro, of which four million euro representing other personnel charges, balancing "personnel costs" and four million euro of other charges, which find a corresponding entry in statement of income captions other than provisions.

The utilizations in the year concern mainly the payouts in connection with the voluntary redundancy incentives completed in previous years and other personnel charges (184 million euro), those connected with legal disputes (27 million euro) and other disbursements for 30 million euro.

The caption "Other decreases" refers to the release of provisions accrued in previous years and resulting as excessive as follows:
- six million euro related to allocations connected with the renewal of the national collective labor contract for the sector exceeding the disbursements made, balancing the caption "personnel costs";
- a provision of 35 million euro already allocated to cover other likely risks and exceeding on the basis of the updated valuation of the disbursement forecast (19 million euro referring to the renegotiation of mortgage loans);
- 27 million euro already allocated to cover the risks of a tax litigation. Also in this case, allocations were in excess following the evaluation of the disbursement forecast.

12.3 Defined benefit company pension funds

1. Details of the funds

This item provides the information required by IAS 19 for defined benefit funds, including that relating to the staff severance indemnity, which is part of them.

As required by the international accounting standards with reference to plans that share the risk among various entities under common control, the information detailed in the tables below relates to the plans as a whole, with a note specifying the Bank's share.

As these are complementary defined benefit pension plans, the actuarial value required by the application of IAS 19 "benefits to employees" is calculated by an independent actuary through the use of the Projected Unit Credit Method, as illustrated in detail in Part A – Accounting Policies.

The defined benefits funds to which SANPAOLO IMI is committed may be divided into:
- internal complementary retirement funds;
- external complementary retirement funds;

The internal funds include:
- *The Retirement Fund for the Employees of Banca Popolare dell'Adriatico* This is a complementary pension fund within the assets of the Bank aimed guaranteeing its members and beneficiaries a complementary retirement pension in the form of defined benefits (annuity). SANPAOLO IMI contributes to this fund on behalf of the employees registered from the Banca Popolare dell'Adriatico.
- *The Pension Fund for the Employees of Cassa di Risparmio di Venezia* This fund is aimed at covering the commitments for future payments, to those entitled, according to the procedures defined in the internal rules. SANPAOLO IMI contributes to this fund on behalf of the employees registered from the Cassa di Risparmio di Venezia.

The external funds include:
- *Bank's Employee Supplementary Fund for the Employees of the Istituto Bancario San Paolo di Torino*, a fund with legal status and full economic independence and independent asset management. SANPAOLO IMI is jointly responsible for the commitments of the "Bank" to the employees registered, the pensioners and third parties.
- *The Complementary Pension Fund for the Employees of Banco di Napoli – Section A* is a foundation with legal status and independent management of assets. SANPAOLO IMI is jointly responsible for the commitments of the fund to the employees registered and the other beneficiaries from the Banco di Napoli; to the retired staff receiving the Supplementary Pension Check, formerly within SANPAOLO IMI; to the employees of the Cassa di Risparmio in Bologna, formerly registered in Complementary Pension Fund for the Employees of said Bank, transferred to the Complementary Pension Fund for the Employees of Banco di Napoli in 2004.

2. Changes in the use of the funds

Annual changes in present value of defined benefit obligations *(€/mil)*

Liabilities of the defined benefit obligations pension plan	Balance as at 31/12/2005				Balance as at 31/12/2004			
	Employee termi-nation indem-nities	INTERNAL PLANS (a)	EXTERNAL PLANS: Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino (b)	EXTERNAL PLANS: Bank's employee complementary fund for the employees of the Banco di Napoli - Section A (c)	Employee termi-nation indem-nities	INTERNAL PLANS	EXTERNAL PLANS: Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino	EXTERNAL PLANS: Bank's employee complementary fund for the employees of the Banco di Napoli - Section A
Defined benefit obligations at beginning of year	**476**	**158**	**942**	**728**	**529**	**142**	**864**	**636**
Current service costs	19	3	21	1	23	3	18	-
Recognized past service costs								
Unrecognized past service costs								
Interest costs	20	8	43	31	27	6	43	29
Recognized actuarial losses	58		144	81				
Unrecognized actuarial losses		13				15	58	94
Positive exchange differences								
Increases - business combinations	3							
Participants' contributions								
Recognized actuarial gains								
Unrecognized actuarial gains					- 2			
Negative exchange differences								
Benefits paid	- 30	- 8	- 40	- 131	- 103	- 8	- 41	- 88
Decreases - business combinations	- 6							
Curtailments								- 30
Settlements								
Other increases				7				87
Other decreases								
Defined benefit obligations at end of year	**540**	**174**	**1,110**	**717**	**474**	**158**	**942**	**728**
Total unrecognized actuarial gains					**- 2**			
Total unrecognized actuarial losses		**28**				**15**	**58**	**94**

(a) Based on the actuarial calculations, the present value of defined benefit obligations of SANPAOLO IMI's internal plans is 7.2 million euro (of which 0.9 million euro referring to the Retirement Fund for the Employees of Banca Popolare dell'Adriatico and 6.3 million euro related to the Retirement Fund for the Employees of Cassa di Risparmio di Venezia).

Always in connection with the actuarial calculations, the present value of the defined benefit obligations of SANPAOLO IMI's external plans is 1,679 million euro of which:
(b) 1,053 million euro referring to the Retirement Fund for the Employees of Istituto Bancario San Paolo di Torino
(c) 626 million euro referring to the Complementary Retirement Fund for the Employees of Banco di Napoli – Section A).

Analysis of the defined benefit obligations *(€/mil)*

Liabilities of the defined benefit obligations pension plan	31/12/2005				31/12/2004			
	Employee termi-ination indem-nities	INTERNAL PLANS	EXTERNAL PLANS: Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino	EXTERNAL PLANS: Bank's employee complementary fund for the employees of the Banco di Napoli - Section A	Employee termi-nation indem-nities	INTERNAL PLANS	EXTERNAL PLANS: Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino	EXTERNAL PLANS: Bank's employee complementary fund for the employees of the Banco di Napoli - Section A
a) unfunded plans	540	29			474	24		
b) partly funded plans								
c) wholly funded plans		145	1,110	717		134	942	728

3. Annual changes in plan assets and other information

Annual changes in fair value of plan assets *(€/mil)*

	31/12/2005			31/12/2004		
	INTERNAL PLANS	EXTERNAL PLANS		INTERNAL PLANS	EXTERNAL PLANS	
		Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino	Bank's employee complementary fund for the employees of the Banco di Napoli - Section A		Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino	Bank's employee complementary fund for the employees of the Banco di Napoli - Section A
Fair value of plan assets at beginning of year	132	929	753	135	894	750
Expected return	6	42	32	6	44	37
Recognized actuarial losses						
Unrecognized actuarial losses						
Positive exchange differences						
Employer contributions	2		8	2	1	87
Participants' contributions						
Recognized actuarial gains		31	12		31	
Unrecognized actuarial gains	- 3			- 4		- 3
Negative exchange differences						
Benefits paid	- 8	- 40	- 131	- 7	- 41	- 88
Curtailments						- 30
Settlements						
Other increases	4					
Other decreases						
Fair value of plan assets at end of year	133	962	674	132	929	753
Total unrecognized actuarial gains	7			4		3
Total unrecognized actuarial losses						

Plan assets *(€/mil)*

	31/12/2005						31/12/2004					
	INTERNAL		EXTERNAL PLANS				INTERNAL		EXTERNAL PLANS			
	PLANS	%	Bank's employee supplemen-tary fund for the employees of the Istituto Bancario San Paolo di Torino	%	Bank's employee comple-mentary fund for the employees of the Banco di Napoli - Section A	%	PLANS	%	Bank's employee supplemen-tary fund for the employees of the Istituto Banca-rio San Paolo di	%	Bank's employee comple-mentary fund for the employees of the Banco di Napoli - Section A	%
Equity securities and equity funds			170	17.7	186	27.6			143	15.4	161	21.4
Debt securities and bond investment funds	133	100	632	65.7	354	52.5	132	100	617	66.4	452	60.0
Properties and investments in real estate companies			139	14.4					144	15.5		
Insurance activities					124	18.4					119	15.8
Other assets			21	2.2	10	1.5			25	2.7	21	2.8

4. Reconciliation between the current value of the pension plan, the current value of plan assets and the assets and liabilities recognized in the financial statements.

Assets and liabilities recognized *(€/mil)*

	31/12/2005				31/12/2004			
	Employee termination indemnities	INTERNAL PLANS (a)	EXTERNAL PLANS: Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino (b)	EXTERNAL PLANS: Bank's employee complementary fund for the employees of the Banco di Napoli - Section A (c)	Employee termination indemnities	INTERNAL PLANS	EXTERNAL PLANS: Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino	EXTERNAL PLANS: Bank's employee complementary fund for the employees of the Banco di Napoli - Section A
1 Current value of the defined benefit obligations	540	174	1,110	717	- 474	158	942	728
2 Fair value of the plan assets		133	962	674		132	929	753
A Fund status (2-1)	**- 540**	**- 41**	**- 148**	**- 43**	**- 474**	**- 26**	**- 13**	**25**
B Unrecognized actuarial gains (sum of those accumulated)	-	- 7		-	- 2	- 4		- 3
B Unrecognized actuarial losses (sum of those accumulated)		- 28			-	- 15	- 27	- 94
B Unrecognized past service costs	-	-		-	-	-		8
B Unrecognized assets because not reimbursable	-	-				-	30	114
B Fair value of the assets reimbursable by third parties	-	-		-		-		-
B Total	**-**	**- 35**		**-**	**- 2**	**- 19**	**3**	**25**
Recognized assets	**-**	**133**		**-**	**-**	**132**		**-**
Recognized liabilities	**540**	**139**	**148**	**43**	**476**	**139**	**16**	**-**

(a) As these are internal funds, both assets and liabilities are entered in the financial statements of Banca Popolare dell'Adriatico and Cassa di Risparmio di Venezia, which have negotiated the agreements regulating the funds being discussed.

The portion of liability attributable to SANPAOLO IMI S.p.A. is as follows:

(b) 146 million euro referring to the Retirement Fund for the Employees of Istituto Bancario San Paolo di Torino

(c) 43 million euro referring to the Complementary Retirement Fund for the Employees of Banco di Napoli – Section A.

5. Description of the main actuarial assumptions

Actuarial assumptions *(€/mil)*

	31/12/2005					31/12/2004				
	INTERNAL PLANS			EXTERNAL PLANS		INTERNAL PLANS			EXTERNAL PLANS	
	Employee termination indemnities	Banca Popolare dell'Adriatico S.p.A.	Cassa di Risparmio di Venezia S.p.A.	Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino	Bank's employee complementary fund for the employees of the Banco di Napoli - Section A	Employee termination indemnities	Banca Popolare dell'AdriaticoSpa	Cassa di Risparmio di Venezia S.p.A.	Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino	Bank's employee complementary fund for the employees of the Banco di Napoli - Section A
Discount rate	3.7	3.9	4	4	3.7	4.3	4.5	4.5	4.5	4.2
Expected yield rates			4.5	4.5	4.2			5	5	5
Expected increase in salaries (a)	2	2	2	2	2	2	2	2	2	2
Annual inflation rate	2	2	2	2	2	2	2	2	2	2
Annual rate of the GDP nominal growth		3.5	3.5	3.5	3.5		3.5	3.5	3.5	3.5

a) Net of career developments.

6. Comparative information

Fund status *(€/mil)*

	31/12/2005				31/12/2004				31/12/2003			
	Employee termination indemnities	INTERNAL PLANS	EXTERNAL PLANS		Employee termination indemnities	INTERNAL PLANS	EXTERNAL PLANS		Employee termination indemnities	INTERNAL PLANS	EXTERNAL PLANS	
			Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino	Bank's employee complementary fund for the employees of the Banco di Napoli - Section A			Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino	Bank's employee complementary fund for the employees of the Banco di Napoli - Section A			Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino	Bank's employee complementary fund for the employees of the Banco di Napoli - Section A
Current value of the defined benefit obligations	-540	-174	-1,110	-717	-474	-158	-942	-728	-529	-142	-864	-636
Fair value of plan assets		133	962	674		132	929	753		135	894	750
Fund status	**-540**	**-41**	**-148**	**-43**	**-474**	**-26**	**-13**	**25**	**-529**	**-7**	**30**	**114**

12.4 Provisions for risks and charges – other provisions

If the time deferment for the settlement of the charge was considered significant, the Bank calculated the amount of the provision and of the accruals based on the present value of the sums that will eventually be paid out in respect of such liability.

The average disbursement times for the main appropriations, subject to time discounting are the following:
- approximately 4 years for the legal dispute
- approximately 6 years for the personnel dispute.

The discounting rate is calculated with reference to the market performance of zero coupon bonds.

SECTION 13 - REDEEMABLE SHARES – CAPTION 140

13.1 Redeemable shares: break-down

As at December 31, 2005 the Bank had not issued any redeemable shares.

SECTION 14 - PARENT BANK SHAREHOLDERS' EQUITY – CAPTIONS 130, 150, 160, 170, 180, 190 AND 200

14.1 Parent Bank shareholders' equity: break-down

(€/mil)

Caption/Value	Total 31/12/2005
1. Capital	5,239
2. Additional paid-in capital	769
3. Reserves	3,319
4. (Own shares)	(43)
5. Valuation reserves	446
6. Equity securities	
7. Profit (loss) for the period	1,165
Total	10,895

14.2 "Capital" and "Own shares": break-down

The Bank's Capital as at 31 December 2005 amounted to 5,239,223,740.80 euro, consisting of 1,586,967,318 ordinary shares and 284,184,018 preference shares, both with a nominal value of 2.8 euro.

As at 31 December 2005, the Bank held 4,015,919 own shares in its portfolio, with a nominal value of about 11 million euro, recorded in the financial statements for 42,508,503 euro. During the year no transactions in own shares took place.

14.3 Capital - Number of shares: annual changes

Caption/Type	Ordinary	Other
A. Number of shares at the beginning of the year	1,475,122,818	388,334,018
- fully paid-up shares	1,475,122,818	388,334,018
- shares not fully paid-up	-	-
A.1 Own shares (-)	(4,015,919)	-
B.2 Shares in circulation: opening balance	1,471,106,899	388,334,018
B. Increases	111,844,500	-
B.1 New issues	111,844,500	-
- on a payment basis		
- business combinations		
- conversion of bonds		
- exercise of warrants		
- other	111,844,500	
- on a free basis		
- in favor of employees		
- in favor of directors		
- other		
B.2 Sale of own shares		
B.3 Other changes		
C. Decreases	-	(104,150,000)
C.1 Cancellation		
C.2 Purchase of own shares		
C.3 Sale of companies		
C.4 Other changes		(104,150,000)
D. Shares in circulation: closing balance	1,582,951,399	284,184,018
D.1 Own shares (+)	4,015,919	
D.2 Number of shares at the end of the year	1,586,967,318	284,184,018
- fully paid-up shares	1,586,967,318	284,184,018
- shares not fully paid-up		

Valuation reserves

It is worth highlighting that the Bank applied paragraphs 93B-93D of IAS 19 as amended by Regulation No. 1910/2005 of November 8, 2005 and entered actuarial losses net of deferred taxation as a corresponding caption to a specific shareholders' equity reserve. These actuarial losses, worth 141,751,900 euro overall, refer to defined benefit pension funds and employee termination indemnity.

14.7 Valuation reserves: break-down

(€/mil)

Caption/Component	Total 31/12/2005
1. Available-for-sale investments	436
2. Tangible assets	
3. Intangible assets	
4. Actuarial gains and losses	(141)
5. Cashflow hedge	(21)
6. Exchange differences	
7. Discontinued operations	
8. Special revaluation laws	172
Total	**446**

14.8 Valuation reserves: annual changes

(€/mil)

	Investments and available-for-sale assets	Tangible assets	Intangible assets	Actuarial gains and losses	Cashflow hedge	Exchange differences	Discontinued operations	Special revaluation laws
A. Opening balance	-	-	-	-	-	-	-	**4**
B. Increases	**546**	-	-	-	**(21)**	-	-	**168**
B1. Increases in fair value	238				3			X
B2. Other changes (a)	308	-			(24)			168
C. Decreases	**(110)**	-	-	**(141)**	-	-	-	-
C1. Decreases in fair value	(11)							X
C2. Other changes	(99)			(141)				
D. Closing balance	**436**	-	-	**(141)**	**(21)**	-	-	**172**

(a) “Other increases” include the effect of the first-time application of the IAS/IFRS international accounting standards.

14.9 Valuation reserves of available-for-sale investments: break-down

(€/mil)

Asset/Value	Total 31/12/2005	
	Positive reserve	Negative reserve
1. Debt securities	35	-
2. Equities	407	(6)
3. OICR shares	-	-
4. Loans	-	-
Total	**442**	**(6)**

14.10 Valuation reserves of available-for-sale investments: annual changes

(€/mil)

	Debt securities	Equities	OICR shares	Loans
1. Opening balance	-	-	-	-
2. Positive changes	**67**	**479**	-	-
2.1 Increases in fair value	6	232		
2.2 Reallocation of negative reserves to statement of income	-	1	-	-
- due to impairment				
- due to realization		1		
2.3 Other changes	61	246		
3. Negative changes	**(32)**	**(78)**	-	-
3.1 Decreases in fair value	(5)	(6)		
3.2 Reallocation to statement of income from positive reserves:	(27)	(54)		
due to realization				
3.3 Other changes		(18)		
4. Closing balance	**35**	**401**	-	-

In compliance with Art. 2427, No. 4 and 7-bis of the Italian Civil Code, below is the breakdown of the Bank's shareholders' equity excluding the profit for the year. The origin and degree of availability and distributability of the various captions is indicated.

(€/mil)

	Amount as at 31/12/2005	Capital share	Profit share	Profit share subject to taxation (a)	Useful life (b)	Available share
Shareholders' equity						
– Share capital	5,239	3,299	1,225	715	-	-
– Additional paid-in capital	769	769	-	-	A, B, C	769
– Legal reserve	1,044	411	132	501	B	-
– Extraordinary reserve	1,251	-	1,251	-	A, B, C	1,251
– Reserve for purchase of own shares	957	-	957	-	A, B, C	957
– Reserve pursuant to clause 13 par. 6 D.Lgs. 124/93	5	-	-	5	A, B, C	5
– Reserve pursuant to D.Lgs. 213/98	16		16		A, B	16
– Reserve for instruments at fair value	1		1		-	-
– Reserve for stock option plans	2		2		A	-
– Valuation reserve for tangible assets	168		168		A, B	168
– AFS valuation reserve	436		436		-	-
– CFH valuation reserve	(21)		(21)		-	(21)
– Reserve for actuarial gains and losses	(141)		(141)		-	(141)
– Reserve pursuant to Law 342/2000	4			4	A, B	4
Total capital and reserves	**9,730**	**4,479**	**4,026**	**1,225**	**-**	**3,008**
Non-distributable share (c)						356
Distributable share						2,652

(a) These amounts do not include the portion of the reserve fiscally tied in accordance with art. 109 c. 4 of the Italian Consolidation Act on Income Tax (TUIR), modified by D.Lgs. 247/2005. Such portion, estimated at around 166 million euro after the payment of the income tax for 2004, should amount to 198 million euro including the extra accounting cost deductions.

(b) A = capital increase; B = to cover losses; C = for distribution to shareholders

(c) In accordance with art. 16, sub-section 1 of D.Lgs. 87/92, the non-distributable portion refers to research and development costs as at 31 December 2005 totaling 168 million euro, to the Reserve in accordance with Law 342/2000, to the Tangible assets valuation reserve, which can be decreased only in accordance with the provisions of art. 2445 of the Italian Civil Code and to the Reserve pursuant to D.Lgs. 213/98, which is not distributable by law.

OTHER INFORMATION

1. Guarantees granted and commitments

(€/mil)

Transactions	Amount 31/12/2005
1. Financial guarantees granted	20,588
a) Banks	6,404
b) Customers	14,184
2. Commercial guarantees granted	10,767
a) Banks	561
b) Customers	10,206
3. Irrevocable commitments to grant finance	13,160
a) Banks	1,236
i) certain to be called on	609
ii) not certain to be called on	627
b) Customers	11,924
i) certain to be called on	310
ii) not certain to be called on	11,614
4. Underlying commitments to credit derivatives: hedging sales	279
5. Assets lodged to guarantee minority interest	3
6. Other commitments	284
Total	**45,081**

2. Assets lodged to guarantee own liabilities and commitments

(€/mil)

Portfolios	Amount 31/12/2005
1. Investments held for trading	1,638
2. Financial assets designated as at fair value	249
3. Available-for-sale investments	71
4. Held-to-maturity investments	1,799
5. Loans to banks	1,538
6. Loans to customers	
7. Tangible assets	

3. Information on operating leasing

As at December 31, 2005 the Bank did not have significant operating leases in place.

4. Administration and dealing on behalf of third parties

(€/mil)

Type of services	Amount
1. Financial instruments dealing on behalf of third parties	
a) purchases	556
1. settled	556
2. not settled	
b) sales	296
1. settled	296
2. not settled	
2. Portfolio management	
a) individual	146
b) collective	
3. Custody and administration of securities	
a) third-party securities held on deposit: in connection with depositary bank's services (excluding asset management)	38,267
1. securities issued by the bank that draws up the financial statements	35
2. other securities	38,232
b) third-party securities held on deposit (excluding asset management): other	162,621
1. securities issued by the bank that draws up the financial statements	14,646
2. other securities	147,975
c) third-party securities deposited with third parties	167,926
d) own securities deposited with third parties	17,279
4. Other transactions	
Orders collection	21,787
Portfolio management of Group companies	1,770
Third-party portion of syndicated loans arranged by the Bank without representation mandate	268
Collection of third-party loans on portfolio transactions	9,617

The notes portfolio has been reclassified on the basis of the related settlement date, by recording the following adjustments:

(€/mil)

Debit adjustments	
current accounts	565
central portfolio	29
Credit adjustments	
current accounts	29
transferors of notes and documents	565

With regard to the administration of funds on behalf of third parties, the Bank continued to allocate funds for Research and Development incentives and to manage the Guarantee Fund for small- and medium-sized enterprises in Southern Italy. In particular:

Applied Research Reserve

SANPAOLO IMI continues to manage transactions arising from applications received by 31 December 1999 out of the Applied Research Reserve. As of 31 December 2005, there are resolutions to be stipulated for 40 million euro and disbursements to be made for 279 million euro.

Reserve for Research Grants

SANPAOLO IMI continued to provide services to the Ministry of Education, Universities and Research (MIUR) for the management of industrial research projects and researcher training schemes using the Reserve for Research Grants. The lack of funds led the Ministry to completely suspend the "reception desk" for applications, which had already been limited to the areas of Southern Italy, with effect from March 3, 2004. The offer of new incentives continued only through the passing of Notices reserved for strategic technological sectors.

During 2005, 38 applications were received for research investment for 161 million euro and MIUR deliberated on financing of 136 million euro.

Reserve for Technological Innovation

SANPAOLO IMI continued to provide services to the Ministry for Productive Activities (MAP) for the management of development projects utilizing the Reserve for Technological Innovation. The "reception desk" was suspended by MAP in January 2003 owing to lack of funds. Activities continued exclusively on the passing of Notices reserved for projects within technological sectors considered to be of prominence or to be carried out in particular areas of Italy. During 2005, 19 applications were received for research investments for about 18 million euro; MAP deliberated on financing of 19 million euro.

During 2005, activities connected to the three reserves generated a total of 8.4 million euro in commissions from the Public Administration.

Guarantee Fund for small- and medium-sized enterprises in Southern Italy, Law 341/95

With the Convention stipulated between the Italian Treasury and the Bank on December 21, 1995, as approved and activated by Decree of the Director-General of the Treasury dated January 5, 1996, SANPAOLO IMI was formally appointed Managing Body of the Fund established under Law 341/1995.

The purpose of Law 341/1995 is to promote rationalization of the financial situation of small- and medium-sized enterprises in Southern Italy, as defined by EU parameters. This involves measures of various types, from interest-relief grants on loans designed to convert short-term bank borrowing into medium- and long-term loans, to the granting of supplementary guarantees on investment loans, for the purchase of equity investments and for the debt consolidation described above.

Acceptance of new applications has been closed since the beginning of 2000. As at December 31, 2005 there are 470 applications for 193 million euro, broken down as follows:
- 179 million euro for the consolidation of short-term debt for which contributions are being paid;
- 14 million euro for investment loans, of which an application for one million euro is not yet completed.

APPENDIX TO PART B – ESTIMATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below compares the fair value of the financial instruments with their relative value in the financial statements and summarizes the results previously illustrated in Part B – Information in the tables required by Bank of Italy.

(€/mil)

	Value in financial statements as at 31/12/2005	Fair value as at 31/12/2005	Potential capital gains / losses
Assets			
Cash and cash equivalents	515	515	-
Investments held for trading	5,165	5,165	-
Financial assets designated as at fair value	1,012	1,012	-
Available-for-sale investments	2,355	2,355	-
Held-to-maturity investments	2,312	2,310	(2)
Loans to banks	44,575	44,553	(22)
Loans to customers	67,232	68,201	969
Hedging derivatives	809	809	-
Liabilities			
Due to banks	44,721	44,802	(81)
Due to customers	51,915	51,916	(1)
Securities issued	25,026	25,207	(181)
Financial liabilities held for trading	1,328	1,328	-
Financial liabilities evaluated at fair value	-	-	-
Hedging derivatives	751	751	-
Total potential capital gains / losses			**682**

As already highlighted in Part A – Accounting policies, in order to determine the fair value of the financial instruments the following methods and key assumptions have been adopted:

- for debt securities owned by the Bank, regardless of the classifications in categories included in IAS 39, the Bank has adopted a specific procedure for determining the situations in which a new active market can be defined, based on the analysis of trading volumes, the range of prices and on the number of listings on the market. Where no active market is found, comparable instruments with the same financial characteristics are identified or, as a last resort, cash flows are actualized including any element that may affect the value of the instruments (for example credit risk, volatility and non liquidity).
- for financial (asset and liability) captions with a residual term equal to or less than 18 months, fair value was reasonably assumed to equal carrying value;
- for loans and deposits on demand, the maturity date of contractual obligations was assumed to be immediate and to coincide with the date of the financial statements; hence fair value was taken at the carrying value;
- for medium-long term loans to customers, fair value was measured using internally defined measurement techniques involving the time discounting of residual contractual flows at current interest rates, adjusted to take into account the credit rating of each individual borrower (or the probability of default resulting from the rating) and loss given default;
- for impaired assets, fair value was taken at book value;
- for medium-long term liabilities, consisting of unsecured securities or deposits, fair value was measured by time discounting contractual flows at rates which the Bank, at the time of measurement, could apply on the reference market at the date of the financial statements for similar deposits; in case of tier 1 subordinated loans, the virtual impossibility of an anticipated repurchase/reimbursement and the existence of potential clauses/options in favor of the issuer were taken into account;
- for medium-long term debt and structured securities issued, hedged for variations in fair value, the book value, already adjusted for the effects of the fair value hedging attributable to the risk covered, was taken as an approximation of the fair value, assuming that no significant changes occurred in the issuer’s credit spread in comparison with the origination and that no other particular and significant risk element exists which may have an impact on the fair value.

The parameters used and the methods adopted may differ among the various financial institutions, which, in case of a change in the assumption, generates results that are significantly different. The IAS/IFRS exclude some financial instruments (e.g. deposits on demand) and non-financial instruments (e.g. goodwill, tangible assets, equity investments, etc.) and therefore the overall fair value cannot be taken as an estimate of the Bank’s economic value.

APPENDIX TO PART B – EFFECT OF THE TRANSITION TO IAS/IFRS ON THE SHAREHOLDERS' EQUITY OF SANPAOLO IMI S.P.A.

The general principle for transition to IAS/IFRS, ratified by IFRS 1, provides for the reclassification of all financial statement balances at the transition date, set at January 1, 2004, with full retrospective application of current international accounting standards.

The adjustments deriving from the retrospective application of international accounting standards at the date of transition are recorded in net equity reserves in compliance with D.Lgs. 38/2005.

By way of exception to the above, IFRS 1 provides that the first-time application of IAS 32 and IAS 39 may be deferred to 1 January 2005. The Bank has chosen such option and therefore, with regard to financial instruments, the financial statements for the year 2004 are not comparable with the financial statements as of 31 December 2005.

As highlighted in Part A – Accounting Policies, detailed information on the transition to IAS/IFRS is given in the Half Year Report as at June 30, 2005.

The provisions set forth in D.Lgs. 38/2005 on the changes in the shareholders' equity recorded in the opening balance sheet of the first financial statements drawn up in accordance with the international accounting principles state, in summary, that:

a) the valuation reserves of available-for-sale financial instruments cannot be distributed and are not available either for the purposes of their recording in the capital;
b) the balance between positive and negative differences in value related to dealing financial instruments and to exchange rate and hedging operations is entered among the available income reserves;
c) the equity increase due to the historical cost of amortized assets being reversed in years prior to the first-time application of the international accounting standards that do not appear to be amortizable pursuant to those standards is entered among the available income reserves;
d) the equity increase due to the non-existence of write-backs and provisions for risks and charges entered in the statement of income of years prior to the first-time application of the international accounting standards is recorded in the available income reserves;
e) the equity increase due to the recording of tangible assets at fair value as a cost replacement is entered into a valuation reserve that can be attributed to the capital or decreased in application of the provisions of art. 2445 of the Italian Civil Code;
f) the balance between the positive and negative differences in value of assets and liabilities other than those indicated in sub-sections 1 to 6 is recorded, if positive, in a specific non-available shareholders' equity reserve.

Considering the above-mentioned regulations and standards as well as the guidelines provided by the Bank of Italy through Circular No. 262 of 22 December 2005, the Bank recorded the equity effect of the transition to IAS/IFRS as follows:

- specific valuation reserves were set up in respect of the cases indicated under a) above and of the valuation of derivatives hedging financial flow, net of the related deferred taxation (Valuation reserve of available-for-sale financial assets, Valuation reserve for derivatives hedging financial flows);
- the effects illustrated under b), c), d) and the negative balances described under f) above were recorded in the Extraordinary reserve;
- the increase indicated under e) was recorded in a specific valuation reserve which, on the basis of a deliberation of the Extraordinary Shareholders' Meeting called to approve the financial statements, will increase the capital.

In order to highlight the effects of the transition to IAS/IFRS on the Bank's shareholders' equity as at 1 January 2005, below is a statement containing a description of the various reconciliations of equity balances differentiating the shareholders' equity captions according to the various availability levels of the reserves, which changed as a corresponding entry of the reconciliations.

With regard to the financial assets regulated by IAS 32 and 39, the impacts refer to 1 January 2005, whereas the other adjustments result from the application of IAS/IFRS as at 1 January 2004.

For the sake of completeness, the adjustments made to the statement of income captions for 2004 are also reported even though they were not impacted by IAS 32 and 39.

Reconciliation of net shareholders' equity pursuant to IFRS 1 para. 39

(€)

	1/1/2005 (incuding IAS 32 and 39)
Net shareholders’ equity according to Italian Gaap	11,089,764,596
Impact on reserves of available profits (art. 7, c. 3, 4, 5 of D.Lgs. 38/2005)	
Trading financial assets and liabilities	
- evaluation of reclassified trading derivatives	-336,523,571
- fair value evaluation of trading derivatives	-3,480,000
- ineffective quota of IAS compliant hedging	7,609,607
- evaluation of unlisted securities	792,059
Available for sale financial assets	
- turnover of specific reserve AFS securities evaluation	-128,633,107
Loans to customers	-9,453,633
Tangible assets	
- write-off of amortization of operating assets	18,565,255
- assets purchased through leasing	8,347,657
- fair value recording in substitution of cost	-21,493,615
Intangible assets	
- write-off of goodwill amortization 2004	71,513,386
- write-off of amortization of intangible assets	42,005,942
- adjustment to other long-term costs	-21,520,797
Other assets/liabilities	
- write-off of unrecordable tax assets	-48,118,391
- write-off of loans for matured dividends	-695,322,803
Reclassification of reserves for stock option plans	-4,873,400
Employee termination indemnities	-7,946,339
Reserves for risks and charges	
- actuarial recalculation of employee funds ex IAS 19	80,512,102
- actualization of estimated expenditures	45,470,000
- write-off of unrecordable reserves pursuant to IAS 37	12,790,000
Securities in circulation	
- annulment of own shares	-25,309,919
Tax effects on adjustments	61,228,793
Total impact on reserves of available profit	**-953,840,774**
Impact on unavailable reserves (art. 7, c. 2, 6 e 7 of D.Lgs. 38/2005)	
Financial assets designated as at fair value	1,258,864
Available for sale financial assets	
- evaluation of capital securities	246,186,932
- evaluation of debt securities	61,193,395
Hedging derivatives	
- evaluation of financial flow hedging derivatives	-23,726,313
Tangible assets	
- fair value recording in substitution of cost	168,418,756
Own shares	-42,508,503
Reclassification of reserves for stock option plans	4,873,400
Total impact on unavailable reserves	**415,696,531**
Net shareholders' equity according to IAS/IFRS	10,551,620,353

The effects highlighted in the statement were recorded:

- as a corresponding caption of the Extraordinary reserve, in relation to the impacts on the available income reserves;
- as a corresponding caption of specific equity reserves, in relation to the reserves characterized by the provision of non-availability set forth in D.Lgs. 38/2005.

Reconciliation of the statement of income pursuant to IFRS 1 para. 39

	(€) 31/12/2004
Net profit according to Italian Gaap	**1,035,918,830**
Dividends and similar revenues	
- recording of dividends from cash-controlled companies	59,396,000
Personnel costs	
- competence share of stock option costs	-2,391,000
- adjustment to employee termination indemnities and seniority funds using actuarial methods	-15,486,000
- recovery on actualizing employee funds	-12,411,000
Other administrative costs	
- allocation of uncapitalizable costs	-9,383,000
Net adjustments to tangible assets	
- amortization of assets purchased through leasing - IAS 17	-7,854,000
- adjustment to amortization of works of art	1,421,000
Net adjustments to intangible assets	
- write-off of goodwill amortization	71,513,000
- redetermination of amortization of software development	-15,377,000
- redetermination of amortization of other long-term charges	11,854,720
Net provisions for risks and charges	
- estimated actualization of future expenditure in the year	3,160,000
- recovery on actualization of future expenditure in preceding years	-8,321,000
Other net expenses/income	
- fees on leased assets	8,864,000
Income taxes	-8,801,000
Total adjustments	**76,184,720**
Net profit according to IAS/IFRS	1,112,103,550

Notes to reconciliation statements

Derivative contracts: the accounting treatment of hedging transactions established by IAS 39 determined the derecognition of a significant portion of hedges previously made to portfolios. The valuation of derivatives which could not be designated as being IAS-compliant hedging instruments as of 1 January 2005 and which were therefore recorded under trading assets and liabilities, resulted in a 337 million euro decrease in net equity, gross of the tax effect.

On the other hand, specific hedges were confirmed where they had been previously recorded under derivatives or under assets and liabilities established on a case-by-case basis. The effect of such hedges on shareholders' equity was limited to the ineffective portion of the hedge itself (+ 8 million euro gross).

The valuation of cash flow hedges resulted in a decrease of 24 million euro in net equity, equal to the negative fair value of the contracts, net of the tax effect recorded in the specific shareholders' equity reserve.

With reference to dealing derivatives, the application of IAS made it necessary to adopt valuation techniques to estimate fair value which also take into account the credit worthiness of the counterparties; this is reflected in the three million euro gross negative adjustment to shareholders' equity.

Debt securities: the first application of IAS/IFRS to these financial instruments, which had been previously classified as investment securities and dealing securities, gave rise to their reclassification to a new category of financial instruments. In line with management and operational policies for holding these securities, the investment portfolio was reorganized to reflect the stricter constraints imposed by the international accounting standards. By way of example, investment securities which were the object of asset swaps, which are no longer allowable hedges, have been reclassified to available for sale investments. Dealing securities now include listed or highly liquid stock held for the purpose of short-term profit taking; loans include unlisted securities from the restructuring of exposures, acquired on subscription or issued by other Group companies. The fair value option, on the other hand, has been adopted for structured or hedged securities, applying the rules set out in the relevant accounting principle approved by the European Commission during 2005. Except for what was stated above regarding hedged securities previously included under investment portfolio, the classification of securities under available for sale investments was made in cases where it was the only suitable category remaining.

The adjustments to the transitional shareholders' equity in respect of debt securities refer to: the differences between the book value and nominal value of own shares, for which IAS provides an accounting treatment similar to elimination (-25 million euro, recorded under securities issued); the revaluations of unlisted securities previously recorded in the financial statements at the lower of cost and market price (+ one million euro for dealing activities; + one million euro net of the tax effect, recorded in the specific reserve, connected with assets subject to fair value option) and the valuation of available for sale investments which were previously recorded at cost (+ 61 million euro net of deferred taxation recorded in the specific reserve).

The application of the valuation criteria set by IAS 39 in relation to available-for-sale securities, which requires the distinction between the writedowns made in previous financial statements due to lengthy losses of value and those made as a result of the optional adjustment to market value, resulted in the recording, during the transition of decreases in available equity reserves, of 16 million euro gross, included in the previously mentioned increase of 61 million euro of the valuation reserve for available-for-sale securities.

Minority shareholdings: shareholdings which are non-controlling, held in affiliates or jointly controlled companies previously recorded at cost, have been classified as "available for sale" and are carried at fair value. Only where valuations were considered unreliable, taking into account, among other things, the characteristics of the issuer, or a significantly wide range in value arising from the application of valuation models generally used by the market, were shareholdings carried at cost. Among the most significant shareholdings carried at cost are those held in the Bank of Italy.

The application of the valuation principles set out in IAS 39 in respect of available for sale investments, which require a distinction between writedowns made in prior years for permanent losses in value and optional adjustments to market value, has given rise to a 112 million euro gross and the 246 million euro increase in the valuation reserve for available-for-sale securities.

Goodwill: on the basis of international accounting standards, goodwill represents intangible assets with an indefinite useful life, therefore it is not subject to amortization but is periodically tested for impairment in value. Taking into consideration that the transition to IAS/IFRS is effective from 1 January 2004, the impact on shareholders' equity and the statement of income relates to the reversal of amortization charges made in the 2004 financial year in accordance with Italian accounting principles.

Tangible and intangible assets: the impact on shareholders' equity relates mainly to the fair value adjustment of the land portion of real estate investments, made on the basis of appraisals by independent experts (+ 154 million euro net of deferred taxation recorded in the specific valuation reserve). Such fair value represents the new book value that replaces cost.

Capital losses, worth approximately 16 million euro gross, were recorded as a decrease in the available income reserves.

Works of art were also subject to fair value adjustments, always as a result of appraisal by an external expert. The impact on the shareholders' equity is represented by the reversal of the depreciation made in previous years for 19 million euro gross (entered as a corresponding caption in the available income reserves), by the revaluation made as a replacement of the cost for 14 million euro net of deferred taxation (recorded in the specific valuation reserve) and by the writedown of some assets for five million euro gross (recorded as a corresponding caption in the available income reserves).

The international accounting standards impose a review of the criteria adopted for the amortization of intangible assets (especially in respect of software development costs) and for the capitalization of long-term charges, providing for stricter criteria compared to the current ones.

The application of the international accounting standards gave rise to a 22 million euro gross charge to shareholders' equity for long-term charges and other intangible assets that can no longer be capitalized and to a write-up of 42 million euro gross relating to the recalculation of the amortization charges on internally developed software.

<u>Purchase of assets under lease contracts:</u> international accounting standards provide that assets acquired under a lease contract be accounted for according to the "capitalization" method. The adoption of this method as opposed to the 'non-capitalization' method used according to Italian accounting principles resulted in an eight million euro gross increase in shareholders' equity.

<u>Dividends from subsidiaries:</u> according to international accounting standards these cannot to be recorded on an accruals basis, as was the practice in the past in compliance with the accounting principles adopted by the Bank in line with Consob guidelines and Italian accounting principles. Instead, they are recognized only in the year in which they become due following the relevant resolution passed by the subsidiary, hence in the year when they are received.

The new accounting treatment of dividends entailed for the Bank a decrease of 695 million euro in assets, equal to the amount receivable for dividends matured recorded in the 2004 financial statements.

<u>Provisions:</u> transition adjustments refer to: (i) the actuarial valuation of amounts due to personnel (termination indemnities and other defined benefit plans) which, in accordance with IAS/IFRS, must reflect the actuarial value of future charges and not the actual liability accrued, as provided by Italian accounting principles; (ii) the discounting of estimated cash outflows relating to the accruals made to the reserve for risks and charges where the time interval between the time of the accrual and the actual cash outflow is significant; (iii) the reversal of accruals not recognized retrospectively by IAS 37.

<u>Own shares:</u> in compliance with IAS 32, own shares must be charged to shareholders' equity even if purchased for dealing purposes. The adjustment of 43 million euro reflects the value of SANPAOLO IMI own shares carried in the 2004 financial statements. The impact on shareholders' equity is represented by the reference to book value as of 31 December 2004, including the valuations recorded in prior year statements of income, taking into account that under shareholders' equity a restricted reserve for the purchase of own shares has been maintained for the same amount.

<u>Stock option plans</u>: according to IFRS 2 stock option plans are included in the financial statements by recognizing the fair value of stock options in the statement of income over the vesting period (accruals basis) with a corresponding increase in shareholders' equity. On transition the adoption of this accounting treatment did not have any effect on shareholders' equity, but only led to the reclassification of some of its components.

<u>Tax effects:</u> prepaid and deferred taxation in relation to the above adjustments have been recorded applying the corresponding tax rates. As highlighted in relation to the individual cases, deferred taxation of non-available reserves is recorded as an adjustment of the reserves themselves.

Tax assets of 48 million euro not recognized by IAS 12 have also been written off as part of the transition process.

Part C - Information on the Parent Bank statement of income

SECTION 1 - INTERESTS – CAPTIONS 10 AND 20

1.1 Interest income and similar revenues: break-down

(€/mil)

Caption/Technical types	Performing investments		Impaired financial assets	Others assets	Total 31/12/2005
	Debt securities	Loans			
1. Investments held for trading	94	-	-	-	94
2. Available-for-sale investments	44	-	-	-	44
3. Held-to-maturity investments	37	-	-	-	37
4. Loans to banks	94	919	-	-	1,013
5. Loans to customers	2	2,533	53	20	2,608
6. Financial assets designated as at fair value	50		-	-	50
7. Hedging derivatives	X	X	X	265	265
8. Investments sold and not cancelled	-	-	-	-	-
9. Other assets	X	X	X	13	13
Total	**321**	**3,452**	**53**	**298**	**4,124**

Interest accrued on assets disposed of and written off are shown in the relevant asset categories.

Interest on assets denominated in foreign currency amount to 224 million euro.

1.4 Interest expenses and similar charges: break-down

(€/mil)

Caption/Technical types	Debts	Securities	Others liabilities	Total 31/12/2005
1. Due to banks	(1,041)	X	-	(1,041)
2. Due to customers	(680)	X	-	(680)
3. Securities issued	X	(844)	-	(844)
4. Financial liabilities held for trading	-	(2)	(21)	(23)
5. Financial liabilities designated as at fair value	-	-	-	-
6. Financial liabilities associated with assets sold and not cancelled	-	-	-	-
7. Other liabilities	X	X	-	-
8. Hedging derivatives	X	X	-	-
Total	**(1,721)**	**(846)**	**(21)**	**(2,588)**

Caption “Financial liabilities held for trading – Other liabilities” refers mainly to differentials accrued on derivative contracts placed within the trading portfolio and linked, in terms of operations, to financial assets designated at fair value.

Interests accrued on financial liabilities relating to assets disposed of and not written off, are included under amounts due to customers or banks, according to the counterparty’s nature, which gave rise to such transactions.

Interest expense on liabilities denominated in foreign currency amount to 400 million euro.

Interest expense on liabilities relating to finance lease operations amount to one million euro.

SECTION 2 - COMMISSIONS – CAPTIONS 40 AND 50

2.1 Commission income: break-down

(€/mil)

Type of services/Value	Total 31/12/2005
a) guarantees granted	79
b) credit derivatives	-
c) management, dealing and advisory services	829
1. financial instruments trading	7
2. currency trading	17
3. portfolio management	-
3.1 individual	-
3.2 collective	-
4. custody and administration of securities	15
5. depositary bank	54
6. placement of securities (a)	434
7. orders collection	37
8. advisory services	-
9. distribution of third party services	265
9.1 portfolio management	102
9.1.1 individual	*102*
9.1.2 collective	-
9.2 insurance products	157
9.3 other products	6
d) collection and payment services	179
e) servicing for securitization transactions	-
f) services for factoring transactions	-
g) tax collection services	-
h) other services	437
Total	**1,524**

(a) Commissions for the placement of securities comprise mainly those relating to the placement of mutual funds for the amount of 392 million euro.

Sub-caption "h) Other services" is broken down as follows:

(€/mil)

	31/12/2005
Loans granted	151
Deposits and current account overdrafts	162
Current accounts	93
Other services - Italy	28
Other services - Foreign bank branches	3
Total	**437**

2.2 Commission income: products and services distribution channels

(€/mil)

Channel/Value	Total 31/12/2005
a) with own operating points	699
1. portfolio management	
2. placement of securities	434
3. third party services and products	265
b) outside supply	
1. portfolio management	
2. placement of securities	
3. third party services and products	
c) other distribution channels	
1. portfolio management	
2. placement of securities	
3. third party services and products	

2.3 Commission expense: break-down

(€/mil)

Service/Value	Total 31/12/2005
a) guarantees received	(12)
b) credit derivatives	-
c) management and dealing services	(15)
1. financial instruments trading	-
2. currency trading	(1)
3. portfolio management	-
3.1 own portfolio	-
3.2 third party portfolio	-
4. custody and administration of securities	(11)
5. placement of financial instruments	(3)
6. door-to-door sale of securities, financial products and services	-
d) collection and payment services	(58)
e) other services	(15)
Total	**(100)**

Sub-caption “e) Other services” is broken down as follows:

(€/mil)

	31/12/2005
Dealing activities on loan transactions	
Loans obtained	
Dealing activities on loan transactions	
Other services - Italy	(14)
Other services - Foreign bank branches	(1)
Total	**(15)**

SECTION 3 - DIVIDENDS AND OTHER REVENUES - CAPTION 70

3.1 Dividends and other revenues: break-down

(€/mil)

Caption/Income	Total 31/12/2005	
	Dividends	Income from OICR shares
A. Investments held for trading	-	-
B. Available-for-sale investments	39	-
C. Financial assets designated as at fair value	-	-
D. Equity investments	746	X
Total	**785**	-

Dividends from equity investments are made up as follows:

(€/mil)

Equity investments	Total 31/12/2005
	Dividends
Banca Fideuram S.p.A. (a)	115
Cassa di Risparmio di Padova e Rovigo S.p.A.	112
Sanpaolo Banco di Napoli S.p.A.	108
SPIAM SGR	87
Banca d'Intermediazione Mobiliare IMI S.p.A.	70
Assicurazioni Internazionali di Previdenza S.p.A. (a)	50
GEST Line S.p.A.	46
Cassa di Risparmio in Bologna S.p.A.	44
Cassa di Risparmio di Venezia S.p.A.	30
Sanpaolo Leasint S.p.A. - Società di Leasing Internazionale	20
Friulcassa S.p.A.	18
Neos Banca S.p.A. (formerly Finemiro Banca S.p.A.)	11
Cassa di Risparmio di Firenze S.p.A.	11
Banque Palatine S.A. (formerly Banque Sanpaolo S.A.)	10
Other	14
Total	**746**

(a) Companies sold to Eurizon Financial Group S.p.A. during the year.

SECTION 4 - PROFITS (LOSSES) ON FINANCIAL TRADING ACTIVITIES – CAPTION 80

4.1 Profits (losses) on financial trading activities: break-down

(€/mil)

Transaction/Income component	Capital gain	Profit on trading	Capital losses	Losses on trading	Net income
1. Held-for-trading financial assets	**28**	**16**	**(123)**	**(9)**	**(88)**
1.1 Debt securities	27	16	(9)	(9)	25
1.2 Equities (a)			(114)		(114)
1.3 OICR shares	1				1
1.4 Loans					
1.5 Other					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Other					
3. Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**20**
4. Derivative instruments	**533**	**2,560**	**(407)**	**(2,516)**	**183**
4.1 Financial derivatives:	533	2,548	(392)	(2,507)	195
- On debt securities and interest rates	339	2,546	(379)	(2,504)	2
- On equities and equity indices (b)	193	2	(12)	(3)	180
- On currencies and gold	X	X	X	X	13
- Others	1		(1)		-
4.2 Credit derivatives		12	(15)	(9)	(12)
Total	**561**	**2,576**	**(530)**	**(2,525)**	**115**

(a) Losses on equities refer to the valuation results of the FIAT shares purchased following the conversion of the "FIAT Convertible Loan".

(b) Gains on equities and equity indices comprise 167 million euro, arising from the payment of the derivative embedded in the FIAT S.p.A. convertible loan, and 23 million euro, relating to the payment by operation of a put option on the investment held in Cassa dei Risparmi di Forlì S.p.A.

SECTION 5 - FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING – CAPTION 90

5.1 Fair value adjustments in hedge accounting: break-down

(€/mil)

Income component/Value	Total 31/12/2005
A. Income relating to:	
A.1 Fair value hedging derivatives	
A.2 Hedged financial assets (fair value)	4
A.3 Hedged financial liabilities (fair value)	257
A.4 Cash flow hedge financial derivatives	
A.5 Currency assets and liabilities	
Total income from hedging activities	261
B. Charges relating to:	
B.1 Fair value hedging derivatives	262
B.2 Hedged financial assets (fair value)	2
B.3 Hedged financial liabilities (fair value)	
B.4 Cash flow hedge financial derivatives	
B.5 Currency assets and liabilities	
Total charges from hedging activities	264
C. Net hedging income	(3)

SECTION 6 - PROFITS (LOSSES) FROM SALES/REPURCHASES - CAPTION 100

6.1 Profits (losses) from sales/repurchases: break-down

(€/mil)

Caption/Income component	Total 31/12/2005		
	Profits	Losses	Net income
Investments			
1. Loans to banks			
2. Loans to customers	23	(9)	14
3. Available-for-sale investments	102	(8)	94
3.1 debt securities	27		27
3.2 equities	58	(8)	50
3.3 OICR shares	17		17
3.4 loans			
4. Held-to-maturity investments			
Total Assets	**125**	**(17)**	**108**
Financial liabilities			
1. Due to banks			
2. Due to customers		(1)	(1)
3. Securities issued	3	(16)	(13)
Total Liabilities	**3**	**(17)**	**(14)**

Caption "profits/losses on loans to customers" comprises 10 million euro, relating to penalties for funds down-payment, and 11 million euro, arising from the disposal without recourse of non-performing loans carried out during the first half year.

SECTION 7 - PROFITS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AS AT FAIR VALUE – CAPTION 110

7.1 Profits (losses) on financial assets and liabilities designated as at fair value: break-down

(€/mil)

Transaction/Income component	Capital gains	Profits on disposals	Capital losses	Losses on disposals	Net income
1. Investments	**11**	**1**	**(6)**	**(4)**	**2**
1.1 Debt securities	11	1	(6)	(4)	2
1.2 Equities	-	-	-	-	-
1.3 OICR shares	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial liabilities	-	-	-	-	-
2.1 Securities issued	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	-
4. Derivative instruments					
4.1 Financial derivatives	5	-	(4)	-	1
- on debt securities and interest rates	5		(4)		1
- on equities and equity indices	-	-	-	-	-
- on currencies and gold	-	-	-	-	-
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total derivatives	**5**	**-**	**(4)**	**-**	**1**
Total	**16**	**1**	**(10)**	**(4)**	**3**

Evaluations relating to financial derivatives on debt securities and interest rates relate to derivatives linked to the fair value option.

SECTION 8 - IMPAIRMENT LOSSES/WRITE-BACKS - CAPTION 130

8.1 Impairment losses/write-backs: break-down

(€/mil)

Transaction/Income component	Adjustments			Write-backs				Total
	Specific		Portfolio	Specific		Portfolio		31/12/2005
	Cancellations	Other		A	B	A	B	
A. Loans to banks			(1)					(1)
B. Loans to customers	(2)	(169)	(196)	20	143 (a)		5	(199)
C. Total	**(2)**	**(169)**	**(197)**	**20**	**143**		**5**	**(200)**

(a) Include 24 million euro from collection of loans previously written off.

Key
A = Due to interests
B = Other write-backs

As at December 31, 2005 no material value adjustments were carried out on available-for-sale investments and on held-to-maturity investments.

8.4 Impairment losses/write-backs to other financial transactions: break-down

(€/mil)

Transaction/Income component	Adjustments			Write-backs				Total
	Specific		Portfolio	Specific		Portfolio		31/12/2005
	Cancellations	Other		A	B	A	B	
A. Guarantees granted	-	(1)	-	-	4	-	-	3
B. Credit derivatives	-	-	-	-	-	-	-	-
C. Commitments to grant finance	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-
E. Total	**-**	**(1)**	**-**	**-**	**4**	**-**	**-**	**3**

Key
A = Due to interests
B = Other write-backs

SECTION 9 - ADMINISTRATIVE COSTS – CAPTION 150

9.1 Personnel costs: break-down

(€/mil)

Type of costs/Value	Total 31/12/2005	Total 31/12/2004
1. Employees	(1,431)	(1,529)
a) wages and salaries	(989)	(1,051)
b) social security charges	(259)	(288)
c) provision for termination indemnities	(27)	(28)
d) social security costs	(1)	
e) accruals to provision for termination indemnities	(38)	(48)
f) accruals to pension funds and similar funds:		
- defined contribution		
- defined benefit	(19)	(5)
g) amounts paid to external complementary social security funds:		
- defined contribution	(35)	(37)
- defined benefit		(2)
h) costs arising on payment agreements based on own financial instruments	(6)	(2)
i) other benefits in favor of employees	(57)	(68)
2. Other personnel	(2)	(5)
3. Directors	(8)	(7)
Total	(1,441)	(1,541)

9.2 Average number of employees by category:

	Total 31/12/2005	Total 31/12/2004
Employees		
a) Executives	385	390
b) Total managers	7,457	7,637
- of which: third and fourth level managers	2,580	2,749
c) Other employees	13,070	13,006
Other personnel	24	57
Total	20,936	21,090

9.3 Defined benefit company pension funds: total costs

As highlighted in Part B – Section 12.3 - Liabilities, in case of plans that spread risks between the various entities under joint control, the information refers to the plans taken on a collective basis. The table below shows overall charges generated during the year, whereas the footnotes display the employee benefit plan cost shares carried by SANPAOLO IMI S.p.A..

Costs recorded at statement of income *(€/mil)*

	31/12/2005				31/12/2004			
	Employee termination indemnities	INTERNAL PLANS (a)	EXTERNAL PLANS		Employee termination indemnities	INTERNAL PLANS	EXTERNAL PLANS	
			Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino (b)	Bank's employee complementary fund for the employees of the Banco di Napoli - Section A (c)			Bank's employee supplementary fund for the employees of the Istituto Bancario San Paolo di Torino	Bank's employee complementary fund for the employees of the Banco di Napoli - Section A
Current service costs	(19)	(3)	(21)	(1)	(23)	(3)	(18)	
Financial costs of determining the present value of the defined benefit obligations	(20)	(8)	(43)	(31)	(27)	(6)	(43)	(29)
Expected profit from the fund's assets		6	42	32		6	44	37
Reimbursement from third parties								
Recognized actuarial gains								
Recognized actuarial losses								
Employee benefit plan costs related to past work performance								
Reduction of the Fund								
Payment of the fund								
Assets incurred in the year and not recognized								

(a) The employee benefit plan cost share carried by the Bank, totaling 0.31 million euro (of which 0.03 million euro relate to the Retirement Fund for the Employees of Banca Popolare dell'Adriatico, and 0.28 million euro to the Retirement Fund for the Employees of the Cassa di Risparmio di Venezia) is booked under item "personnel costs".

(b) The employee benefit plan cost carried by the Bank amounts to 19 million euro.

(c) The employee benefit plan cost was completely carried by the Group Companies participating in the plan.

9.4 Other benefits in favor of employees

The "Other benefits in favor of employees" caption includes:

- 25 million euro allocated, according to the calculation results achieved by an Independent Actuary, to the strengthening of allocations of employee seniority bonuses becoming payable;
- 21 million euro of contributions paid to the Casse di Assistenza (relief funds) for SANPAOLO IMI employees;
- eight million euro relating to changes due to the passing of time and to changes of the discount rate on staff leaving incentives funds allocated in previous years;
- three million euro of other minor benefits.

9.5 Other administrative costs: break-down

(€/mil)

	Total 31/12/2005	Total 31/12/2004
IT costs	**(257)**	**(266)**
Software maintenance and upgrades	(91)	(89)
Maintenance of hardware, other operating assets, plant fixtures	(45)	(47)
External data processing	(52)	(63)
Data transmission charges	(34)	(38)
Database access charges	(24)	(21)
Equipment leasing charges	(11)	(8)
Property management costs	**(183)**	**(181)**
Leasehold premises:	(131)	(131)
- rental of premises	*(109)*	*(113)*
- maintenance of leasehold premises	*(22)*	*(18)*
Property owned by the Bank:	(20)	(18)
- maintenance of property owned by the Bank	*(20)*	*(18)*
Security services	(16)	(15)
Cleaning of premises	(16)	(17)
General expenses	**(87)**	**(87)**
Postal and telegraph charges	(37)	(31)
Office supplies	(14)	(13)
Transport and counting of valuables	(11)	(11)
Courier and transport services	(15)	(13)
Other expenses	(10)	(19)
Professional and insurance fees	**(129)**	**(112)**
Advisory services	(84)	(77)
Legal and judiciary expenses	(11)	(12)
Investigation/commercial information costs	(23)	(13)
Insurance premiums banks and customers	(11)	(10)
Utilities	**(53)**	**(51)**
Telephone	(22)	(19)
Energy	(31)	(32)
Promotion, advertising and marketing expenses	**(89)**	**(58)**
Advertising and entertainment	(84)	(53)
Contributions and membership fees to trade unions and business associations	(5)	(5)
Indirect personnel costs	**(61)**	**(63)**
Charges for personnel training, journeys and business trips	(61)	(63)
Recoveries	**8**	**8**
Total	**(851)**	**(810)**
Indirect duties and taxes		
- stamp duties	(103)	(80)
- tax on stock exchange contracts	(5)	(4)
- local property taxes	(9)	(9)
- substitute tax (Pres. Decree 601/73)	(25)	(17)
- other	(9)	(8)
Recoveries	**128**	**97**
Total	**(23)**	**(21)**
Total other administrative costs	**(874)**	**(831)**

SECTION 10 - NET PROVISIONS FOR RISKS AND CHARGES – CAPTION 160

10.1 Net provisions for risks and charges: break-down

(€/mil)

	Total 31/12/2005
Net provisions for legal disputes	**(41)**
- net accruals for legal disputes	(38)
- net accruals for personnel legal disputes	(3)
Net accruals for sundry risks and charges	**25**
- provision for tax litigation	27
- renegotiation of mortgage loans	18
- Gest Line dispute	(9)
- premium operations	(2)
- other	(9)
Total	**(16)**

SECTION 11 - NET ADJUSTMENTS TO TANGIBLE ASSETS - CAPTION 170

11.1 Net adjustments to tangible assets: break-down

(€/mil)

Asset/Income component	Depreciation	Impairment adjustments	Write-backs	Net income
A. Tangible assets				
A.1 Owned by the Bank	(166)	-	-	(166)
- for business use	(154)	-		(154)
- for investment	(12)	-	-	(12)
A.2 Leased	(13)	-	-	(13)
- for business use	(13)	-	-	(13)
- for investment	-	-	-	-
Total	**(179)**	-	-	**(179)**
B. Discontinued operations	-	(5)	-	(5)

SECTION 12 - NET ADJUSTMENTS TO INTANGIBLE ASSETS - CAPTION 180

12.1 Net adjustments to intangible assets: break-down

(€/mil)

Asset/Income component	Amortization	Impairment adjustments	Write-backs	Net income
A. Intangible assets				
A.1 Owned by the Bank	(160)	-	-	(160)
- generated internally	(126)	-	-	(126)
- other	(34)	-	-	(34)
A.2 Leased	-	-	-	-
Total	**(160)**	-	-	**(160)**

SECTION 13 - OTHER OPERATING INCOME (EXPENSES) – CAPTION 190

13.1 Other operating expenses: break-down

(€/mil)

Income component/Value	Total 31/12/2005
Other non-recurring expenses	(14)
Other expenses	(3)
Total	**(17)**

13.2 Other operating income: break-down

(€/mil)

Income component/Value	Total 31/12/2005
Cost recoveries	8
Reimbursements for services to Group companies	413
Rent and other income from property	4
Other non-recurring income	24
Other income	9
Total	**458**

Services to banking networks and other Group Companies generating the income shown in the table, are governed by outsourcing contracts.

SECTION 14 - PROFITS (LOSSES) ON INVESTMENTS IN ASSOCIATES AND COMPANIES SUBJECT TO JOINT CONTROL – CAPTION 210

14.1 Profits (losses) from investments: break-down

(€/mil)

Income component/Value	Total 31/12/2005
A. Income	4
1. Revaluations	
2. Profit on disposal	4
3. Write-backs	
4. Other positive changes	
B. Charges	(69)
1. Writedowns	
2. Adjustments for impairment	(69)
3. Losses on disposal	
4. Other negative changes	
Net income	**(65)**

Adjustments for impairment refer to the writedown of the share held in Cassa di Risparmio di Forlì.

Profit on disposal refers for three million euro to the disposal of the share held in Sifin, and for one million euro to other minor investments.

SECTION 15 - NET RESULT OF FAIR VALUE ADJUSTMENT TO TANGIBLE AND INTANGIBLE ASSETS – CAPTION 220

The Bank does not carry out an evaluation at fair value of tangible and intangible assets.

SECTION 16 - IMPAIRMENT OF GOODWILL – CAPTION 230

During the year, the Bank did not carry out impairment of goodwill following the impairment test.

SECTION 17 - PROFITS (LOSSES) ON DISPOSALS OF INVESTMENTS - CAPTION 240

17.1 Profits (losses) on disposals of investments: break-down

(€/mil)

Income component/Value	Total 31/12/2005
A. Property	6
- Profit on disposal	6
- Losses on disposal	
B. Other assets	3
- Profit on disposal	3
- Losses on disposal	
Net income	9

SECTION 18 - INCOME TAXES FOR THE PERIOD – CAPTION 260

18.1 Income taxes for the period: break-down

(€/mil)

Component/Value	Total 31/12/2005	Total 31/12/2004
1. Current taxes (-)	(148)	(43)
2. Changes in current taxes of previous periods (+/-)		
3. Decrease in current taxes of the period (+)		
4. Changes in advanced taxes (+/-)	(142)	(168)
5. Changes in deferred taxes (+/-)	(12)	
6. Taxes for the year (-) (-1+/-2+3+/-4+/-5)	(302)	(211)

18.2 Reconciliation of theoretical and effective tax charges in the financial statements

(€/mil)

	Taxes	%
Income taxes at nominal rate	**547**	**37.3%**
Increases of taxes	**87**	**5.9%**
Greater tax base and actual IRAP rate	47	3.2%
Non-deductible costs (losses on equity investments, ICI [local property tax], staff costs, etc.)	35	2.4%
Other	5	0.3%
Decreases of taxes	**(332)**	**-22.6%**
Non-taxed gains on equity investments	(20)	-1.4%
Dividend-exempt share	(259)	-17.6%
Income subject to facilitated rate (12.5%)	(4)	-0.3%
Effect of law amendment relating to Participation Exemption	(45)	-3.0%
Other	(4)	-0.3%
Total change in taxes	**(245)**	**-16.7%**
Income taxes under the statement of income	**302**	**20.6%**

SECTION 19 - PROFITS (LOSSES) FROM DISCONTINUED OPERATIONS - CAPTION 280

No profits or losses from discontinued operations were realized during the year.

SECTION 20 - OTHER INFORMATION

Further information on the Bank’s results for 2005, including in relation to the various business sectors in which it operates, can be found in the Report on Operations.

SECTION 21 - PROFIT PER SHARE

Pursuant to paragraph 4 of IAS 33, in case of presentation of both the consolidated and the individual financial statements, information required by IAS 33 and relating to the *Profit per share* caption shall be disclosed solely according to consolidated data. Please refer to Section 24 *Profit per share* of Part C of the Explanatory Notes to the Consolidated Financial Statements.

For information on the break-down of the Bank's share capital and on the changes during the year, please refer to Section 14 *Parent Bank shareholders' equity* of Part B of the Explanatory Notes to the Parent Bank Financial Statements.

Part I *Payment agreements based on own financial instruments* shows information on the development and detail of stock option plans.

Finally, for further details on the proposed dividend distribution and the allocation of retained profits please refer to *Proposal of the Financial Statements Approval and distribution of the profit for the period.*

Part D – Segment Reporting

For further details on the primary and secondary segment reporting, please refer to Part D of the Explanatory Notes to the Consolidated Financial Statements.

Part E – Information on risks and risk hedging policies

SECTION 1 – CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

Underlying objectives and strategies relating to loan activities are described in the Report on Group Operations.

2. Credit risk management policies

Organization, measurement and control systems and credit risk mitigation techniques as well as procedures applied in the management and control of impaired assets are described in Part E – Section 1 of the Explanatory Notes to the Consolidated Financial Statements.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A1. Performing and impaired loans: amounts, adjustments, changes, break-down by type and geographical area

A.1.1 Financial assets analyzed by portfolio and credit quality (book value)

(€/mil)

Portfolio/Quantity	Non-performing loans	Problem loans	Restructured loans	Expired loans	Country risk	Other assets	Total 31/12/2005
1. Assets held for trading						5,165	5,165
2. Available-for-sale assets						2,355	2,355
3. Held-to-maturity assets						2,312	2,312
4. Due from banks					46	44,529	44,575
5. Loans to customers	333	387	26	363	16	66,107	67,232
6. Assets designated as at fair value						1,012	1,012
7. Non-current assets and disposal groups classified as held for sale						-	-
8. Hedging derivatives						809	809
Total as at 31/12/2005	**333**	**387**	**26**	**363**	**62**	**122,289**	**123,460**

A.1.2 Financial assets analyzed by portfolio and credit quality (gross and net values)

(€/mil)

Portfolio/Quality	Impaired assets				Other assets			Total
	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	(net exposure)
1. Assets held for trading				-	5,165		5,165	5,165
2. Available-for-sale assets				-	2,355		2,355	2,355
3. Held-to-maturity assets				-	2,312		2,312	2,312
4. Due from banks	2	2	-	-	44,583	8	44,575	44,575
5. Due from customers	2,769	1,587	73	1,109	66,574	451	66,123	67,232
6. Assets designated as at fair value				-	1,012		1,012	1,012
7. Non-current assets and disposal groups classified as held for sale				-	-		-	-
8. Hedging derivatives				-	809		809	809
Total as at 31/12/2005	**2,771**	**1,589**	**73**	**1,109**	**122,810**	**459**	**122,351**	**123,460**

A.1.3 Cash and off-balance sheet loans due from banks: gross and net values

(€/mil)

Type of loan/Value	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH LOANS				
a) Non-performing loans	1	1		-
b) Problem loans	1	1		-
c) Restructured loans				-
d) Expired loans				-
e) Country risk	54	-	8	46
f) Other assets	49,677	-	-	49,677
Total A	**49,733**	**2**	**8**	**49,723**
B. OFF-BALANCE SHEET LOANS				
a) Impaired	-	-	-	-
b) Other	8,972	-	1	8,971
Total B	**8,972**	**-**	**1**	**8,971**

Impaired loans comprise unsecured loans subject to the “Country Risk”, amounting to 0.6 million euro almost totally written down.

Off-balance sheet loans comprise guarantees issued and commitments.

A.1.4 Cash due from banks: changes in impaired loans subject to "country risk" - gross

(€/mil)

Type/Category	Non-performing loans	Problem loans	Restructured loans	Expired loans	Country risk
A. Opening gross exposure	1	1	-	-	25
- of which: loans sold and not cancelled	-	-	-	-	-
B. Increases	-	-	-	-	31
B.1 from performing loans	-	-	-	-	-
B.2 transfer from other categories of impaired loans	-	-	-	-	-
B.3 other increases	-	-	-	-	31
C. Decreases	-	-	-	-	2
C.1 to performing loans	-	-	-	-	-
C.2 cancellations	-	-	-	-	1
C.3 collections	-	-	-	-	1
C.4 arising from sales	-	-	-	-	-
C.5 transfer from other categories of impaired loans	-	-	-	-	-
C.6 other decreases	-	-	-	-	-
D. Closing gross exposure	1	1	-	-	54
- of which: loans sold and not cancelled	-	-	-	-	-

A.1.5 Cash due from banks: changes in total value adjustments

(€/mil)

Type/Category	Non-performing loans	Problem loans	Restructured loans	Expired loans	Country risk
A. Total opening adjustments	**1**	**1**	**-**	**-**	**7**
- of which: loans sold and not cancelled	-	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**	**4**
B.1 adjustments	-	-	-	-	1
B.2 transfer from other categories of impaired loans	-	-	-	-	-
B.3 other increases	-	-	-	-	3
C. Decreases	**-**	**-**	**-**	**-**	**3**
C.1 write-backs due to valuation	-	-	-	-	-
C.2 write-backs due to payment	-	-	-	-	-
C.3 cancellations	-	-	-	-	1
C.4 transfer to other categories of impaired loans	-	-	-	-	-
C.5 other decreases	-	-	-	-	2
D. Total closing adjustments	**1**	**1**	**-**	**-**	**8**
- of which: loans sold and not cancelled	-	-	-	-	-

Loans to banks in countries at risk *(€/mil)*

Country	Gross exposure		
	Total	*of which: unsecured*	
		book value	*weighted value*
Brazil	54	53	52
Other	1	1	1
Total gross exposure	**55**	**54**	**53**
Total adjustments	8	8	
Net exposure as at 31/12/05	**47**	**46**	

A.1.6 Cash and off-balance sheet loans to customers: gross and net values

(€/mil)

Type of loan/Value	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH LOANS				
a) Non-performing loans	1,776	1,443	-	333
b) Problem loans	526	134	5	387
c) Restructured loans	36	10	-	26
d) Expired loans	431	-	68	363
e) Country risk	24	-	8	16
f) Other assets	73,055	-	443	72,612
Total A	**75,848**	**1,587**	**524**	**73,737**
B. OFF-BALANCE SHEET LOANS				
a) Impaired	87	-	25	62
b) Other	37,015	-	45	36,970
Total B	**37,102**	**-**	**70**	**37,032**

Impaired loans comprise unsecured loans subject to the “Country Risk” amounting to 0.6 million euro almost totally written down.

Off-balance sheet loans comprise guarantees issued and commitments.

A.1.7 Cash loans to customers: changes in impaired loans subject to "country risk" - gross

(€/mil)

Type/Category	Non-performing loans	Problem loans	Restructured loans	Expired loans	Country risk
A. Opening gross exposure	**2,029**	**493**	**101**	**-**	**35**
- of which: loans sold and not cancelled	-	-	-	-	-
B. Increases	**339**	**516**	**28**	**524**	**-**
B.1 from performing loans	62	233	-	499	-
B.2 transfer from other categories of impaired loans	119	111	9	3	-
B.3 other increases (a)	158	172	19	22	-
C. Decreases	**592**	**483**	**93**	**93**	**11**
C.1 to performing loans	5	50	-	51	
C.2 cancellations	375	11	0	1	0
C.3 collections	158	284	9	26	11
C.4 arising from sales	29	-	-	-	-
C.5 transfer to other categories of impaired loans	13	130	84	15	-
C.6 other decreases	12	8	0	0	0
D. Closing gross exposure	**1,776**	**526**	**36**	**431**	**24**
- of which: loans sold and not cancelled	-	-	-	-	-

A.1.8 Cash loans to customers: changes in total value adjustments

(€/mil)

Type/Category	Non-performing loans	Problem loans	Restructured loans	Expired loans	Country risk
A. Total opening adjustments	**1,651**	**130**	**26**	**-**	**10**
- of which: loans sold and not cancelled	-	-	-	-	-
B. Increases	**273**	**136**	**9**	**69**	**2**
B.1 adjustments (a)	146	70	1	24	-
B.2 transfer from other categories of impaired loans	45	34	3	-	-
B.3 other increases (b)	82	32	5	45	2
C. Decreases	**481**	**127**	**25**	**1**	**4**
C.1 write-backs due to valuation	24	31	1	-	3
C.2 write-backs due to payment	49	34	0	0	-
C.3 cancellations	375	11	0	1	0
C.4 transfer to other categories of impaired loans	10	48	24	0	-
C.5 other decreases	23	3	0	-	1
D. Total closing adjustments	**1,443**	**139**	**10**	**68**	**8**
- of which: loans sold and not cancelled	-	-	-	-	-

(a) Comprise an overall 46 million euro interest in arrears.

(b) Items "B.3 – Other increases" relating to the performance of impaired loans and value adjustments comprise the reclassification of loans being restructured and of the relevant value adjustments existing as at 12/31/2004 carried out by the competent Corporate Structures. In particular, among other increases relating to the performance of impaired loans being restructured five million euro have been allocated for non-performing loans, 93 million euro for problem loans and 12 million euro for restructured loans and value adjustments for, respectively, three million euro, 26 million euro and four million euro.

Hedging ratio of loans to customers

Category	31/12/2005 (%)
Non-performing loans	81.25
Problem and restructured financing	26.51
Loans due/overdue by more than 180 days	15.78
Unsecured loans to countries at risk	33.33
Performing loans (a)	0.73

(a) The gross amount of performing loans does not comprise loans to Group companies amounting to 5,932 million euro.

Loans to customers in countries at risk *(€/mil)*

Country	Gross exposure		
	Total	*of which: unsecured*	
		book value	*weighted value*
Azerbaijan	50	16	16
Brazil	32	4	4
Argentina	26	3	3
Cayman Islands	72	1	1
Other	12	-	-
Total gross exposure	**192**	**24**	**24**
Total adjustments	8	8	
Net exposure as at 31/12/05	**184**	**16**	

A.2 Break-down of exposures based on external and internal ratings

External ratings are present on 19% of the loans to customers and on 50% of the loans to banks. Since they refer to counterparties belonging to the public and banking sector and to corporate customers of high standing, these ratings are concentrated on the highest classes, as shown in chart 1.

Internal ratings, attributed also to counterparties with external ratings commented on above, cover loans to banks almost completely (99%) and 80% of loans to customers. This coverage is almost total for the Corporate and Small Business sectors, which as described above have been affected during the year by the introduction of new processes conforming to Basel 2. Counterparties with no rating are concentrated in the family sector, where, moreover, the residential mortgage model, which represents the largest portion of the sector, in the course of 2005 has improved, planning its usage during the acceptance process. The introduction of remaining rating models, for other loans issued to retail parties, will be implemented gradually during 2006. For purposes of the calculation of risk indicators, unrated counterparties receive an estimated rating according to average default probabilities.

As regards the breakdown of loans by class of internal rating, given in chart 2, these are classified almost completely in the investment grade area (up to BBB-) as far as banks are concerned. Loans to customers, however, are 75% in the investment grade area, 18% in the intermediate classes (BB) and 7% in the riskiest classes, where the highest risk levels (less than B-) they are almost absent.

Chart 1: break-down of on- and off-balance sheet loans by external rating class

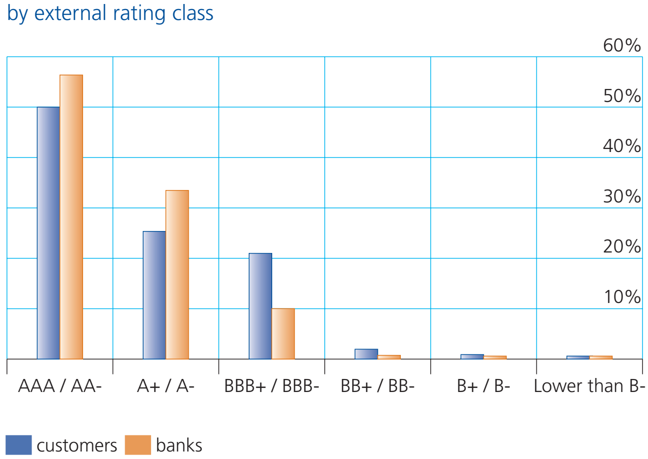
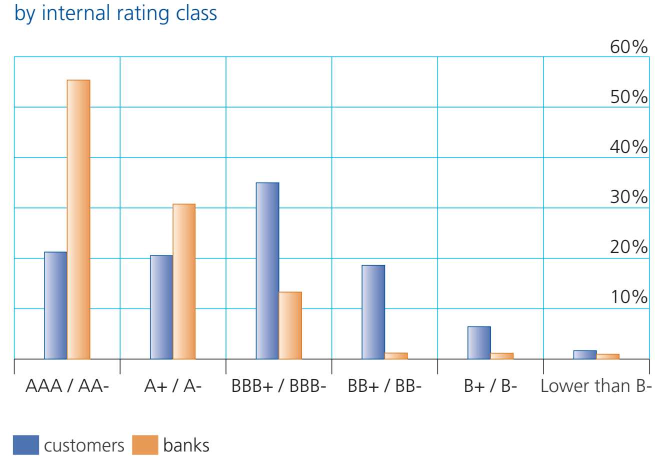


Chart 2: break-down of on- and off-balance sheet loans by internal rating class



A.3 Break-down of guaranteed exposures by type of guarantee

The following tables report the guaranteed amount of loans to banks and customers.

Secured loans to customers

	31/12/2005 (€/mil)
a) From mortgage loans	19,247
b) From pledges on:	
1. cash deposits	1,458
2. securities	2,529
3. other values	316
c) For guarantees from:	
1. governments	1,102
2. other public entities	18
3. banks	416
4. other operators	9,086
Total	**34,172**

Loans to customers secured by banks comprise, for an amount of 67 million euro, positions for which the Bank is a protection buyer against default risks using derivative contracts on loans.

The total effect of "secured loans to customers" and of loans directly granted to a State and to other public entities on total loans to customers equals 52%.

Secured loans due from banks

	31/12/2005 (€/mil)
a) From mortgage loans	
b) From pledges on:	
1. cash deposits	
2. securities	8,647
3. other values	
c) For guarantees from:	
1. governments	
2. other public entities	51
3. banks	13
4. other operators	2
Total	**8,713**

B. Distribution and concentration of loans

Loans to customers by counterparty

	31/12/2005	
	(€/mil)	(%)
Financing to households	15,581	23.2
Financing to family businesses and non-financial companies	37,398	55.6
Financing to financial companies	13,192	19.6
Financing to governments and public entities	731	1.1
Financing to others	134	0.2
Financing to customers	**67,036**	**99.7**
Debt securities	**195**	**0.3**
Loans to customers	**67,231**	**100.0**

Distribution of loans to non-financial companies

	31/12/2005 (€/mil)
a) Other services relating to sales	7,072
b) Commercial, recovery and repair services	4,908
c) Public works	3,405
d) Communication services	2,013
e) Energy products	1,977
f) Other sectors	18,023
Total	**37,398**

Large risks - pursuant to legislation in force, "large risks" are those positions exceeding as a whole 10% of the regulatory capital.

(€/mil)

Asset/Value	Total 31/12/2005
A.1 Amount	6,441
A.2 Number	3

C. SECURITIZATION AND SALE OF ASSET TRANSACTIONS

C.1 Securitization transactions

Qualitative information

The Bank did not carry out securitization transactions pursuant to Italian Law 133/99, it held no shares in vehicle companies and it did not carry out servicer or arranger activities in such transactions.

Quantitative information

C.1.1 Exposures arising from securitization transactions divided by quality of the underlying asset

(€/mil)

Underlying asset quality/Exposure	Cash exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross expo-sure	Net expo-sure	Gross expo-sure	Net expo-sure	Gross expo-sure	Net expo-sure	Gross expo-sure	Net expo-sure	Gross expo-sure	Net expo-sure	Gross expo-sure	Net expo-sure	Gross expo-sure	Net expo-sure	Gross expo-sure	Net expo-sure	Gross expo-sure	Net expo-sure
A. With own underlying assets																		
a) Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. With third party underlying assets																		
a) Impaired	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	354	245	-	-	3	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.3 Exposures arising from main "third party" securitization transactions divided by type of securitization and of exposure

(€/mil)

Type of securitized asset/Exposure	Cash exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Adjust-ments/ Write-backs	Book value	Adjust-ments/ Write-backs	Book value	Adjust-ments/ Write-backs	Book value	Adjust-ments/ Write-backs	Book value	Adjust-ments/ Write-backs	Book value	Adjust-ments/ Write-backs	Book value	Adjust-ments/ Write-backs	Book value	Adjust-ments/ Write-backs	Book value	Adjust-ments/ Write-backs
A.1 Securities	81	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Public real estate assets	35	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Social contributions	115	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A5 Consumer credit	14	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grand total	245	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.4 Exposures to securitizations divided by portfolio and by type

(€/mil)

Exposure/portfolio	Assets held for trading	Financial assets - fair value option	Available for sale assets	Held-to-maturity investments	Loans	Total
1. Cash loans	163	1	-	-	81	245
- Senior	163	1	-	-	81	245
- Mezzanine	-	-	-	-	-	-
- Junior	-	-	-	-	-	-
2. Off-balance sheet loans	-	-	-	-	-	-
- Senior	-	-	-	-	-	-
- Mezzanine	-	-	-	-	-	-
- Junior	-	-	-	-	-	-

The total amount of assets underlying "junior" securities booked in the financial statements at a net value of 0.1 million euro amounts to eight million euro.

Pursuant to Bank of Italy provisions, as at December 31, 2005, as summarized in the table, the Bank's portfolio comprised the following securities deriving from securitization transactions, that is from securities or loan packaging transactions (the so called ABS - *Asset Backed Securities*, MBS - *Mortgage Backed Securities* and CDO - *Collateralized Debt Obligations*).

Financial assets held for trading
- Securities representing securitizations carried out by the Italian State on receivables of the Istituto Nazionale Previdenza Sociale and the Istituto Nazionale Previdenza Dipendenti Pubblica Amministrazione. "Senior" securities, are booked in the financial statements at the book value of 115 million euro, adjusted according to market valuations.
- Securities representing securitizations carried out by the Italian State on receivables from the disposal of public property. "Senior" securities, are booked in the financial statements at the book value of 35 million euro, adjusted according to market valuations.
- Securities representing securitizations carried out on consumer credits of Findomestic S.p.A.. "Senior" securities, are entered in the financial statements at the book value of 14 million euro, adjusted according to market valuations.

Financial assets - fair value option
- Securities representing securitizations on portfolios of performing "emerging markets and high yield bonds and loans" (CDO). Such "junior" securities, have a book value of 0.1 million euro after total write downs amounting to four million euro, mainly posted in previous years. The relevant underlying securitized assets equal eight million euro.
- Securities representing securitizations on receivables arising from the commercial exploitation of film rights of the Cecchi Gori Group. Such "senior" securities, are written down in previous years for a total of eight million euro, and are booked in the financial statements at the value 0.4 million euro, and adjusted according to market valuations.

Loans
- Securities representing securitizations on issues made up of securities of French banks. "Senior" securities, are booked in the financial statements at the book value of 81 million euro, adjusted according to market valuations.

C.2 Disposal transactions

C.2.1 Investments sold and not cancelled:

(€/mil)

Technical type/Portfolio	Assets held for trading			Financial assets designated as at fair value			Available-for-sale assets			Held-to-maturity investments			Loans to banks			Loans to customers			Total
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31/12/05
A. Cash assets	**1,550**	**-**	**-**	**251**	**-**	**-**	**71**	**-**	**-**	**1,766**	**-**	**-**	**1,546**	**-**	**-**	**-**	**-**	**-**	**5,184**
1. Debt securities	1,550			251			71			1,766			1,546						5,184
2. Equities																			-
3. OICR																			-
4. Loans																			-
5. Impaired assets																			-
B. Derivative instruments																			-
Total as at 31/12/2005	**1,550**	**-**	**-**	**251**	**-**	**-**	**71**	**-**	**-**	**1,766**	**-**	**-**	**1,546**	**-**	**-**	**-**	**-**	**-**	**5,184**

Key:
A = assets sold reported at full amount (book value)
B = assets sold reported at partial amount (book value)
C = assets sold reported at partial amount (full value)

Financial assets sold and not cancelled are entirely represented by debt securities sold through reverse purchase agreements.

Financial liabilities for assets disposed of and not written off the financial statements refer to reverse repurchase agreements for 5,201 million euro to customers and for 5,214 million euro to banks, representing repurchase agreements against own financial assets or repurchase agreements.

D. MODELS FOR MEASURING CREDIT RISK

The synthetic risk indicators show a material stability in the credit quality of the portfolio over the course of the year: in particular, the expected loss of loans to customers, at year end, is 0.38% of loans, a slight decrease on the 0.39% recorded at the end of 2004 (on a homogeneous basis).

Economic capital is 4.4% of loans, with a marginal increase compared to the 4.3% figure recorded at the end of 2004.

SECTION 2 – MARKET RISKS

2.1 General aspects

With regard to the basic principles, the organizational structure, the general aspects relating to market risk management procedures and the measurement methods used, please refer to Part E – Section 1 of the Explanatory Notes to the Consolidated Financial Statements and to the relevant report on operations.

Generally speaking, the financial risk profile of SANPAOLO IMI S.p.A. originates above all from the banking portfolio, due to the fact that the Parent Bank does not carry out trading activities in the strict sense of the term. The banking portfolio comprises the exposure to market risks arising from equity investments directly held by the Parent Bank in companies listed and not consolidated on a line by line basis or under the equity method.

2.2.3. Quantitative information

The interest rate risk of the banking portfolio of SANPAOLO IMI S.p.A, measured in terms of sensitivity analysis on the fair value, amounted in 2005 to an average four million euro. As at the end of December the fair value sensitivity equaled 30 million euro.

The interest margin sensitivity, in case of an increase by 25 basis points of the rates, equaled, at the end of December, eight million euro. In case of a decrease, sensitivity was negative totaling five million euro. The VaR of the interest rate component of the banking portfolio floated during the same period around the average value of 31 million euro and reached 60 million euro at the end of December.

Equity price risk, measured with VaR, is essentially linked to the holding of an equity investment in Santander Central Hispano and reached an average level of 43 million euro during 2005, with a minimum threshold of 35 million euro and a maximum threshold of 62 million euro achieved at the end of 2005.

2.6 Financial derivative instruments

A. Financial derivatives

A.1 Regulatory trading portfolio: end-of-period notional values

(€/mil)

Type of transaction/Underlying instrument	Debt securities and interest rates		Equities and equity price index		Exchange rate and gold		Other values		Total as at 31/12/2005	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
1. Forward rate agreement		756							-	756
2. Interest rate swap		61,716							-	61,716
3. Domestic currency swap									-	-
4. Currency interest rate swap						89			-	89
5. Basis swap		6,838							-	6,838
6. Equity index swaps									-	-
7. Real index swaps									-	-
8. Futures									-	-
9. Cap options	-	-	-	-	-	-	-	-	-	-
- Purchased									-	-
- Issued									-	-
10. Floor options	-	-	-	-	-	-	-	-	-	-
- Purchased									-	-
- Issued									-	-
11. Other options	-	2,628	-	661	-	4,656	-	-	-	7,945
- Purchased	-	1,314	-	363	-	2,327	-	-	-	4,004
- Plain vanilla		1,314		106		2,034			-	3,454
- Exotic				257		293			-	550
- Issued	-	1,314	-	298	-	2,329	-	-	-	3,941
- Plain vanilla		1,314		41		2,027			-	3,382
- Exotic				257		302			-	559
12. Forward agreements	-	-	-	-	-	17,123	-	-	-	17,123
- Purchase						12,184			-	12,184
- Sales						3,401			-	3,401
- Currency against currency						1,538			-	1,538
13. Other derivative contracts								50	-	50
Total	-	**71,938**	-	**661**	-	**21,868**	-	**50**	-	**94,517**

A.2 Banking portfolio: end-of-period notional values

A.2.1 Hedging instruments

(€/mil)

Type of transaction/Underlying instrument	Debt securities and interest rates		Equities and equity price index		Exchange rate and gold		Other values		Total as at 31/12/2005	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
1. Forward rate agreement		100							-	100
2. Interest rate swap		21,639							-	21,639
3. Domestic currency swap									-	-
4. Currency interest rate swap						2,631			-	2,631
5. Basis swap		1,924							-	1,924
6. Equity index swaps									-	-
7. Real index swaps									-	-
8. Futures									-	-
9. Cap options	-	-	-	-	-	-	-	-	-	-
- Purchased									-	-
- Issued									-	-
10. Floor options	-	-	-	-	-	-	-	-	-	-
- Purchased									-	-
- Issued									-	-
11. Other options	-	375	-	-	-	-	-	-	-	375
- Purchased	-	301	-	-	-	-	-	-	-	301
- Plain vanilla		301							-	301
- Exotic									-	-
- Issued	-	74	-	-	-	-	-	-	-	74
- Plain vanilla		74							-	74
- Exotic									-	-
12. Forward agreements	-	-	-	-	-	43	-	-	-	43
- Purchase									-	-
- Sales						43			-	43
- Currency against currency									-	-
13. Other derivative contracts									-	-
Total	-	**24,038**	-	-	-	**2,674**	-	-	-	**26,712**

A.2 Banking portfolio: end-of-period notional values

A.2.2 Other derivatives

(€/mil)

Type of transaction/Underlying instrument	Debt securities and interest rates		Equities and equity price index		Exchange rate and gold		Other values		Total as at 31/12/2005	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
1. Forward rate agreement									-	-
2. Interest rate swap		997							-	997
3. Domestic currency swap									-	-
4. Currency interest rate swap									-	-
5. Basis swap									-	-
6. Equity index swaps									-	-
7. Real index swaps									-	-
8. Futures									-	-
9. Cap options	-	-	-	-	-	-	-	-	-	-
- Purchased									-	-
- Issued									-	-
10. Floor options	-	-	-	-	-	-	-	-	-	-
- Purchased									-	-
- Issued									-	-
11. Other options	-	62	-	3,740	-	-	-	-	-	3,802
- Purchased	-	31	-	1,766	-	-	-	-	-	1,797
- Plain vanilla		31		632					-	663
- Exotic				1,134					-	1,134
- Issued	-	31	-	1,974	-	-	-	-	-	2,005
- Plain vanilla		31		922					-	953
- Exotic				1,052					-	1,052
12. Forward agreements	-	-	-	-	-	-	-	-	-	-
- Purchase									-	-
- Sales									-	-
- Currency against currency									-	-
13. Other derivative contracts									-	-
Total	-	1,059	-	3,740	-	-	-	-	-	4,799

A.3 Financial derivatives: purchase and sale of underlying instruments

(€/mil)

Type of transaction/Underlying instrument	Debt securities and interest rates		Equities and equity price index		Exchange rate and gold		Other values		Total as at 31/12/2005	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
A. Regulatory trading portfolio:	**-**	**66,063**	**-**	**661**	**-**	**21,868**	**-**	**50**	**-**	**88,642**
1. Transactions with underlying asset exchange	-	-	-	-	-	21,868	-	-	-	21,868
- Purchase						14,314			-	14,314
- Sale						5,525			-	5,525
- Currency against currency						2,029			-	2,029
2. Transactions without underlying asset exchange	-	66,063	-	661	-	-	-	50	-	66,774
- Purchase		31,836		363				25	-	32,224
- Sale		34,227		298				25	-	34,550
- Currency against currency										
B. Banking portfolio										
B.1 Hedging instruments	**-**	**22,115**	**-**	**-**	**-**	**2,674**	**-**	**-**	**-**	**24,789**
1. Transactions with underlying asset exchange	-	-	-	-	-	2,674	-	-	-	2,674
- Purchase						2,631			-	2,631
- Sale						43			-	43
- Currency against currency										
2. Transactions without underlying asset exchange	-	22,115	-	-	-	-	-	-	-	22,115
- Purchase		17,988							-	17,988
- Sale		4,127							-	4,127
- Currency against currency									-	-
B.2 Other derivatives	**-**	**96**	**-**	**3,741**	**-**	**-**	**-**	**-**	**-**	**3,837**
1. Transactions with underlying asset exchange	-	-	-	1,502	-	-	-	-	-	1,502
- Purchase				284					-	284
- Sale				1,218					-	1,218
- Currency against currency									-	-
2. Transactions without underlying asset exchange	-	96	-	2,239	-	-	-	-	-	2,335
- Purchase		62		1,157					-	1,219
- Sale		34		1,082					-	1,116
- Currency against currency										

A.4 Financial derivatives: Over the counter: positive fair value - counterparty risk

(€/mil)

Counterparty/Underlying instrument	Debt securities and interest rates			Equities and equity price index			Exchange rate and gold			Other values			Different underlying instruments	
	Gross unsettled	Gross settled	Future exposure	Gross unsettled	Gross settled	Future exposure	Gross unsettled	Gross settled	Future exposure	Gross unsettled	Gross settled	Future exposure	Settled	Future exposure
A. Regulatory trading portfolio														
A.1 Governments and central banks	-	-	-	-	-	-	-	-	-	-	-		-	-
A.2 Public entities	12	-	-	-	-	-	1	-	1	-	-		-	-
A.3 Banks	1	619	-	-	28	22	8	184	8	1	-	3	342	123
A.4 Financial institutions	7	7	2	-	6	2	8	-	7	-	-		12	5
A.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-		-	-
A.6 Non-financial companies	4	-	2	-	-	-	25	-	10	-	-		-	-
A.7 Other entities	128	-	28	-	-	6	67	-	27	-	-		-	-
Total as at 31/12/2005	**152**	**626**	**32**	**-**	**34**	**30**	**109**	**184**	**53**	**1**	**-**	**3**	**354**	**128**
B. Banking portfolio														
B.1 Governments and central banks	-	-	-	-	-	-	-	-		-	-	-	-	-
B.2 Public entities	-	-	-	-	-	-	-	-		-	-	-	-	-
B.3 Banks	-	704	-	-	156	21	-	5	-	-	-	-	272	157
B.4 Financial institutions	-	101	-	-	-	-	-	-		-	-	-	98	10
B.5 Insurance companies	-	-	-	-	-	-	-	-		-	-	-	-	-
B.6 Non-financial companies	-	-	-	-	-	-	-	-		-	-	-	-	-
B.7 Other entities	-	-	-	-	-	1	-	-		-	-	-	-	-
Total as at 31/12/2005	**-**	**805**	**-**	**-**	**156**	**22**	**-**	**5**	**-**	**-**	**-**	**-**	**370**	**167**

A.5 Over the counter financial derivatives: negative fair value - financial risk

(€/mil)

Counterparty/Underlying instrument	Debt securities and interest rates			Equities and equity price index			Exchange rate and gold			Other values			Different underlying instruments	
	Gross unsettled	Gross settled	Future exposure	Gross unsettled	Gross settled	Future exposure	Gross unsettled	Gross settled	Future exposure	Gross unsettled	Gross settled	Future exposure	Settled	Future exposure
A. Regulatory trading portfolio														
A.1 Governments and central banks	30	-	3	-	-	-	-	-		-	-		-	-
A.2 Public entities	-	-	-	-	-	-	-	-		-	-		-	-
A.3 Banks	1	886	-	-	10	-	8	137	9	-	-		272	37
A.4 Financial institutions	2	3	6	-	-	-	-	6	1	-	-		18	1
A.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-		-	-
A.6 Non-financial companies	1	-	1	-	-	-	5	-	1	-	-	3	-	-
A.7 Other entities	27	-	22	20	-	-	26	-	5	-	-		-	-
Total as at 31/12/2005	**61**	**889**	**32**	**20**	**10**	**-**	**39**	**143**	**16**	**-**	**-**	**3**	**290**	**38**
B. Banking portfolio														
B.1 Governments and central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Public entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 Banks	-	302	-	-	-	-	-	396	-	-	-	-	377	35
B.4 Financial institutions	-	-	1	-	-	-	-	47	-	-	-	-	47	1
B.5 Insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.6 Non-financial companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.7 Other entities	6	-	1	162	-	-	-	-	-	-	-	-	-	-
Total as at 31/12/2005	**6**	**302**	**2**	**162**	**-**	**-**	**-**	**443**	**-**	**-**	**-**	**-**	**424**	**36**

A.6 Residual maturity of over the counter financial derivatives: notional values

(€/mil)

Underlying/Residual maturity	Up to 1 year	1 to 5 years	Over 5 years	Total
A. Regulatory trading portfolio				
A.1 Financial derivatives on debt securities and interest rates	40,685	23,164	8,089	71,938
A.2 Financial derivatives on equities and interest rates	485	176	-	661
A.3 Financial derivatives on exchange rate and gold	21,051	725	92	21,868
A.4 Financial derivatives on others	50	-	-	50
B. Banking portfolio				
B.1 Financial derivatives on debt securities and interest rates	7,363	12,833	4,901	25,097
B.2 Financial derivatives on equities and interest rates	528	1,891	1,321	3,740
B.3 Financial derivatives on exchange rate and gold	1,777	591	306	2,674
B.4 Financial derivatives on others				-
Total as at 31/12/2005	**71,939**	**39,380**	**14,709**	**126,028**

B. Credit derivatives

B.1 Credit derivatives: end-of-period notional values

(€/mil)

Type of transaction	Regulatory trading portfolio		Other transactions	
	Single subject	Basket	Single subject	Basket
1. Hedging purchases				
1.1 With underlying asset exchange				
credit default swap	12	110	67	-
1.2 Without underlying asset exchange				
credit default swap	-	2,097	-	-
TOTAL as at 31/12/2005	**12**	**2,207**	**67**	**-**
2. Hedging sales				
2.1 With underlying asset exchange				
credit default swap	12	110	-	-
2.2 Without underlying asset exchange				
credit default swap	-	150	-	-
credit linked notes	-	6	-	-
TOTAL as at 31/12/2005	**12**	**266**	**-**	**-**

B.2 Credit derivatives: positive fair value - counterparty risk

(€/mil)

Type of transaction/Values	Notional value	Positive fair value	Future exposure
A. REGULATORY TRADING PORTFOLIO	1,185	8	12
A.1 Hedging purchases with counterparties:	979	7	10
1 Governments and central banks	-	-	-
2 Other public entities	-	-	-
3 Banks	937	7	9
4 Financial companies	42	-	1
5 Insurance businesses	-	-	-
6 Non-financial companies	-	-	-
7 Others	-	-	-
A.2 Hedging sales with counterparties:	206	1	2
1 Governments and central banks			
2 Other public entities			
3 Banks	56	1	-
4 Financial companies	150	-	2
5 Insurance businesses	-	-	-
6 Non-financial companies	-	-	-
7 Others	-	-	-
B. BANKING PORTFOLIO	67	-	-
B.1 Hedging purchases with counterparties:	67	-	-
1 Governments and central banks	-	-	-
2 Other public entities	-	-	-
3 Banks	67	-	-
4 Financial companies	-	-	-
5 Insurance businesses	-	-	-
6 Non-financial companies	-	-	-
7 Others	-	-	-
B.2 Hedging sales with counterparties:	-	-	-
1 Governments and central banks	-	-	-
2 Other public entities	-	-	-
3 Banks	-	-	-
4 Financial companies	-	-	-
5 Insurance businesses	-	-	-
6 Non-financial companies	-	-	-
7 Others	-	-	-
Total as at 31/12/2005	1,252	8	12

B.3 Credit derivatives: negative fair value - financial risk

(€/mil)

Type of transaction/Values	Notional value	Negative fair value
REGULATORY TRADING PORTFOLIO		
1. Hedging purchases with counterparties:	1,240	1
1.1 Governments and central banks	-	-
1.2 Other public entities	-	-
1.3 Banks	655	1
1.4 Financial companies	585	-
1.5 Insurance businesses	-	-
1.6 Non-financial companies	-	-
1.7 Others	-	-
Total as at 31/12/2005	1,240	1

In its regulatory trading portfolio, the Bank further holds credit derivatives with a sales protection position having a negative fair value and a total notional value of 72 million euro.

B.4 Residual maturity of credit derivative contracts: notional values

(€/mil)

Underlying/Residual maturity	Up to 1 year	1 to 5 years	Over 5 years	Total
A. REGULATORY TRADING PORTFOLIO				
A.1 Credit derivatives with qualified reference obligation	200	1,025	1,272	2,497
A.2 Credit derivatives with unqualified reference obligation	-	-	-	-
B. BANKING PORTFOLIO				
B.1 Credit derivatives with qualified reference obligation	-	-	-	-
B.2 Credit derivatives with unqualified reference obligation	-	67	-	67
Total as at 31/12/2005	200	1,092	1,272	2,564

SECTION 3 – LIQUIDITY RISK

QUALITATIVE INFORMATION

As far as the Parent Company's role in the liquidity risk management is concerned, please refer to Part E – Section 1 of the Explanatory Notes to the Consolidated Financial Statements.

QUANTITATIVE INFORMATION

1. Break-down by contractual residual maturity of financial assets and liabilities

(€/mil)

Caption/Time interval	On demand	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years	Beyond 5 years	Indefinite duration	Total
A. Assets							
A.1 Investments held for trading *	499	50	314	1,689	1,342	-	3,894
A.2 Financial assets designated as at fair value	2	10	294	141	565	-	1,012
A.3 Available-for-sale investments **	-	240	-	279	278	10	807
A.4 Investments held to maturity	-	117	1	1,625	569	-	2,312
A.5 Due from banks	2,077	20,750	7,519	7,842	6,346	41	44,575
A.6 Loans to customers	9,305	16,238	6,416	18,375	15,755	926	67,015
A.7 Off-balance sheet transactions	3,113	44,776	24,279	23,627	6,808	-	102,603
Total assets	**14,996**	**82,181**	**38,823**	**53,578**	**31,663**	**977**	**222,218**
B. Liabilities							
B.1 Due to banks	5,974	23,509	6,175	5,798	3,241	-	44,697
B.2 Due to customers	35,297	14,240	1,017	137	1,108	-	51,799
B.3 Securities issued	474	1,929	2,688	12,884	6,856	-	24,831
B.4 Financial liabilities held for trading *	1	-	-	-	-	-	1
B.5 Financial liabilities evaluated at fair value	-	-	-	-	-	-	-
B.6 Off-balance sheet transactions	3,868	45,162	28,785	16,947	7,841		102,603
Total liabilities	**45,614**	**84,840**	**38,665**	**35,766**	**19,046**	-	**223,931**

* *Financial assets/liabilities held for trading purposes comprise only cash assets/liabilities.*
** *Available-for-sale assets do not comprise equities.*
Cash transactions subject to fair value hedging are net of gains/losses.

2. Break-down of financial liabilities by sector

(€/mil)

Exposure/Counterparty	Governments and central banks	Other public entities	Financial companies	Insurance businesses	Non-financial companies	Others
A.1 Due to customers	944	487	10,767	965	14,942	23,810
A.2 Securities issued						25,026
A.3 Financial liabilities held for trading	-	-	-	-	-	1,328
A.4 Financial liabilities evaluated at fair value	-	-	-	-	-	-
TOTAL as at 31/12/2005	**944**	**487**	**10,767**	**965**	**14,942**	**50,164**

3. Break-down of financial liabilities by region

(€/mil)

Exposure/Counterparty	Italy	Other European countries	America	Asia	Rest of the world
A.1 Due to customers	40,234	3,354	7,306	555	466
A.1 Due to banks	19,723	15,677	1,615	2,811	4,895
A.2 Securities issued	23,564	384	1,027	51	-
A.3 Financial liabilities held for trading	1,270	34	18	6	-
A.4 Financial liabilities evaluated at fair value	-	-	-	-	-
TOTAL as at 31/12/2005	**84,791**	**19,449**	**9,966**	**3,423**	**5,361**

SECTION 4 – OPERATIONAL RISKS

QUALITATIVE INFORMATION

Internal operating risk measurement and management systems as well as organizational structures provided for such functions are described in Part E – Section 1 of the Explanatory Notes to the Consolidated Financial Statements.

With regard to pending suits, the following should be noticed.

The Cirio group insolvency in respect of the sale of bonds

In November 2002, the Cirio group, one of the largest Italian groups operating in the agro-industrial sector, was declared insolvent in respect of the repayment of a loan issued on the Euromarket. This event led to a cross default on all the existing issues. The bonds issued by the Cirio group had a nominal value totaling around 1.25 billion euro. SANPAOLO IMI S.p.A. had issued loans to the Cirio Group.

Consob proceedings in relation to operations carried out on Cirio bonds

Following the investigations carried out in April-October 2003, in relation to SANPAOLO IMI's dealings in Cirio bonds during the 2000-2002 three-year period, in a letter of 4 May 2004, Consob raised a series of claims of alleged violation of the regulations governing the sector in which SANPAOLO IMI supposedly operated when trading in the aforementioned bonds.

These claims were notified to the Bank, the members of the Board of Directors and to the Board of Statutory Auditors in office at the time of the dealings, as well as to some company directors who, at various levels, were considered responsible for the activities connected to the alleged irregularities.

Both the Bank and the other accused parties have moved to formulate their statements for their defense. The administrative proceedings were concluded through a decree issued by the Ministry of Finance on 28 February 2005 which, accepting the proposal made by Consob, inflicted fines on each of the accused but it was the Bank which was ordered to pay the relevant amounts, being jointly liable with the other parties according to Art. 195, subsection 9 of D.Lgs. 58/1998.

The Bank and each of the sanctioned parties have appealed against the aforementioned ruling before the competent Court of Appeal of Turin. The relative proceedings were concluded with a measure published on 18 January 2006, in which the Court has rejected the defensive arguments of the opponents, consequently confirming the sanctions decided by the Ministry of Finance, with the exception of three individual positions in relation to which one has ascertained an invalidating defect as to the notification. The Bank has in the meanwhile provided, in its capacity of joint obligor with the parties subject to the sanctions, to comply with the payment order issued to it, reserving itself the right to value, with its consultants, the existence of elements that may serve to corroborate a possible impugnation before the Court of Cassation.

Criminal investigations related to Cirio

At the same time, the Criminal Courts are investigating a number of credit institutions, including SANPAOLO IMI, concerning dealing activities with savers in relation to bonds issued by Cirio group companies and the management of financial activities with the aforementioned group. The investigations, the preliminary stage of which was completed on 11 May 2005, involve also some corporate people, including two Directors who are no longer in office.

Confident of the absolute regularity, in general terms, of the Company's activities in relation to the investigations being carried out by the Criminal Courts and, in particular, of the total lack of involvement of the aforementioned company representatives, the Bank is monitoring the development of the proceedings under way.

IMI Sir dispute

Other assets include 1.3 million euro which refer to the estimated realizable value of the credit which was definitively enforced by the Civil Section of the Court of Cassation through sentence no. 2469/03. This sentence has substantially confirmed decision no. 2887, passed by the Rome Court of Appeal on 11 September 2001, which condemned Consorzio Bancario SIR S.p.A. (in liquidation) to reimburse to the Bank the sum of 506 million euro previously paid by IMI to the heirs of Mr. Nino Rovelli as compensation for damages, in accordance with the sentence passed by the Rome Court of Appeal on 26 November 1990. However, the sentence changed the ruling on the amount of interest payable by the Consorzio - on the grounds of procedures and not of merit - in respect of whether or not it should include the amount matured from the date on which the appeal was served (equal to around 72.5 million euro as of 31 December 2001). Furthermore, the Court of Cassation referred to another section of the Rome Appeal Court the decision on whether or not the total amount owed to the Bank by the Consorzio should be reduced by approximately 14.5 million euro, as compensation for the damages related to the transaction between the Consorzio and IMI in respect of the additional agreement of 19 July 1979: if the trial judge holds the claim amount unjustified, the sentence against the Consorzio to pay the sum of 506 million euro will be reduced accordingly. In this respect, proceedings have begun within the terms, for the resummons of the sentence before the Rome Court of Appeal, where judgment is currently pending.

The same Court of Cassation sentence passed final judgment on the right of the Consorzio to be held harmless by Mrs. Battistella Primarosa (heir to Mr. Nino Rovelli) and Eurovalori S.p.A. The Court of Cassation also endowed the Consorzio's right to recourse as subordinate to the previous payment of the amount owed to SANPAOLO IMI S.p.A. and assigned the sentence on this particular appeal to the trial judge. Judgment commenced in February 2004 and is still under way.

For the purposes of preparing the financial statements, the book value of the credit subject to the Court of Cassation sentence has been calculated in accordance with applicable accounting standards as regards revenue recognition on the basis of its estimated realizable value, as confirmed by authoritative opinions.

With reference to the above, taking into account that the initiatives taken so far have not achieved tangible results, the Bank has considered that the estimated realizable value of the amount receivable in question should be within the bounds of the Consorzio's capital and its ability to pay; such amount, net of the effects attributable to the previously mentioned Court of Cassation sentence, being substantially in line with that currently recorded.

In line with the estimated value of the amount receivable, it is worth noting that, since 2001, the investment held in the Consorzio has been written down to zero.

As regards the civil initiatives undertaken as part of the criminal proceedings in relation to the payment of offence damages, it is underlined that on 29 April 2003, the Criminal Section IV of the Court of Milan, finally sentenced Rovelli's heir and the other co-defendants to different terms of imprisonment in relation to their respective levels of responsibility for the crimes committed, as well as to pay the sum of 516 million euro to the plaintiffs as moral damage.

The above sentence was overruled by the Criminal Section II of the Milan Court of Appeal, through a sentence issued on 23 May 2005, which, by confirming (though with the mitigation of penalties) the responsibility of the defendants concerning the corruption case that affected the outcome of the IMI Sir dispute, has also revoked the sentence against the defendants to pay damages for moral injury, giving the civil court judge the task to establish the amount of the total offence damages. Such sentence was appealed against and it is currently being examined by the Supreme Court.

In the context, it is extremely clear that the actual amount receivable from Consorzio Bancario SIR S.p.A. in liquidation is correct.

Risks resulting from customer claims on dealing activities in securities

As far as claims are concerned submitted by default bond holding customers, the Groups policy provides for the Bank to carefully value adequacy profiles of financial products sold based on the position of single investors.

The risks linked to claims relating to securities are faced drawing on the accruals to provisions for risks and charges. The amount of such provisions as at December 31, 2005 was 9.9 million euro.

GEST Line dispute

GEST Line S.p.A. is the SANPAOLO IMI Group company that carries out tax collection activities, created as a result of the merger of Gerico, Sanpaolo Riscossioni Genova, Sanpaolo Riscossioni Prato and Esaban tax collecting companies.

The risks connected to this dispute are almost exclusively attributable to a dispute with the tax authorities in respect of claims of irregularities and vary by nature and size according to the business of each merged company.

With reference to Gerico S.p.A., previously a subsidiary of the former Cardine Banca which was later merged by incorporation into SANPAOLO IMI S.p.A., there are a number of administrative and accounting proceedings pending, filed by local Tax Offices and by the General

Accounting Office for alleged tax irregularities that give rise to liabilities owing to failure to collect taxes. More specifically, the aforementioned proceedings are connected with alleged irregularities committed by some tax collection officials while carrying out report drafting activities during inspections at delinquent taxpayers' premises. These proceedings are still pending, being dealt by either first or higher-instance courts, and are constantly defended by the legal professionals engaged by the company.

The dispute involving Esaban S.p.A. (a company in the tax collection sector of former Banco di Napoli, which incorporated all the other tax collection companies of the Group, changing its name to GEST Line S.p.A.) originated from a series of provisions denying the reimbursements issued by the tax authorities in the years 1999 – 2001, all appealed against following the hierarchical line.

The risks connected with the Gerico S.p.A. and Esaban S.p.A. disputes are covered by unlimited guarantees already received by the aforementioned companies from the companies transferring the respective tax collection branches of business (each of the savings banks then merged into Cardine Banca and former Banco di Napoli). The abovementioned guarantees cover any losses or contingent liabilities following events prior to the respective dates of transfer and expire in 2005, without prejudice to the court cases pending on that date, for which the abovementioned guarantee is also valid beyond the said expiry date. In the light of the events involving the merger of Cardine Banca and Banco di Napoli, SANPAOLO IMI took over the commitments deriving from the aforementioned guarantees, the risks of which are, as a whole, covered by appropriate accruals.

Pursuant to Article 1, commas 426, 426 bis and 426 ter of law no. 311/2004, the facility has been granted to concessionary companies of correcting, with regard to the inland revenue and other bodies, the administrative responsibilities deriving from the activity carried out until 30 June 2005 by means of payment of a fixed amount per inhabitant served.
GEST Line has decided to adhere to the abovementioned correction by making the first of three payments, equal to 40% of the total sum to pay.

Revocatory actions filed by the Commission for the Parmalat group companies under insolvency

In the period between the end of 2004 and mid-2005, the Commission for the Parmalat group companies filed against the SANPAOLO IMI Group - as well as against many other Italian and foreign banks - a series of revocatory actions pursuant to Art. 67 subsection 2 of the Bankruptcy Law, aimed at obtaining repayment of all remittances of funds made on current accounts held with SANPAOLO IMI S.p.A. by Parmalat group companies in the year before the insolvency proceedings were instituted.

The total amount claimed in the six proceedings thus instituted is equal to approximately 1,197 million euro.

Following the internal preliminary investigation on the legitimacy of the claims, it was considered, in agreement with the legal advisors who assist the Bank in the legal dispute, that the risk associated with these judgments is barely significant compared to the actual amounts of the claims, as many preliminary legal exceptions could resolve the dispute favorably and also because the claims for the repayment of the sums lack the requisites to be treated as payments. With some decisions issued between the end of 2005 and the beginning of 2006, the Court of Parma has seen fit, as not manifestly unfounded and significant for purposes of the decision, to defer the questions of legitimacy raised both by the Bank and by other Banks within the context of their respective legal actions aimed at revocation to the scrutiny of the Constitutional Court. The matter will remain suspended until the decision of the Court.

Such risk is sufficiently covered by specific accruals to provisions for risks and charges drawn on for losses on legal disputes.

Anatocism

In March 1999, the Court of Cassation declared the quarterly capitalization of interest payable to be illegitimate, thereby completely changing the previous law based on the assumption that the relevant clauses in bank contracts do not integrate "regulatory" use as believed in the past, but rather "trading" use, which contrasts with the prohibition of anatocism pursuant to Art. 1283 of the Italian Civil Code.

The subsequent D.Lgs. no. 342 of 1999 confirmed the legitimacy of capitalization of interest in current accounts, as long as it has the same periodicity of calculating interest for both debt and credit interest. From the date of this regulation coming into force (April 2000), all current account operations have been brought into line, with quarterly capitalization of both interest income and expense. Therefore the dispute which has arisen about this concerns only those contracts which were agreed before the indicated date.

With the decision of both its Sections on 4/11/2004, the Court of Cassation has again excluded the possibility that said use may become the rule. This ruling by the Court of Cassation has not moreover eliminated the possibility of maintaining (on the basis of profiles different from those examined) the legitimacy of methods of infra-annual interest calculation: in some cases the prevailing legislation has actually recognized the soundness of these different profiles.

The overall number of pending cases is at an insignificant level in absolute terms, and is the subject of careful monitoring. The risks related to these disputes are covered by prudential allocations to the provision for other risks and charges, commensurate with the amount of individual requests by the court. Also in case no specific amount is requested (on the part of the party who brings the case to court) and until the judicial accounting appraisal is carried out at the investigating stage, the risk of legal dispute is catered for by adequate allocations to the provisions for risks and charges covering pending legal disputes.

Part F – Information on shareholders' equity

SECTION 1 – PARENT BANK SHAREHOLDERS' EQUITY

With regard to the break-down of the Bank's shareholders' equity and the definition of the statutory and tax regime of its components, refer to Section 14 – Liabilities of the Explanatory Notes.

That Section also contains the changes that occurred in the year in the valuation reserves as provided for by the international accounting standards.

SECTION 2 – REGULATORY CAPITAL AND SOLVENCY RATIOS

2.1 Regulatory capital

A. Qualitative information

For the definition of Regulatory Capital and the key rules set forth in the regulations on prudential ratios, see Section F of the Explanatory Notes of the Consolidated Financial Statements.

As for the regulation applicable at individual level as at December 31, 2005 it is deemed appropriate to highlight the following.

SANPAOLO IMI S.p.A. took advantage of the facility to prepare individual prudential notifications as at December 31, 2005 on the basis of the regulations presented in the technical note attached to the letter by the Bank of Italy dated August 10, 2005 No. 778442 (in relation to the companies that prepare individual financial statements and regulatory notifications in accordance with IAS/IFRS), integrated by further guidelines provided on December 15, 2005 in letter No. 1211318 on the regulations on "prudential filters". At the individual level, the provisions on "prudential filters" for banks will come into effect starting from the notifications as at June 30, 2006 except for the provisions on the deduction from the regulatory capital of the shareholdings held in insurance companies and the shareholding in the capital of the Bank of Italy (starting from December 31, 2005).

In accordance with the rules indicated in the said letter by the Bank of Italy, the regulatory capital is determined by applying a series of adjustments to the shareholders' equity in IAS/IFRS financial statements. In other words, the regulatory capital is the algebraic sum of the following components:
- Regulatory Capital, identified in accordance with the Italian GAAP as at December 31, 2004 (all the FTA adjustments have been balanced with the same type of asset and liability that generated them);
- changes in the shareholders' equity which occurred in 2005:
  - paid capital increases made as a result of the exercise of stock options;
  - changes in income reserves following the definition of the distributed dividend for 2004;
  - changes in the specific reserve for stock options;
  - purchase/sale of own shares during the year;
- income for 2005 calculated in accordance with IAS/IFRS with the following adjustments, net of the tax effect:
  - reversal of write-backs of loans value owing to the time related to the increased actualization adjustments made when preparing the FTA according to IAS/IFRS;
  - sterilization of the effect in the statement of income (positive or negative) resulting from the fair value measurement of the financial assets subject to Fair Value Option other than the effects of credit impairment of debtors or issuers (negative effect).

In the specific case of SANPAOLO IMI, no further adjustments to the income for 2005 are necessary, as the Group did not adopt the fair value criterion as a corresponding caption in the statement of income neither of tangible and intangible assets nor of shareholdings. Minority shareholdings were classified in the AFS portfolio. Consequently, the related valuations for 2005 are not included in the determination of the regulatory capital.

With regard to other adjusted regulatory capital components, in accordance with the previous Guidelines, it was also taken into account that:
- "goodwill" and "other intangible fixed assets" were assumed at the book value according to the Italian GAAP as at December 31, 2004, as the IAS/IFRS adjustments to the FTA were irrelevant;
- subordinated liabilities were entered at their value as at December 31, 2004 including the changes (issues and amortization) that occurred in 2005 on the basis of the Italian GAAP criteria;

- the valuations of the debt securities owned – including in this category the debt securities classified in the "available-for-sale", "held-to-maturity" and "loans" portfolios and those subject to "FVO" – show a net capital gain, considering also the reversal of the FTA adjustments. As a result it was not necessary to make any adjustment to the regulatory capital.
- net capital gains/losses referring to shareholdings in non-banking and non-financial companies listed in a regulated market were recorded in accordance with the current rules, regardless of the accounting portfolio in which they were allocated. Capital gains/losses were calculated taking the value entered in the financial statements as at December 31, 2004 or the purchase cost (for shareholdings acquired in 2005) as book value, with the usual 35% weighting;
- the amount of the items to be deducted from tier 1 and tier 2 capital, in line with that mentioned above, is equivalent to the value entered in the financial statements as at December 31, 2004 or to the purchase cost (for shareholdings acquired in 2005) plus 1/5 of the book value of the shareholding in the Bank of Italy (37 million euro) and of the book value of the shareholdings held in insurance companies;
- lump-sum adjustments due to country risk were calculated in accordance with the current regulations.

Details of subordinated liabilities in existence as at December 31, 2005, are given below, with indication of the nominal value of the issues net of repurchases.

	Original currency	Amount in financial statements as at 31/12/05 (€/mil)	Amount in the original currency (millions)	Interest rate	Issue date	Maturity date	Starting date of early redemption of the loan
Subordinated deposit connected to issue of preferred shares	EUR	1,000	1,000	up to 10/11/2010: 7.88% p.a. after the above date: 1 yr Euribor + 3.25 % p.a.	10/11/2000	31/12/2100	10/11/2010
Total innovative capital instruments (tier 1)		*1,000*					
Debenture loan	EUR	134	150	5.75% p.a.	15/9/1999	15/9/2009	(*)
Debenture loan	EUR	299	300	5.55% p.a.	31/7/2001	31/7/2008	(*)
Debenture loan	EUR	200	200	5.16% p.a.	2/10/2001	2/10/2008	(*)
Notes	EUR	500	500	6.375% p.a.	6/4/2000	6/4/2010	(*)
Notes	EUR	500	500	up to 28/6/2007: 3 month Euribor + 0.49% p.a. after the above date: 3 month Euribor + 1.09% p.a.	28/6/2002	28/6/2012	28/6/2007
Debenture loan	EUR	49	54	up to 15/7/2007: 4.90% after the above date: 6 month Euribor + 0.76% p.a.	15/7/2002	15/7/2012	15/7/2007
Debenture loan	EUR	133	147	up to 4/12/2007: 4.32% p.a. after the above date: 6 month Euribor + 0.85% p.a.	4/12/2002	4/12/2012	4/12/2007
Notes	EUR	300	300	5.375% p.a.	13/12/2002	13/12/2012	(*)
Notes	EUR	350	350	up to 9/6/2010: 3.75% p.a. after the above date: 3 month Euribor + 1.05% p.a.	9/6/2003	9/6/2015	9/6/2010
Notes	GBP	241	165	up to 18/3/2019: 5.625% p.a. after the above date: 3 month Sterling LIBOR + 1.125% p.a.	18/3/2004	18/3/2024	18/3/2019
Notes	EUR	700	700	up to 28/6/2011: 3 month Euribor + 0.30% p.a. after the above date: 3 month Euribor + 0.90% p.a.	28/6/2004	28/6/2016	28/6/2011
Debenture loan	EUR	127	134	up to 3/8/2009: 3.72% p.a. after the above date: 6 month Euribor + 0.60% p.a.	3/8/2004	3/8/2014	3/8/2009
Debenture loan	EUR	20	20	up to 1/8/2010: 2.90% p.a. after the above date: 6 month Euribor + 0.74% p.a.	1/8/2005	1/8/2015	1/8/2010
Notes	EUR	500	500	up to 2/3/2015: 3.75%p.a. after the above date: 3 month Euribor + 0.89% p.a.	2/3/2005	2/3/2020	2/3/2015
Total subordinated liabilities (tier 2)		4,053					
Notes	EUR	550	550	3 month Euribor + 0.15% p.a.	20/12/2005	7/1/2008	(*)
Notes	EUR	50	50	up to 14/11/2004: 1.44289 % p.a. after the above date: 1.50 % p.a.	26/6/2003	15/11/2007	(*)
Total tier 3 subordinated liabilities		*600*					
Total		**5,653**					

(*) Early repayment not envisaged.

In 2005 SANPAOLO IMI issued new subordinated loans in the form of tier 2 subordinated loans for 520 million euro and tier 3 subordinated loans for 550 million euro.

Subordinated liabilities not included in the composition of the regulatory capital amount to 230 million euro, excluding tier 3 subordinated liabilities.
Tier 2 subordinated loans provide that:
- where permitted, early redemption can only take place on the initiative of the Bank and with prior authorization by the Regulatory Authority;
- the loan period must not be less than five years; if no maturity is stated, the contract must state that a notice period of at least five years has to be given;
- in the event that the Bank is put into liquidation, the loans can only be reimbursed once all other creditors which are not similarly subordinated, have been satisfied.

Tier 3 subordinated loans, issued to cover market risks, meet the following conditions:
- the original duration is not less than two years;
- the payment of interest and capital is suspended should the capital requirements of SANPAOLO IMI fall below 7% on an individual basis or 8% on a consolidated basis;
- in the event that the Bank is put into liquidation, the loan can only be reimbursed once all other creditors which are not similarly subordinated, have been satisfied.

According to the rules for determining the Regulatory capital as at December 31, 2005 the regulatory capital is configured as follows.

B. Quantitative information

(€/mil)

	Total 31/12/2005	Total 31/12/2004 (*)
Tier 1 capital	10,458	10,469
Tier 2 capital	3,843	4,799
Items to be deducted from tier 1 and tier 2 capital	(845)	(770)
Regulatory capital	**13,456**	**14,498**

(*) Data refers to the adoption of the regulation in force as at 31/12/04

2.2 Adequacy of equity

A. Qualitative information

With regard to the determination of weighted assets as at 31 December 2005, it is specified that they were calculated consistent with the equity adjustments, so weighted assets were sterilized of the amendments connected with the first-time application of IAS/IFRS and of the other changes made to re-determine the IAS income for 2005.

There follow details of the prudential requirements whose final results will be send to the Regulatory Authority after the approval of these financial statements:

B. Quantitative information

(€/mil)

Category/Value	31/12/2005	
	Unweighted amounts	Weighted amounts/ requirements
A. RISK ASSETS		
A.1 CREDIT RISK	**163,256**	**96,286**
STANDARD METHOD		
ON-BALANCE SHEET ASSETS	131,419	75,794
1. Loans (other than equities and other subordinated assets) to (or secured by):	102,339	55,850
1.1. Governments and central banks	13,095	22
1.2. Public entities	539	108
1.3. Banks	41,073	8,088
1.4. Other entities (other than residential and non-residential mortgage loans)	47,632	47,632
2. Mortgage loans - residential property	14,518	7,259
3. Mortgage loans - non-residential property	-	-
4. Shares, investments and subordinated assets	10,813	10,817
5. Other assets	3,749	1,868
OFF-BALANCE SHEET ASSETS	31,837	20,492
1. Guarantees and commitments to (or secured by):	31,199	20,328
1.1. Governments and central banks	278	1
1.2. Public entities	204	41
1.3. Banks	11,724	1,294
1.4. Other entities	18,993	18,992
2. Derivative contracts to (or secured by):	638	164
2.1. Governments and central banks	-	-
2.2. Public entities	-	-
2.3. Banks	516	103
2.4. Other entities	122	61
B. REGULATORY CAPITAL REQUIREMENTS		
B.1 CREDIT RISK	**X**	**6,740**
B.2 MARKET RISK		**189**
1. STANDARD METHOD	X	189
of which:		
+ position risk on debt securities	X	127
+ position risk on equities	X	46
+ exchange rate risk	X	-
+ other risks	X	16
2. INTERNAL MODELS	X	-
of which:		
+ position risk on debt securities	X	-
+ position risk on equities	X	-
+ exchange rate risk	X	-
B.3 OTHER REGULATORY REQUIREMENTS	**X**	**-**
B.4 TOTAL REGULATORY REQUIREMENTS (B1+B2+B3)	**X**	**6,929**
C. RISK ASSETS AND REGULATORY RATIOS	**X**	
C.1 Risk-weighted assets	X	98,982
C.2 Tier 1 capital/Weighted risk assets (tier 1 capital ratio)	X	10.57%
C.3 Regulatory capital/Weighted risk assets (total capital ratio)	X	13.79%

Part G – Business combinations concerning companies or business branches

SECTION 1 – OPERATIONS CARRIED OUT DURING THE YEAR

Transfer of branches among Group companies

In the course of the year, bank branches were reallocated among Group companies as part of the distribution network rationalization plan, which especially involved the branches located in the areas of Triveneto and Emilia and in the towns of Rome, Milan and Lodi by concentrating the branches in the distribution network with the historical brand.

As part of the above-mentioned plan, the following company operations were carried out in 2005:
- SANPAOLO IMI S.p.A. transferred to FRIULCASSA S.p.A. and to Cassa di Risparmio di Venezia S.p.A. (CARIVE) sets of assets and legal relationships organized for the exercise of the activity of the Parent Bank's operating points in the provinces of Triveneto (the Veneto, Trentino and Friuli regions). The reorganization involved the transfer of 10 operating points to CARIVE and 10 to FRIULCASSA;
- Cassa di Risparmio di Padova e Rovigo S.p.A. (CARIPARO) and Cassa di Risparmio in Bologna S.p.A. (CARISBO) transferred to SANPAOLO IMI S.p.A. sets of assets and legal relationships of the operating points of each of the Network Banks present in the provinces of Rome, Milan and Lodi. The reorganization involved the transfer of nine operating points of CARIPARO and 21 operating points of CARISBO.

With regard to the transfers made by SANPAOLO IMI S.p.A., as these operations can be qualified as business combinations among group companies, the principle of accounting recording in continuity with accounting values was applied, as the specific case did not allow for the application of IFRS 3, according to which the general principle for recording company acquisition operations is the purchase method.

SANPAOLO IMI S.p.A. acquired company branches at a market price, which generated the recording of a goodwill for 48 million euro. This operation was carried out in a tax neutral regime, as it was completed among companies included in the tax consolidation. Considering the difference between the book value and the tax value of goodwill, the related deferred taxes were settled among the parties for 13 million euro, of which 16 million euro were included in the liabilities for deferred taxes with a corresponding entry in the statement of income and three million euro recorded among advanced tax assets.

The main equity aggregates connected with these transfers are highlighted below:

Transfer of branches from SANPAOLO IMI to FRIULCASSA

Together with the transfer, net customer loans were transferred for 156 million euro, bank loans for 59 million euro and due from banks for 146 million. As a result, the shareholding in FRIULCASSA went up by 15 million euro.

Transfer of branches from SANPAOLO IMI to CARIVE

Together with the transfer, net customer loans were transferred for 207 million euro and due to customers for 114 million euro. As a result, the shareholding in CARIVE increased by 25 million euro.

Assignment of branches from CARISBO to SANPAOLO IMI

The company branches acquired included net customer loans for 638 million euro, due from banks for 279 million euro and due to customers for 334 million euro. The price paid for the acquisition led to the recording of goodwill in the financial statements for 39 million euro.

Transfer of CARIPARO company branch

The company branches acquired included net customer loans for 227 million euro, due from banks for 138 million euro, and due to customers for 80 million euro. The price paid for the acquisition led to the recording of goodwill in the financial statements for nine million euro.

Setting up of the Savings and Assurance Business Division

During the year, the insurance activities carried out by A.I.P. were merged with the asset gathering activities managed by Banca Fideuram into the newly-established Eurizon Financial Group S.p.A.. This was done by transferring the shareholding held by SANPAOLO IMI S.p.A. in A.I.P. (99.96% of capital) and in Banca Fideuram (73.37% of capital) to the new company with effect from November 10, 2005.

Among the IAS/IFRS approved by the EU and those not yet approved, as well as among the Exposure Drafts approved by IASB, there is currently no reference legislation providing criteria for recording this operation in the financial statements. IFRS 3, concerning the regulation of business combinations, does not apply to operations among companies under common control, i.e. to the business combinations in which all the entities or participating company activities are controlled by the same party or parties both before and after the aggregation (such as in this case).

As there is no reference principle, IAS 1 requires that the company's management define its own accounting standards so as to ensure the best reporting considering the guidelines provided by the other IAS/IFRS for similar cases and the provisions of other bodies responsible for defining accounting standards.

Considering that international accounting standards establish the criterion of accounting consistent with accounting values for business combinations among companies under common control, the adoption of said criterion in the individual financial statement of SANPAOLO IMI S.p.A. was deemed correct.

Considering that the transferee did not apply IAS/IFRS in 2005, reference was made to Italian accounting standards, with which it is possible to evaluate the assets received at their current value, also due to company operations that occurred within the group itself.

Eurizon opted for a transfer at market value and approved an equity increase of 5.6 billion euro, corresponding to the current value of these shareholdings.

As a result of the transfer, SANPAOLO IMI S.p.A. canceled the shareholdings held in A.I.P. and Banca Fideuram by transferring their book value (556 million and 116 million euro respectively) to the shareholding in Eurizon.

For the purposes of income tax settlement, SANPAOLO IMI S.p.A. verified the tax on the capital gain generated at tax level, equivalent to the difference between the book value of the assets transferred (672 million euro) and the transfer value fiscally recognized for the assets corresponding to their recording value in the financial statements of the transferee (5,600 million euro). A tax amount of 81 million euro emerged from the application of the 1.65% rate (in effect for transactions made from October 4, 2005 to December 3, 2005 as a result of D.Lgs. 203/05) on the tax gain from transfer worth 4,928 million euro.

As a result of this operation, the Bank highlighted a temporary difference (higher tax value of an asset in comparison with its book value) of 4,928 million euro as at December 31, 2005. Consequently, also considering that this difference will have an impact on the Bank's future statement of income, it was deemed necessary, in application of the principles of IAS 12, to record a deferred tax asset applying the tax rates in effect at the closing of the reference year (2.97% at the end of 2005). Therefore, the deferred tax asset as at December 31, 2005 came to a total of approximately 146 million euro.

Part H – Transactions with related parties

TRANSPARENCY PROCEDURES

SANPAOLO IMI has identified the Bank's related parties and has defined a Group procedure to decide on transactions with them, aimed at establishing specific competencies and responsibilities, as well as showing the information flows between the Bank structures and its direct and indirect subsidiaries.

Under the procedure, and in line with the provisions of the Disciplinary Code, transactions with related parties deemed significant on the basis of analytical thresholds – depending on the type of transaction and counterparty – and reported to the Parent Bank are decided upon by the Board of Directors, after examination by the Technical Audit Committee. The significant transactions undertaken by the subsidiaries with the Parent Bank's related parties are decided upon by the Board of Directors of the subsidiary company, which must submit the proposal in advance to ensure it is in conformity with the Parent Bank.

In addition to observing the specific decision-making procedure, the Parent Bank structures and the subsidiaries, which originate transactions with related parties, must submit a quarterly report so that the Bank may fulfill the obligations of clause 150 of D.Lgs. 58/1998 (on the subject of a report to the Board of Statutory Auditors) and must fulfill the immediate or periodic reporting requirements in relation to the market. In particular, the market is advised of transactions that are individually significant pursuant to clause 71 bis of Consob Decision 11971 of 14 May 1999.

The preliminary stage of the transactions to be undertaken with related parties follow the same process as granting loans reserved for other non-related parties with the same credit rating. Infra-group loans are subject to specific limits, to comply with the supervisory regulations of the Bank of Italy.

Further information can be found in the "Report on Corporate Governance".

With regard to transactions with entities that carry out functions of management, administration and control of the Bank, besides the application of clause 2391 of the Italian Civil Code, the special regulations on the obligations of banking representatives set forth in clause 136 of D.Lgs. 385/1993 and the Surveillance Instructions (Consolidated Banking Law) also apply; they require, in any case, the prior unanimous favorable decision of the Board of Directors, and the unanimous favorable vote of the Board of Statutory Auditors. Those who carry out administrative, management and control functions at Group banks or companies may not undertake obligations and acts of buying or selling, directly or indirectly, with the relevant company, or undertake financial transactions with another Group company or bank without a decision by the appropriate bodies of the contracting company or bank, taken in the aforementioned way. Furthermore, in these cases the obligation or act must have the consent of the Parent Bank issued by the Board of Directors.

1. Information on remuneration of directors and executives

Given the current organizational structure, within "executives with strategic responsibilities" (hereafter "key managers"), pursuant to IAS 24, the Bank decided to include Directors, Statutory Auditors, the General Manager of the Parent Bank, the Managers of the Divisions and central structures of the Parent Bank reporting directly to the Managing Director or General Manager, as well as the Manager of the business sector Savings and Assurance due to its particular importance at the consolidated level.

Below are the principal benefits recognized by the bank to the key managers under the various forms summarized in the table.

	2005 (€/mil)
Short term benefits (1)	22
Benefits following employee termination (2)	1
Other long term benefits (3)	-
Employee termination indemnity (4)	1
Stock option plans (5)	1
Other remuneration (6)	-
Total remuneration paid to executives with strategic responsibilities	**25**

(1) Includes fixed and variable fees of directors that may be assimilated with cost of work and social security charges paid by the company for its employees.
(2) Includes company contribution to pension funds and allocation to employee termination indemnity pursuant to legislation and company regulations.
(3) Includes estimate of allocations for length of service awards for employees.
(4) Includes fees paid for early retirement incentive.
(5) Includes cost for stock option plans determined on the basis of IFRS 2 criteria and charged to financial statements.
(6) Refers to compensation paid to members of Board of Auditors.

The remuneration paid to Managers, Auditors and General Managers is reported below, in accordance with art. 78 of the CONSOB Deliberation No. 11971 of May 14, 1999.

REMUNERATION OF DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS
(pursuant to Article 78 of Consob Resolution 11971 of 14 May 1999 and subsequent amendments)

	Description of office			Remuneration (thousands of euro)			
Surname and name	Office	Period in office	Expiry of office (*)	Remuneration for the office in the company preparing the financial statements	Non-monetary benefits	Bonuses and other incentives (1)	Other compen-sation (2)
Directors and General Manager							
SALZA Enrico	Chairman of the Board of Directors (3)	1/1/05-31/12/05	2006	959	-	80	-
ROSSI Orazio	Deputy Chairman of the Board of Directors (3)	1/1/05-31/12/05	2006	711 (a)	-	87	(a)
IOZZO Alfonso	Managing Director (3)	1/1/05-31/12/05	2006	1,359	-	1,944	(b)
MODIANO Pietro	General Manager	1/1/05-31/12/05	2006	1,250	32	1,800	(c)
BARRACCO Maurizio	Director	1/1/05-31/12/05	2006	64	-	73	-
BUSSOLOTTO Pio	Director (3)	1/1/05-31/12/05	2006	74	-	174 (d)	174
FONTANA Giuseppe	Director	1/1/05-31/12/05	2006	88	-	120	44
GOTTI TEDESCHI Ettore	Director (3)	1/1/05-31/12/05	2006	74	-	174	-
MARRONE Virgilio	Director	1/1/05-31/12/05	2006	67	-	(e)	-
MIHALICH Iti	Director	1/1/05-31/12/05	2006	66	-	154	-
ORSATELLI Anthony	Director	1/1/05-31/12/05	2006	63	-	40	-
OTTOLENGHI Emilio	Director (3)	1/1/05-31/12/05	2006	74	-	207	-
SACCHI MORSIANI Gian Guido	Director (3)	1/1/05-31/12/05	2006	74	-	207	145
SAENZ ABAD Alfredo	Director	1/1/05-31/12/05	2006	62	-	47	-
SARCINELLI Mario	Director	1/1/05-31/12/05	2006	67	-	80	-
SIBANI Leone	Director	1/1/05-31/12/05	2006	65	-	80	113
TAZZETTI Alberto	Director	1/1/05-31/12/05	2006	65	-	80	-
VARELA Josè Manuel	Director (3)	1/1/05-31/12/05	2006	73	-	174	-
CARMI Alberto	Director	1/1/04-29/4/04	2003	-	-	20	-
GARDNER Richard	Director	1/1/04-29/4/04	2003	-	-	27	-
MANULI Mario	Director	1/1/04-29/4/04	2003	-	-	27	-
MAROCCO Antonio Maria	Director	1/1/04-29/4/04	2003	-	-	40	-
MATUTES Abel	Director	1/1/04-29/4/04	2003	-	-	20	-
VERMEIREN Remi François	Director	1/1/04-29/4/04	2003	-	-	20	-
Statutory Auditors							
DALLOCCHIO Maurizio	Chairman of Statutory Auditors Statutory Auditor	30/4/05-31/12/05 1/1/05-29/4/05	2007	102 (f)	-	-	63 (f)
BENEDETTI Aureliano	Statutory Auditor	1/1/05-31/12/05	2007	72	-	-	62
FERRERO Gianluca	Statutory Auditor	30/4/05-31/12/05	2007	50	-	-	-
FRANCHINI Augusto	Statutory Auditor	30/4/05-31/12/05	2007	51	-	-	13
MAZZI Paolo	Statutory Auditor	1/1/05-31/12/05	2007	76	-	-	42
PAOLILLO Mario	Chairman of Statutory Auditors	1/1/05-29/4/05	2004	36	-	-	57
VITALI Enrico	Statutory Auditor	1/1/05-29/4/05	2004	22	-	-	-

(*) Date of Shareholders' Meeting called to approve the financial statements for the year.

(1) This includes:

- for the Chairman and Deputy Chairman, the remuneration corresponding to the profit for the year 2004, divided in proportion to their presence - while both serving as Vice Presidents - at meetings held up to 29 April 2004, on the basis of a motion of the Board of Directors following the approval of the financial statements for 2004. The Board of Directors' meeting of 11 May 2004 and that of 22 February 2005 set an all-inclusive fixed annual remuneration;

- for the Managing Director and General Manager, the variable part of the remuneration for 2005 in relation to the achievement of the set objectives. With regard to the General Manager, the amount to be paid is limited to a quota of 50% with the remaining quota to be paid by the end of May 2008 on condition that the working relationship continues;

- for the Directors, the remuneration corresponding to the Group's profit for the year 2004, divided in proportion to their presence at meetings held during the year, on the basis of a motion of the Board of Directors following the approval of the financial statements for 2004. For the year 2005, the amount due totals 2,113,000 euro, calculated according to RoE and Group results for the year 2005. Since the distribution to each member will be made after the Shareholders' Meeting to approve the 2005 financial statements, such consideration will be reported in the table attached to the financial statements for the year 2006.

(2) Remuneration matured with SANPAOLO IMI S.p.A. subsidiary companies.

(3) Members of the Executive Committee.

(a) Including remuneration for the office in the company preparing the financial statements and offices in Group companies as representative of SANPAOLO IMI S.p.A. (216,000 euro from Cassa di Risparmio di Padova e Rovigo S.p.A. and 51,000 euro from Sanpaolo IMI Internazionale S.p.A.).

(b) 472,000 euro paid to SANPAOLO IMI S.p.A..

(c) 161,000 euro paid to SANPAOLO IMI S.p.A.

(d) Variable part attributed in relation to presence at meetings since 29 April 2004: previously, the person held the office of Managing Director, which carried all-inclusive remuneration.

(e) In addition to the amount shown in the table, 160,000 euro in bonuese and other incentives (relating to the variable part of remuneration for 2004) paid to IFI S.p.A..

(f) Including remuneration for the office of Statutory Auditor from 1 january 2005 to 29 April 2005 and Chairman of Statutory Auditors from 30 April 2005 to 31 December 2005.

Pursuant to art. 78 of the CONSOB Deliberation No. 11971 of May 14, 1999, the Bank's Managing Directors and the President do not benefit from the following stock option plans:

- 2000 Plan: this stock option plan – approved by the Board of Directors in the year 2000 – assigned each Managing Director in office during the year (Mr. Rainer Stefano MASERA and Mr. Luigi MARANZANA) 188,285 rights to subscribe the Bank's shares at a price of 16.45573 euro per share, with the possibility to exercise this right from 2003 and until March 31, 2005.
- 2001/2003 Plan: a stock option plan – approved by the Board of Directors in the year 2002 – for the Chairman and the Managing Directors in office during the year, for the three-year period 2001-2003, made on the basis of the power of attorney conferred by the Ordinary Shareholders' meeting of April 30, 2002 to utilize own shares for such plan. On the basis of this plan, Mr. Rainer Stefano MASERA, Mr. Alfonso IOZZO – currently in office – and Mr. Luigi MARANZANA were assigned 450,000 total fixed rights each for the three year period 2001-2003. Mr. Pio BUSSOLOTTO was assigned a total of 300,000 rights for the three-year period 2001-2003. The rights assigned could be exercised – at a price of 12.6244 euro – from the date of the dividend issue for the financial year 2003 and in any case not after 15 May 2006. The latter deadline was extended by a resolution of the Board of Directors on 25 January 2005 (the previous deadline was 31 March 2006).

The following table shows the stock options assigned to the Directors and General Managers on the basis of Attachment 3C – Schedule 2, of the Issuers Regulations issued by CONSOB.

Name and Surname	Office (*)	Options held at the beginning of the year			Options granted during the year			Options exercised during the year			Options falling due during the year	Options held at year end		
		Number of Options	Average exercise price	Maturity	Number of Options	Average exercise price	Maturity	Number of Options	Average exercise price	Average market price at exercise		Number of Options	Average exercise price	Maturity
2000 Plan				from March 2003 to 31-Mar-05										
Rainer Stefano MASERA	Managing Director	188,285	16.45573		-			-			188,285	-	-	
Luigi MARANZANA	Managing Director	188,285	16.45573		-			-			188,285	-	-	
2001/2003 Plan				from May 2004 to 15-may-06										from May 2004 to 15-may-06
Rainer Stefano MASERA	President	450,000	12.6244		-			-			-	450,000	12.6244	
Pio BUSSOLOTTO	Managing Director	300,000	12.6244		-			-			-	300,000	12.6244	
Alfonso IOZZO	Managing Director	450,000	12.6244		-			-			-	450,000	12.6244	
Luigi MARANZANA	Managing Director	450,000	12.6244		-			-			-	450,000	12.6244	

(*) Refers to office held at the time in which the rights were granted.

Below are the details and the evolution of the stock option plans assigned to key managers.

Evolution of stock option plans in 2005

	Number of shares	Average exercise price (€)	Market price (€)
Rights existing as at 1/1/2005	2,477,350	10.3924	10.600 (a)
Rights exercised in 2005	-1,280,000	7.4762	-
Rights expired (b)	-462,350	16.4557	-
Rights expired in 2005 (c)	-	-	-
Rights assigned in 2005	4,700,000	12.3074	-
Rights existing as at 31/12/2005	5,435,000	12.2194	13.201 (d)
Of which: exercisable as at 31/12/05	-	-	-

(a) Reference price as at 30/12/2004.
(b) Concerning rights no longer exercisable following expiry of exercising deadline.
(c) Concerning rights no longer exercisable following expiry of employee termination indemnity.
(d) Reference price as at 30/12/2005.

Break-down of rights by exercise price and residual maturity

Exercise prices (€)	Minimum contractual residual maturity				Total	of which: exercisable as at 31/12/05	
	May 2004 - March 2006	May 2004 - May 2006	May 2005 - May 2007 (a)	May 2009 - April 2012		Total	Average contractual residual maturity
12.7229	595,000				595,000	-	-
12.6244		-			-	-	-
7.1264			140,000		140,000	-	-
12.3074				4,700,000	4,700,000	-	-
Total	**595,000**	**-**	**140,000**	**4,700,000**	**5,435,000**	**-**	**-**

(a) Original expiry March 2007, deferred to May 2007 by resolution of the Board of Directors on 25 January 2005

See Part I of these Explanatory Notes for the details on the stock option plans reserved to the managers, the Chairman and Managing Directors of SANPAOLO IMI.

The shares in the Parent Bank and the subsidiaries held by the Directors, Statutory Auditors and Managing Directors of the Parent Bank as well as other entities pursuant to clause 79 of CONSOB Deliberation 11971/99, are set forth in detail in the table below.

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

Name and surname	Company	How held	Title to shares	Number of shares held as at 31/12/04	Number of share bought during 2005	Number of shares sold during 2005	Number of shares held as at 31/12/05
Enrico SALZA	SANPAOLO IMI	Direct	Full	500	2,000		2,500
		Spouse	Full	1,250	2,000		3,250
Pio BUSSOLOTTO	SANPAOLO IMI	Direct	Full	4,750			4,750
		Spouse	Full	1,250			1,250
Augusto FRANCHINI	SANPAOLO IMI	Spouse	Full	1,197			1,197
Alfonso IOZZO	SANPAOLO IMI	Direct	Full	7,087			7,087
Iti MIHALICH	SANPAOLO IMI	Direct	Full	3,000			3,000
Emilio OTTOLENGHI	SANPAOLO IMI	Direct	Full	320,000			320,000
		Subsidiary	Full	4,658,731			4,658,731
		Spouse	Full	4,000			4,000
Orazio ROSSI	SANPAOLO IMI	Direct	Full	52,593			52,593
Gian Guido SACCHI MORSIANI	SANPAOLO IMI	Direct	Full	200,000	2,300		202,300
Mario SARCINELLI	SANPAOLO IMI	Spouse	Full	287			287
Leone SIBANI	SANPAOLO IMI	Direct	Full	58,241	1,000	2,430	56,811
		Spouse	Full	15,796		1,000	14,796
	Banca Fideuram	Direct	Full	30,000	500		30,500

(1) Shares held in SANPAOLO IMI and its subsidiaries by Directors, Statutory Auditors, General Directors and by their not legally divorced spouses and by underaged children, directly, through a subsidiary, a trust or a third party.

2. Information on transactions with related parties

2.1 Transactions of atypical and/or unusual nature

During 2005, no transactions of "atypical or unusual nature" were carried out by the Parent Bank, the relevance/importance of which might give rise to doubts with regard to the safety of the shareholders' equity and the protection of minority shareholders, either with related parties or with subjects other than related parties.

For information on the transactions entered into by the Group, see the specific paragraph in the Consolidated Explanatory Notes.

2.2 Transactions of ordinary or recurrent nature

Non-atypical or non-unusual transactions entered into with related parties fall within the scope of the ordinary activities of SANPAOLO IMI and are usually entered into at market conditions, based on valuations of mutual economic convenience, in line with the internal procedures mentioned above.

In the Financial Statements there are no provisions for doubtful loans related to balances in existence with related parties and no losses registered in the year in connection with uncollectible or doubtful loans due from related parties.

Below are the principal terms of reference of the operations of each category of related party, on the basis of the entities indicated in IAS 24; see the paragraph above for information on payments to directors and management.

2.2.1 Transactions with shareholders

Being connected to the ownership structure of SANPAOLO IMI and thus to the shareholders' agreements entered into on 21 April 2004, while excluding a check, even joint, on the individual shareholders that were parties to those agreements, nonetheless, opting for maximum transparency, the parties to those agreements were included in the list of related parties, as it was not possible to exclude the reconstruction of a position of "significant influence" on the Bank involving those parties. This resulted in the inclusion of entities that exercise control on the important shareholders as well as, with reference to the investment relationships of the important shareholders, the parties controlled by the significant shareholders since they are subject to their direction, when they make any significant transactions.

The transactions with those shareholders fall under the Bank's ordinary activity and are entered into at the same market conditions applied to other non-related parties enjoying the same credit rating.

The following table summarizes the relationships with Shareholders at 31 December 2005 and the economic effects of the transactions undertaken during the year.

Shareholders	31/12/2005 (€/mil)
Total financial assets	109
Total financial liabilities	22
Total interest income	2
Total interest expense	(1)

2.2.2 Transactions with executives with strategic responsibilities

The relations between the SANPAOLO IMI Group and key managers occur within the normal activities of the Group and are entered into by applying, where appropriate, the agreements made available to all employees, and maintaining complete transparency; or, in relation to independent representatives with whom there is a fixed-term contract in place, applying the conditions available to consultants of the same standing, in full observance of the relevant laws.

The following table summarizes the relationships with executives with strategic responsibilities in place at 31 December 2005, and the economic effects of the financial period, including what is set out in the previous chapter on the payments to directors and management.

Executives with strategic responsibilities	31/12/2005 (€/mil)
Total financial assets	1
Total financial liabilities	5
Total operating costs	(25)

2.2.3 Transactions with subsidiaries and associated companies

Infragroup transactions lie within the scope of the normal operations of a multi-function bank. They are usually regulated on the conditions at which the Parent Bank accesses the reference markets, which are not necessarily the same conditions that would be applicable if the counterparties operated independently. These conditions are, in any case, applied in compliance with the substantial correctness criteria and with the aim of creating value for the Group.

Infragroup transactions concern mainly:
- the support given by SANPAOLO IMI to the financial needs of the other Group companies by providing risk capital and loans and by subscribing securities issued by the subsidiaries;
- the channeling of foreign funding by specialist Group companies (Sanpaolo IMI US Financial Co., Sanpaolo IMI Bank International S.A., Sanpaolo IMI Capital Company I L.l.c., Sanpaolo IMI Bank Ireland P.l.c., Sanpaolo Bank S.A.) in favor of the Parent Bank and, to a minor extent, of other subsidiaries;
- the use of subsidiaries' liquidity at the Parent Bank;
- the outsourcing relationships that regulate auxiliary activities provided by the Parent Bank mainly to the bank network. In particular, the services provided concern the management of the IT platform, back office, property services, logistics as well as commercial, administrative and control support and consultancy. In 2005 outsourced services were provided for 413 million euro;
- the agreements with Group companies on distribution of products and/or services or, more generally, infra-group support and consultancy;
- the management of Group taxation through the "transfer of infra-group tax credits" procedure as provided for by tax laws. In 2005 transfers were made for a total of 24 million euro. Following the authorization by the Board of Directors and considering the number of applications received by consolidated companies, in 2005 the Bank once again signed the infra-group agreements required for the activation (via a notification to the Tax Authorities) of the "domestic tax consolidation within the SANPAOLO IMI Group.

The list of the Group companies and of the companies subject to significant influence as at December 31, 2005 is given in the Explanatory Notes to the Consolidated Financial Statements (Part B – Section 10).

The Table below summarizes the relationships with subsidiary and associated companies as at December 31, 2005 and the economic effects of the transactions undertaken during the year.

Subsidiary companies	31/12/2005 (€/mil)
Total financial assets	35,737
Total other assets	722
Total financial liabilities	37,291
Total other liabilities	426
Total interest income	1,410
Total interest expense	(1,238)
Total commissions income	636
Total commissions expense	(5)
Total other revenues (a)	2,201
Total other costs	(1,734)

(a) Including income from outsourcing contracts for 413 million euro.

Associated companies	31/12/2005 (€/mil)
Total financial assets	696
Total financial liabilities	89
Total interest income	18
Total interest expense	(4)

2.2.4 Transactions with joint ventures

At 31 December 2005 there were no significant relations with joint venture companies and there were no economic effects arising out of the operations undertaken with these companies.

2.2.5 Transactions with other related parties

The category "other related parties" includes the Bank's Pension funds, the close relatives of the key managers, the subjects controlled by or connected with them and the subjects controlled by the Shareholders as defined above.

The following table summaries the relationships with related parties and the economic effects of the transactions undertaken during the year.

Other related parties	31/12/2005 (€/mil)
Total financial assets	114
Total financial liabilities	97

2.3 Significant transactions

During the last year no significant transactions were entered into with related parties.

However, some significant transactions are described below. Further details on some of these transactions have already been illustrated elsewhere in the Report.

Transactions entered into in the context of Parent Bank and Banking operations:

- with reference to the development and rationalization of the Group bank network, transactions undertaken in November 2004 were completed in 2005. In January the capital of Friulcassa and Cassa di Risparmio di Venezia were increased following the transfer of the branches to the SANPAOLO network, for which an appraisal had been acquired in 2004, pursuant to art. 2343 of the Italian Civil Code, made by an expert nominated by the competent Court. In January the transfer of nine branches of Cassa di Risparmio di Padova e Rovigo S.p.A. and 21 branches of Cassa di Risparmio in Bologna S.p.A. was also completed, whose value was subject to a fairness opinion issued by an external advisor. Information on the effect of these operations on the financial statements are provided in Part G of these Explanatory Notes;
- on September 30, 2005, as part of the infra-group reallocation of some industrial minority shareholdings, with the aim of making the Group shareholding portfolio management more and more focused and efficient, the following transfers were undertaken:
- the share in SAVE (2.17% on the block market), classified in the available-for-sale portfolio, was transferred from SANPAOLO IMI to IMI Investimenti. This transfer was worth 13.7 million euro, corresponding to the average prices recorded on the stock exchange near the time of the transaction, and led to the recording of a capital gain for essentially the same value in the statement of income, considering also the reallocation of the equity reserve set up during the transition to the international accounting standards;
- the share in Autostrada "Serenissima" (5.8%, in the financial statements for 45.7 million euro), classified in the available-for-sale portfolio, was transferred from SANPAOLO IMI to FIN. OPI. The value of the transfer was 45.7 million euro, determined on the basis of the transfer values of recent market transactions, and led to the recording of a 40 million euro capital gain, considering also the reallocation of the equity reserve set up during the transition to the international accounting standards;
- on October 14, 2005 SANPAOLO IMI sold to its subsidiary A.I.P. the Unipol option rights related to the 1.86% share in the same company and generated by the capital increase carried out in the same month. 17.3 million of owned rights were transferred at the stock exchange price of 0.2980 euro per right recorded on October 14, and generated a losses on disposal worth about 5.8 million euro, resulting from the difference between the transfer price and the book value of the rights.

Transactions entered into in the context of the operations of the Savings and Assurance business division:

On July 5, 2005, consistently with the setting up of the "Insurance Business Division" in 2004, the Bank's Board of Directors decided to merge the insurance business carried out by A.I.P. with the asset gathering business managed by Banca Fideuram into a newly-established company structure reporting directly to the Parent Bank. The transaction was completed in November 2005 with the transfer of the shares in Banca Fideuram and A.I.P. held by SANPAOLO IMI to a newly-established company (New Step, now Eurizon Financial Group S.p.A.). The economic value of the share in Banca Fideuram was set at 2,900 million euro, estimated on the basis of the stock exchange price of the security over an appropriate period of time. With regard to the share in A.I.P., the value was set in 2,700 million euro, based on a prudent application of the "sum of parts" method and on the basis of prudent development forecasts of the insurance business. These values are below the range of valuations identified by the expert nominated by the Court, who approved the estimates of the shares subject to transfer on November 3, 2005, pursuant to art. 2343 of the Italian Civil Code.

Further information on the concentration transaction, with particular reference to the assumptions made for the Financial Statements of SANPAOLO IMI S.p.A. are provided in Part G of these Explanatory Notes.

3. Other information

Offices held by Directors in other companies

In accordance with the recommendations of the Code of Conduct for Listed Companies promoted by Borsa Italiana S.p.A., a list is provided below of the offices of Director or Statutory Auditor held by members of the Board of Directors of SANPAOLO IMI in other companies listed on regulated markets (also abroad), in financial institutions, banks, insurance companies or other significant-sized companies.

DIRECTOR	OFFICE	COMPANY
Enrico SALZA	Managing Director	Tecnoholding S.p.A.
Maurizio BARRACCO	Director	R.C.S. Quotidiani S.p.A.
	Sole Director	ARIN – Azienda Risorse Idriche Napoli S.p.A.
Pio BUSSOLOTTO	Director	Cassa di Risparmio di Padova e Rovigo S.p.A.
	Director	Cassa di Risparmio di Firenze S.p.A.
	Director	Banca delle Marche S.p.A.
	Director	Assicurazioni Internazionali di Previdenza S.p.A.
Giuseppe FONTANA	Director	Banca Fideuram S.p.A.
	Director	Banca Popolare di Sondrio S.c.r.l.
Ettore GOTTI TEDESCHI	President	Santander Consumer Bank S.p.A.
	Vice President	Alerion Industries S.p.A.
	Director	Cassa Depositi e Prestiti S.p.A.
	Director	Endesa Italia S.p.A.
Alfonso IOZZO	President	Sanpaolo Banco di Napoli S.p.A.
	President	Banca Opi S.p.A.
	Director	Assicurazioni Internazionali di Previdenza S.p.A.
Virgilio MARRONE	Director	FIAT S.p.A.
	Director	Exor Group – Luxembourg S.A.
Iti MIHALICH	President	Società Reale Mutua di Assicurazioni
	President	Banca Reale S.p.A.
	President	Rem Assicurazioni S.p.A.
	President	Reale Immobili S.p.A.
	President	Blue Assistance S.p.A.
	President	La Piemontese Assicurazioni S.p.A.
	President	La Piemontese Vita S.p.A.
	President	Compagnia Italiana di Previdenza, Assicurazioni e Riassicurazioni
	President	ICT Immobiliare S.p.A.
	President	Reale Seguros Generales S.A.
	President	Reale Vida - Compania de Seguros y Reaseguros S.A.
	President	Union Aseguradora, Sociedad Anonima de Seguros Generales
	President	Reale Sum - Agrupacion de Interes Economico
	President	Inmobiliaria Grupo Asegurador Reale S.A.
	President	Immobiliare Mirasole S.p.A.
	President	Silem S.p.A.
	Vice President	Ala Assicurazioni S.p.A.
	Director	Sara Assicurazioni S.p.A.
	Director	Sara Vita S.p.A.
	Director	Humanitas S.p.A.

DIRECTOR	OFFICE	COMPANY
Anthony ORSATELLI	Membre du Directoire	Caisse Nationale des Caisses d'Epargne S.A.
	Chairman of the Board of Directors	Nexgen Financial Holding Limited
	Chairman of the Board of Directors	Nexgen Re Limited
	Member of the Board of Directors	CDC Ixis AM US Corporation
	Member of the Board of Directors	Euroclear Plc.
	Member of the Board of Directors	CDC Ixis Financial Guaranty North America Inc.
Emilio OTTOLENGHI	President	Vis S.p.A.
	President	La Petrolifera Italo Rumena S.p.A.
	Director	Argus Fund S.p.A.
	Director	Sapir S.p.A.
Orazio ROSSI	President	Cassa di Risparmio di Padova e Rovigo S.p.A.
	President	Sanpaolo IMI Internazionale S.p.A.
Gian Guido SACCHI MORSIANI	President	Neos Banca S.p.A.
	President	Gest Line S.p.A.
	Director	CNC Consorzio Nazionale Concessionari
Alfredo SAENZ ABAD	Vice Presidente Segundo y Consejero Delegado	Banco Santander Central Hispano S.A.
	Vice Presidente	Santander Central Hispano Investment S.A.
	Vice Presidente	Compañía Española de Petróleos S.A.
	Presidente	Banco Banif S.A.
	Consejero	France Telecom Operadores de Telecomunicaciones S.A.
Mario SARCINELLI	Director	Ina Vita S.p.A.
	Director	Cassa Depositi e Prestiti S.p.A.
	Director	Data Management S.p.A.
Leone SIBANI	President	Sanpaolo IMI Private Equity S.p.A.
	Director	Sanpaolo IMI Internazionale S.p.A.
	Director	Banca Popolare dell'Adriatico S.p.A.
	Director	Biesse S.p.A.
Alberto TAZZETTI	President	Sicurezza Lavoro S.r.l.
	Director	Centrale del Latte di Torino & Co. S.p.A.
Josè Manuel VARELA	Director	Santander Consumer Finance Spain S.A.
	Director	Santander Consumer Elcon Finans AS - Norway
	Director	Santander Consumer PTF Bank S.A. - Poland
	Director	Santander Consumer CC-Bank AG - Germany
	Director	Santander Consumer Bank S.p.A.
	Director	Interbanco - Portugal
	Director	Banque Commerciale du Maroc S.A.
	Director	CC-Credit R.T. - Hungary

PARENT BANK

Company name

SANPAOLO IMI S.p.A.

Registered office

Piazza San Carlo, 156
10121 Turin

Other offices

Viale dell'Arte, 25
00144 Rome

Via Farini, 22
40124 Bologna

Italian Banking Groups registry number: 1025/6

Part I – Payment agreements based on own financial instruments

A. QUALITATIVE INFORMATION

1. Description of payment agreements based on own financial instruments

Stock option

Stock option plans related to the entire SANPAOLO IMI Group are indicated in Part I of the Explanatory Notes to the Consolidated Financial Statements.

At the Shareholders' Meeting of 31 July 1998, the shareholders authorized the Board of Directors to implement plans for a stock option program for Group executives, by raising increases in paid capital of up to a maximum amount subsequently defined as 40 million euro, corresponding to 14,285,714 shares.

By virtue of this authorization the Board of Directors:
- at the meeting of 27 June 2000 launched a stock option plan, assigning the Managing Directors, acting as General Directors, and 122 other executives, 3,378,270 rights, exercisable from 2003 onwards and not after 31 March 2005, at a subscription price of 16.45573 euro per share. These rights expired in 2005 upon the final deadline for their exercise (31 March 2005);
- on 18 December 2001 approved a stock option plan, assigning 171 Group executives, of which about 40 were employed by subsidiaries, 4,030,000 rights, exercisable after the dividend issue for the financial year 2003 and not after 31 March 2006, at a price of 12.7229 euro.

At the Shareholders' Meeting of 30 April 2002, the shareholders renewed the Board of Directors' authorization to implement plans for stock option programs for Group executives, by raising increases in paid capital of up to a maximum amount of 51,440,648 euro, corresponding to 18,371,660 shares.

By virtue of this authorization the Board of Directors:
- on 17 December 2002 launched a new stock option plan, assigning 291 Group executives, of which about 77 were employed by subsidiaries, according to the role they occupy, 8,280,000 rights, exercisable after the dividend issue for the financial year 2004 and not after 31 March 2007 (extended to 15 May 2007 by resolution of the Board of Directors on 25 January 2005), at a price of 7.1264 euro;
- on 14 November 2005 launched a new stock option plan with the goal of sustaining the Group's Industrial Plan and of encouraging management activities aimed at reaching three-year objectives and a further increase in the share value. The rights were assigned to 48 executives who occupy key positions within the Group and have a strong influence on strategic decisions aimed at achieving the objectives in the Industrial Plan and at increasing the value of the Group. The 2006-2008 plan includes the assignment of 9,650,00 rights exercisable after the dividend issue for the financial year 2008 and not after 30 April 2012, at an exercise price of 12.3074 euro.

In addition, on 14 May 2002 the Board of Directors launched a stock option program for the President and the Managing Directors, for the three-year period 2001-2003. Based on this plan, Mr. Rainer Stefano MASERA, Mr. Alfonso IOZZO and Rag. Luigi MARANZANA were each assigned a total of 450,000 fixed rights for the three-year period 2001-2003. Rag. Pio BUSSOLOTTO was assigned a total of 300,000 rights for the three-year period 2001-2003. The rights assigned became exercisable – at a price of 12.6244 euro – from the date of the dividend issue for the financial year 2003 and in any case not after 15 May 2006. The latter deadline was extended by a resolution of the Board of Directors on 25 January 2005 (the previous deadline was 31 March 2006). This plan is detailed in Part H of the Explanatory Notes.

B. QUANTITATIVE INFORMATION

1. Annual changes

In compliance with the provisions of IFRS 2, below is the information on the evolution and details of the stock option plans in favor of the Bank's managers, the Chairman and the Managing Directors, including the key managers (see the information in Part H of these Explanatory Notes).

Evolution of stock option plans in 2005

	Number of shares	Average exercise price (€)	Market price (€)
Rights existing as at 1/1/2005	10,120,000	10.5743	10.600 (a)
Rights exercised in 2005	-4,706,000	7.3524	
Rights expired (b)	-1,385,000	16.4557	
Rights expired in 2005 (c)	-	-	-
Rights assigned in 2005	7,500,000	12.3074	
Rights existing as at 31/12/2005	11,529,000	12.3104	13.201 (d)
Of which: exercisable as at 31/12/05	-	-	

(a) Reference price as at 30/12/2004.
(b) Concerning rights no longer exercisable following expiry of exercising deadline.
(c) Concerning rights no longer exercisable following expiry of employee termination indemnity.
(d) Reference price as at 30/12/2005.

Break-down of rights by exercise price and residual maturity

Exercise prices (€)	Minimum contractual residual maturity				Total	of which: exercisable as at 31/12/05	
	May 2004 - March 2006	May 2004 - May 2006 (a)	May 2005 - May 2007 (b)	May 2009 - April 2012		Total	Average residual contractual maturity
12.7229	2,115,000				2,115,000	-	-
12.6244		1,650,000			1,650,000	-	-
7.1264			264,000		264,000	-	-
12.3074				7,500,000	7,500,000	-	-
Total	**2,115,000**	**1,650,000**	**264,000**	**7,500,000**	**11,529,000**	-	-

(a) Original expiry March 2006, deferred to May 2006 by resolution of the Board of Directors on 25 January 2005.
(b) Original expiry March 2007, deferred to May 2007 by resolution of the Board of Directors on 25 January 2005.

Part L - Information on comparison with financial year 2004

INTRODUCTION

As described in Part A – Accounting standards, SANPAOLO IMI S.p.A. has used the possibility provided for in IFRS 1 of deferring first-time adoption of IAS 32 and 39 and IFRS 4 to 1 December 2005. Consequently, the accounting figures as at 31 December 2004 for the data affected by IAS standards are reported according to national accounting principles (D.Lgs. 87/92 and related instructions issued by the Bank of Italy), making it virtually impossible to make a homogeneous comparison where requested by Bank of Italy Circular 262 of 29 December 2005.

In order to permit a comparison between the two years in any case, the sections of the 2004 Explanatory Notes relating to the statement captions impacted by IAS 32 and 39 are reported, maintaining the same numbering as the 2004 statements.

Information on the balance sheet - Assets

SECTION 1 - LOANS

Loans to banks (caption 30)

	31/12/2004 (€/mil)
Due from central banks	
– compulsory reserve	157
– other	26
Due from other banks	
– repurchase agreements and securities loaned	8,004
– current accounts	1,032
– deposits	24,072
– loans	1,479
– subordinated loans	163
– other	6
Total	**34,939**

Detail of caption 30 "due from banks" (Table 1.1 B.I.)

	31/12/2004 (€/mil)
a) due from central banks	183
b) bills eligible for refinancing with central banks	-
c) repurchase agreements	8,004
d) securities loaned	-

Degree of risk in loan portfolio to banks

Cash loans to banks (Table 1.2 B.I.) *(€/mil)*

Category / Value	31/12/2004 Gross exposure	Total adjustments	Net exposure
A. Doubtful loans	27	9	18
A.1 Non-performing loans	1	1	-
A.2 Problem loans	1	1	-
A.3 Loans in course of restructuring	-	-	-
A.4 Restructured loans	-	-	-
A.5 Unsecured loans exposed to country risk	25	7	18
B. Performing loans	34,921	-	34,921
Total loans to banks	**34,948**	**9**	**34,939**

Movements in doubtful amounts due from banks (Table 1.3 B.I.) *(€/mil)*

Description / Categories	Non-performing loans	Problem loans	Loans in course of restructuring	Restructured loans	Unsecured loans exposed to country risk
A. Gross exposure as at 1/1/04	5	1	-	-	39
A.1 of which: for default interest	-	-	-	-	*1*
B. Increases	-	-	-	-	-
B.1 from performing loans	-	-	-	-	-
B.2 default interest	-	-	-	-	-
B.3 transfer from other categories of doubtful loans	-	-	-	-	-
B.4 other increases	-	-	-	-	-
C. Decreases	4	-	-	-	14
C.1 to performing loans	-	-	-	-	-
C.2 write-offs	4	-	-	-	2
C.3 collections	-	-	-	-	12
C.4 disposals	-	-	-	-	-
C.5 transfer to other categories of doubtful loans	-	-	-	-	-
C.6 other decreases	-	-	-	-	-
D. Gross exposure as at 31/12/04	1	1	-	-	25
D.1 of which: for default interest	-	-	-	-	-

Movements in total adjustments to loans to banks (Table 1.4 B.I.) *(€/mil)*

Description / Categories	Non-performing loans	Problem loans	Loans in course of restructuring	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Total adjustments as at 1/1/04	5	1	-	-	9	-
A.1 of which: for default interest	-	-	-	-	*1*	-
B. Increases	-	-	-	-	2	-
B.1 adjustments	-	-	-	-	-	-
B.1.1 of which: for default interest	-	-	-	-	-	-
B.2 use of reserves for probable loan losses	-	-	-	-	-	-
B.3 transfer from other categories of loans	-	-	-	-	-	-
B.4 other increases	-	-	-	-	2	-
C. Decreases	4	-	-	-	4	-
C.1 write-backs from valuation	-	-	-	-	1	-
C.1.1 of which: for default interest	-	-	-	-	-	-
C.2 write-backs due from collections	-	-	-	-	-	-
C.2.1 of which: for default interest	-	-	-	-	-	-
C.3 write-offs	4	-	-	-	2	-
C.4 transfer to other categories of doubtful loans	-	-	-	-	-	-
C.5 other decreases	-	-	-	-	1	-
D. Total adjustments as at 31/12/04	1	1	-	-	7	-
D.1 of which: for default interest	-	-	-	-	-	-

Loans to customers (caption 40)

	31/12/2004 (€/mil)
Mortgages	28,069
Other forms of finance not in current accounts - Domestic branches	11,674
Current accounts	6,985
Other forms of finance not in current accounts - Foreign branches	3,164
Import-export loans	1,659
Advances with recourse	1,338
Loans repurchased by third parties	1,184
Repurchase agreements and securities loaned	1,111
Personal loans	818
Non-performing loans	378
Risk on portfolio	401
Other loans to customers	423
Total	**57,204**

Detail of caption 40 "loans to customers" (Table 1.5 B.I.)

	31/12/2004 (€/mil)
a) Bills eligible for refinancing with central banks	-
b) Repurchase agreements	1,111
c) Securities loaned	-

Secured loans to customers (Table 1.6 B.I.)

	31/12/2004 (€/mil)
a) Mortgages	17,017
b) Pledged assets:	
1. cash deposits	60
2. securities (a)	2,405
3. other instruments	209
c) Guarantees given by:	
1. governments	1,277
2. other public entities	5
3. banks	350
4. other operators	9,543
Total	**30,866**

(a) Include repurchase and similar agreements guaranteed by underlying securities totaling 1,111 million euro as of 31 December 2004 and 1,109 million euro as of 31 December 2003.

Degree of risk in loan portfolio to customers

Analysis of loans to customers (Table 1.7 B.I.) *(€/mil)*

Category / Value	31/12/2004		
	Gross exposure	Total adjustments	Net exposure
A. Doubtful loans	2,768	1,850	918
A.1 Non-performing loans	2,029	1,651	378
A.2 Problem loans	493	130	363
A.3 Loans in course of restructuring	110	33	77
A.4 Restructured loans	101	26	75
A.5 Unsecured loans exposed to country risk	35	10	25
B. Performing loans	56,771	485	56,286
Total loans to customers	**59,539**	**2,335**	**57,204**

Coverage of loans

Categories	31/12/2004 (%)
Non-performing loans	81.37
Problem, restructured and in course of restructuring loans	26.85
Unsecured loans exposed to country risk	28.57
Performing loans (a)	0.94

(a) Total performing loans do not include loans to Group companies, equal to 4,915 million euro.

Movements in doubtful loans to customers (Table 1.8 B.I.) *(€/mil)*

Description / Categories	Non-performing loans	Problem loans	Loans in course of restructuring	Restructured loans	Unsecured loans exposed to country risk
A. Gross exposure as at 1/1/04	2,104	611	17	137	28
A.1 of which: for default interest	*335*	*19*	-	-	-
B. Increases	366	646	261	180	8
B.1 from performing loans	56	433	87	19	-
B.2 default interest	44	6	-	-	-
B.3 transfer from other categories of doubtful loans	174	109	155	113	-
B.4 other increases	92	98	19	48	8
C. Decreases	441	764	168	216	1
C.1 to performing loans	4	36	-	35	-
C.2 write-offs	110	58	-	-	-
C.3 collections	207	287	18	80	1
C.4 disposals	-	-	-	-	-
C.5 transfer to other categories of doubtful loans	31	323	136	61	-
C.6 other decreases	89	60	14	40	-
D. Gross exposure as at 31/12/04	2,029	493	110	101	35
D.1 of which: for default interest	*347*	*20*	-	*1*	-

Movements in total adjustments made to loans granted to customers (Table 1.9 B.I.) *(€/mil)*

Description / Categories	Non-performing loans	Problem loans	Loans in course of restructuring	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Total pro forma adjustments as at 1/1/04	1,651	202	3	30	8	477
A.1 of which: for default interest	*335*	*19*	-	-	-	*2*
B. Increases	282	118	63	32	6	39
B.1 adjustments	168	69	41	6	3	39
B.1.1 of which: for default interest	*44*	*6*	-	*1*	-	*2*
B.2 use of reserves for probable loan losses	-	-	-	-	-	-
B.3 transfer from other categories of loans	68	43	18	14	-	-
B.4 other increases	46	6	4	12	3	-
C. Decreases	282	190	33	36	4	31
C.1 write-backs from valuation	13	8	-	2	-	1
C.1.1 of which: for default interest	-	-	-	-	-	-
C.2 write-backs due from collections	59	29	1	16	-	1
C.2.1 of which: for default interest	*13*	*2*	*1*	-	-	*1*
C.3 write-offs	110	58	-	-	-	4
C.4 transfer to other categories of doubtful loans	24	80	27	5	-	7
C.5 other decreases	76	15	5	13	4	18
D. Total adjustments as at 31/12/04	1,651	130	33	26	10	485
D.1 of which: for default interest	*347*	*20*	-	*1*	-	*2*

Loans to customers and banks resident in nations exposed to country risk

(€/mil)

Country	Gross exposure		
	Total	*of which: unsecured*	
		book value	*weighted value*
Brazil	39	29	29
Azerbaijan	37	12	12
Venezuela	13	8	8
Trinidad and Tobago	4	4	4
Argentina	42	3	3
Serbia and Montenegro	2	2	2
Costa Rica	1	1	-
Cayman Islands	18	-	-
Dominican Republic	6	-	-
Philippines	4	-	-
Other	7	1	1
Total gross exposure	**173**	**60**	**59**
Total adjustments	17	17	
Net exposure as at 31/12/04	**156**	**43**	

SECTION 2 - SECURITIES

	31/12/2004 (€/mil)
Treasury bills and similar bills eligible for refinancing with central banks (caption 20)	1,011
Bonds and other debt securities (caption 50)	10,230
Shares, quotas and other equities (caption 60)	284
Total	11,525
of which:	
– investment securities	2,365
– dealing securities	9,160

Investment securities (Table 2.1 B.I.) *(€/mil)*

Caption / Value	31/12/2004 Book value	31/12/2004 Market value
1. Debt securities		
1.1 Government securities		
– quoted	2,003	2,065
– unquoted	-	-
1.2 Other securities		
– quoted	42	44
– unquoted	320	333
2. Equities		
– quoted	-	-
– unquoted	-	-
Total	**2,365**	**2,442**

Changes in investment securities during the year (Table 2.2 B.I.) *(€/mil)*

A. Opening balance	2,458
B. Increases	
B1. purchases	23
B2. write-backs	-
B3. transfers from dealing portfolio	-
B4. other changes	10
C. Decreases	
C1. sales	16
C2. redemptions	74
C3. adjustments	1
of which: long-term write-downs	*1*
C4. transfers to dealing portfolio	-
C5. other changes	35
D. Closing balance	2,365

Dealing securities (Table 2.3 B.I.) *(€/mil)*

Caption / Value	31/12/2004	
	Book value	Market value
1. Debt securities		
1.1 Government securities		
– quoted	1,959	1,959
– unquoted	24	24
1.2 Other securities		
– quoted (a)	1,048	1,048
– unquoted	5,845	5,858
2. Equities		
– quoted	284	284
– unquoted	-	-
Total	**9,160**	**9,173**

(a) For foreign securities listed on organized markets for which the latest quotations are not representative of their realizable value in transactions between independent counterparties (non-active market situations), their market values have been identified on the basis of methods used to value unquoted securities.

Changes in dealing securities during the year (Table 2.4 B.I.) *(€/mil)*

A. Pro forma opening balance	9,029
B. Increases	
B1. purchases	
– debt securities	
- Government securities	9,732
- other securities	6,646
– equities	70
B2. write-backs and revaluations	74
B3. transfers from investment portfolio	-
B4. other changes	105
C. Decreases	
C1. sales and redemptions	
– debt securities	
- Government securities	9,842
- other securities	6,505
– equities	4
C2. adjustments	20
C3. transfers to investment portfolio	-
C5. other changes	125
D. Closing balance	9,160

ubcaption B4. "Increases - other changes" is detailed as follows:

B4. "Increases - other changes"	*(€/mil)*
Exchange differences	3
Capitalization of accrued interest on treasury bills (BOT) and zero coupon bond (BTZ)	40
Gains on disposals	24
Accrued issue discounts	2
Other (a)	36
Total other changes	105

(a) The caption refers to technical exposures as at 31 December 2004.

Subcaption C5. "Decreases - other changes" is detailed as follows:

C5. "Decreases - other changes"	*(€/mil)*
Exchange differences	100
Losses on disposals	16
Other (a)	9
Total other changes	125

(a) 6 million euro refers to technical exposures as at 1 January 2004 and three million euro to the book value of securities due and not reimbursed by the issuer reclassified to receivables, of which two million euro were sold in the second half of 2004.

SECTION 5 - OTHER ASSETS

Other assets (caption 130)

Analysis of caption 130 "other assets" (Detail 5.1 B.I.)

	31/12/2004 (€/mil)
Unprocessed transactions and transactions by foreign branches:	1,608
- unprocessed transactions - Italian branches (a)	*1,109*
- amounts in transit between Italian branches (a)	*496*
- transactions by foreign branches	*3*
Due from tax authorities:	1,815
– prepaid current year direct taxes	*78*
– tax credits on dividends and taxes withheld	*9*
– tax withholdings overpaid during the year on bank interest income	*22*
– tax credits relating to prior years	*1,318*
– advanced taxes on termination indemnities - Law 662/96	*28*
– other deposits (b)	*360*
Deferred tax assets	702
Items relating to derivative contracts and currency transactions:	754
- effect of currency hedges, forex swap and cross-currency swap	*18*
- valuation of derivatives on interest rates and stockmarket indices	*699*
- premiums paid on purchased options	*37*
Loans to subsidiaries for dividends matured	695
Loans to Carlyle Group (c)	102
Reimbursement of the incentive pursuant to the Ciampi Law suspended	200
Deposit with the Bank of Italy relating to the liquidation of Isveimer	58
Deposit with the Bank of Italy relating to the coverage of Sga's losses	7
Items relating to securities transactions	7
Net effect of translating funds from international agencies using current rates, with the exchange borne by third parties	8
Checks and other instruments held	8
Other (d)	576
Total	**6,540**

(a) The amounts were mostly settled at the beginning of 2005.

(b) The credit refers to the payment to the State of an amount equal to 1.5% of the sums declared in the the F24 tax return for the year 2003 and performed at the closing of the year 2004 according to the following provisions of law: D. Lgs. no. 341 of 10 December 2003, converted into Law no. 31 of 9 February 2004, modified by Art. 7 of D. Lgs. no. 282 of 29 November 2004 - provisions dated 10 December 2004 issued by the Department of Fiscal Policies. Furthermore, also recorded to commitments is 312.2 million euro, corresponding to the payment to be made at the end of 2005, for the sums declared in the 2004 F24 tax return.

(c) This item refers to the amount owed by the Carlyle Group for the extension granted for the payment of 50% of the price for the trading, in 2004, of 100% of the shares in CSP Investimenti Srl, as well as some property. These amounts, stated at their discounted value, are accompanied by on demand bank guarantees.

(d) The caption Other includes the net carrying amount of 1.3 million euro for the loan arising from the Court of Appeal sentence in relation to the IMI Sir dispute. Detailed information on this dispute is provided elsewhere in this section.

Accrued income and prepaid expenses (caption 140)

Break-down of caption 140 "accrued income and prepaid expenses" (Detail 5.2 B.I.)

	31/12/2004 (€/mil)
Accrued income	
– income from derivative contracts	1,187
– interest from loans to customers	280
– interest on securities	82
– interest on loans to banks	81
– other	168
Prepaid expenses	
– up front fees on derivative contracts	264
– commissions on placement of securities and mortgage loans	139
– discounts on bond issues	17
– other expenses	88
Total	**2,306**

Other information

Distribution of subordinated assets (Table 5.4 B.I.)

	31/12/2004 (€/mil)
a) Due from banks	164
b) Loans to customers	114
c) Bonds and other debt securities	624
Total	**902**

Information on the balance sheet - Liabilities

SECTION 6 - PAYABLES

Due to banks (caption 10)

	31/12/2004 (€/mil)
Due to central banks	
– repurchase agreements and securities loaned	550
– other deposits from the Italian Exchange Office	193
– other deposits from central banks	2,310
Due to other banks	
– deposits	18,475
– other forms of finance not included in current accounts	5,883
– repurchase agreements and securities loaned	4,960
– medium-/long-term loans from International Organizations	1,695
– current accounts	1,731
– other	12
– other loans	1,220
Total	**37,029**

Detail of caption "due to banks" (Table 6.1 B.I.)

	31/12/2004 (€/mil)
a) Repurchase agreements	5,510
b) Securities loaned	-

Due to customers and securities issued (captions 20 and 30)

	31/12/2004 (€/mil)
Due to customers	
– current accounts	29,173
– repurchase agreements and securities loaned	4,840
– deposits	8,296
– short-term payables relating to special management services carried out for the Government	36
– other	503
Securities issued	
– bonds	18,029
– certificates of deposit	520
– bankers' drafts	291
– other securities	8
Total	**61,696**

Detail of caption "due to customers" (Table 6.2 B.I.)

	31/12/2004 (€/mil)
a) Repurchase agreements	4,840
b) Securities loaned	-

Public funds administered (caption 40)

	31/12/2004 (€/mil)
Funds provided by the State	9
Funds provided by regional public authorities	18
Other funds	-
Total	**27**
of which: funds with risk borne by the Government pursuant to Law 19 of 6/2/87	*9*

SECTION 8 - CAPITAL, EQUITY RESERVES, RESERVE FOR GENERAL BANKING RISKS AND SUBORDINATED LIABILITIES

	31/12/2004 (€/mil)
Shareholders' equity	
– Capital (caption 120)	5,218
– Additional paid-in capital (caption 130)	725
– Reserves (caption 140)	
a) legal reserve	1,044
b) reserve for own shares	43
c) statutory reserves	-
d) other reserves:	3,024
– reserve formerly Art.13 sub. 6 D.Lgs. 124/93	*5*
– extraordinary reserve	*2,042*
– reserve D.Lgs. 153/99	-
– unrestricted reserve for the acquisition of own shares	*957*
– reserve D.Lgs. 213/98	*16*
– reserve L. 342/2000	*4*
– other reserves (a)	-
– Revaluation reserves (caption 150)	-
– Reserve for general banking risks (caption 100)	-
– Retained earnings (caption 160)	-
Total Capital and Reserves	**10,054**
– Income for the period (caption 170)	1,036
Total shareholders' equity	**11,090**
Own shares or quotas (caption 120 - Assets)	43
Subordinated liabilities (caption 110)	6,588

(a) The other reserves relating to 2003 include the effect of the pro forma adjustments to net equity.

(€/mil)

	Amount as of 31/12/2004	Principal portion	Portion of income	Portion of income subject to taxation (a)	Possible utilization (b)	Portion available
Shareholders' equity						
– Capital	5,218	3,278	1,225	715	-	-
– Additional paid-in capital	725	725			A, B, C	725
– Legal reserve	1,044	411	132	501	B	-
– Reserve for own shares in portfolio	43		43		-	-
– Unrestricted reserve for the acquisition of own shares	957		957		A, B, C	957
– Reserve formerly Art.13 sub. 6 D.Lgs. 124/93	5			5	A, B, C	5
– Extraordinary reserve	2,042		2,042		A, B, C	2,042
– Reserve D.Lgs. 213/98	16		16		A, B	16
– Reserve L. 342/2000	4			4	A, B	4
Total Capital and Reserves	**10,054**	**4,414**	**4,415**	**1,225**	-	**3,749**
Portion not to be distributed (c)						77
Portion for distribution						3,672

(a) These amounts do not include the portion of the reserve fiscally tied in accordance with Art. 109 c. 4 of the Consolidated Code on Income Taxes (TUIR), modified by D.Lgs. 344/2003. Such portion, estimated at around 67 million euro, will be fiscally tied in relation to the costs effectively deducted during the pay out in 2005 of the income taxes relating to the previous fiscal year.

(b) A = capital increase; B = to cover losses; C = for distribution to shareholders.

(c) In accordance with Art. 16, subsection 1 of D.Lgs. 87/92, the non-distributable portion refers to research and development costs and other long-term charges to be amortized as of 31 December 2004 totaling 57 million euro, plus Reserve D.Lgs. 213/98 which is not distributable by law and Reserve Law 342/2000, which can only be reduced in compliance with the provisions of Art. 2445 of the Civil Code.

Net shareholders' equity and minimum regulatory requirements (Table 8.1 B.I.)

Category / Value	31/12/2004 (€/mil)
A. Regulatory capital	
A.1 Tier 1 capital	10,469
A.2 Tier 2 capital	4,799
A.3 Items to be deducted	770
A.4 Regulatory capital	14,498
B. Minimum regulatory requirements	
B.1 Credit risk	5,737
B.2 Market risk (a)	180
- of which:	
- risks of the dealing portfolio	*180*
- exchange risks	-
B.3 Tier 3 subordinated loans	180
B.4 Other minimum requirements	-
B.5 Total minimum requirements	5,917
C. Risk assets and capital adequacy ratios	
C.1 Risk weighted assets	84,532
C.2 Tier 1 capital / Risk weighted assets	12.4%
C.3 Regulatory capital / Risk weighted assets	17.4%

(a) Market risks are fully covered by issues of tier 3 subordinated liabilities. The latter, equal to 600 million euro, cover market risks attributable both to the Parent Bank and to other Group companies.

Subordinated liabilities (caption 110)

	Original currency	Amount in the financial statements as at 31/12/04 (€/mil)	Amount in original currency (millions)	Interest rate	Issue date	Maturity date	Starting date of early redemption of the loan
Subordinated deposits linked to the issuance of Preferred Shares	EUR	1,000	1,000	up to 10/11/2010: 7.88% p.a. subsequently: 1 year Euribor +3.25% p.a.	10/11/2000	31/12/2100	10/11/2010
Total innovative capital instruments (tier 1)		*1,000*					
Notes	USD	69	94	6 month LIBOR - 0.25% p.a. (a)	30/11/1993	30/11/2005	(*)
Debenture loan	EUR	150	150	5.75%	15/9/1999	15/9/2009	(*)
Debenture loan	EUR	300	300	5.55% p.a.	31/7/2001	31/7/2008	(*)
Debenture loan	EUR	200	200	5.16% p.a.	2/10/2001	2/10/2008	(*)
Notes	EUR	500	500	6.375% p.a.	6/4/2000	6/4/2010	(*)
Notes	EUR	350	350	up to 6/4/2005 excluded: 3 month Euribor +0.50% p.a. subsequently: 3 month Euribor +1.25% p.a.	6/4/2000	6/4/2010	6/4/2005
Notes	EUR	1,000	1,000	up to 27/9/2005 excluded: 3 month Euribor +0.65% p.a. subsequently: 3 month Euribor +1.25% p.a.	27/9/2000	27/9/2010	27/9/2005
Notes	EUR	500	500	up to 28/6/2007 included: 3 month Euribor +0.49% p.a. subsequently: 3 month Euribor +1.09% p.a.	28/6/2002	28/6/2012	28/6/2007
Debenture loan	EUR	54	54	up to 15/7/2007: 4.90% subsequently: 6 month Euribor +0.76% p.a.	15/7/2002	15/7/2012	15/7/2007
Debenture loan	EUR	147	147	up to 4/12/2007: 4.32% p.a. subsequently: 6 month Euribor +0.85% p.a.	4/12/2002	4/12/2012	4/12/2007
Notes	EUR	300	300	5.375% p.a.	13/12/2002	13/12/2012	(*)
Notes	EUR	350	350	up to 9/6/2010 excluded: 3.75% p.a. subsequently: 3 month Euribor + 1.05% p.a.	9/6/2003	9/6/2015	9/6/2010
Notes	GBP	234	165	up to 18/03/2019 excluded: 5.625% p.a. subsequently: 3 month Sterling LIBOR +1.125 p.a.	18/3/2004	18/3/2024	18/3/2019
Notes	EUR	700	700	up to 28/06/2011 excluded: 3 month Euribor + 0.30% p.a. subsequently: 3 month Euribor + 0.90% p.a.	28/6/2004	28/6/2016	28/6/2011
Debenture loan	EUR	134	134	up to 3/8/2009 excluded: 3.72% p.a. subsequently: 6 month Euribor + 0.60% p.a.	3/8/2004	3/8/2014	3/8/2009
Total subordinated liabilities (tier 2)		*4,988*					
Debenture loan	EUR	350	350	2.98% p.a.	15/5/2003	15/11/2005	(*)
Debenture loan	EUR	200	200	2.42%	30/6/2003	30/12/2005	(*)
Notes	EUR	50	50	up to 14/11/2004: 1.44289% p.a. subsequently: 1.50% p.a.	26/6/2003	15/11/2007	(*)
Total tier 3 subordinated liabilities		*600*					
Total		**6,588**					

(*) Early redemption of the loan is not provided for.
(a) With a minimum of 5.375% and a maximum of 8.250%.

SECTION 9 - OTHER LIABILITIES

Other liabilities (caption 50)

Analysis of caption 50 "other liabilities" (Detail 9.1 B.I.)

	31/12/2004 (€/mil)
Amounts available for third parties	1,389
Unprocessed transactions and transactions by foreign branches:	1,404
- unprocessed transactions (a)	*1,006*
- amounts in transit between Italian branches (a)	*374*
- transactions by foreign branches	*24*
Items relating to derivative contracts and currency transactions:	1,610
- Effect of currency hedges, forex swap and cross-currency swap	*749*
- Valuation of derivatives on interest rates and stockmarket indices	*815*
- Premiums collected on options sold	*46*
Amounts due to personnel	287
Illiquid balances from portfolio transactions	192
Tax payment accounts	74
Amounts payable to Bank of Italy in respect of Isveimer liquidation	58
Deposits guaranteeing agricultural and construction loans	87
Amounts payable due to settlement value date	11
Items relating to securities transactions	37
of which "short position"	*37*
Amounts payable to Bank of Italy - loans for the restoration of SGA L. 588/96	7
Other items	739
Total	5,895

(a) The amounts were mostly settled at the beginning of 2005.

Accrued expenses and deferred income (caption 60)

Analysis of caption 60 "accrued expenses and deferred income" (Detail 9.2 B.I.)

	31/12/2004 (€/mil)
Accrued expenses	
– charges on derivative contracts	919
– interest on securities issued	319
– interest on amounts due to banks	105
– interest on amounts due to customers	41
– other expenses	7
Deferred income	
– interest on discounted portfolio	15
– up front on derivative contracts	65
– bond issue premium	3
– other revenues	64
Total	1,538

Guarantees and commitments

SECTION 10 - GUARANTEES AND COMMITMENTS

Guarantees (caption 10)

Break-down of caption 10 “guarantees given” (Table 10.1 B.I.)

	31/12/2004 (€/mil)
a) Commercial guarantees	8,399
a) Financial guarantees	19,864
c) Assets lodged in guarantee	70
Total	28,333

	31/12/2004 (€/mil)
Endorsements and sureties	24,178
Documentary credits	326
Acceptances	122
Other guarantees	3,637
Assets lodged in guarantee:	-
– securities	-
– other assets	70
Total	28,333

Commitments (caption 20)

Break-down of caption 20 “commitments” (Table 10.2 B.I.)

	31/12/2004 (€/mil)
a) Commitments to grant finance (certain to be called on)	4,204
b) Commitments to grant finance (not certain to be called on)	9,986
Total	14,190

	31/12/2004 (€/mil)
Undrawn lines of credit granted	8,050
Deposits and loans to be made	2,245
Purchase of securities	474
Put options issued	369
Mortgage loans to be disbursed	1,424
Membership of Interbank Deposit Guarantee Fund	73
Commitments for derivatives on loans	598
Other commitments certain to be called on	957
Other commitments not certain to be called on	-
Total	14,190

Assets lodged to guarantee own liabilities

(Detail 10.3 B.I.)

	31/12/2004 (€/mil)
Portfolio securities lodged with third parties to guarantee repurchase agreements	4,331
Securities lodged with central banks to guarantee advances	48
Securities lodged with the Bank of Italy to guarantee bankers' drafts	61
Securities guaranteeing other transactions	180
Total	4,620

Active margins to be used for lines of credit

(Table 10.4 B.I.)

	31/12/2004 (€/mil)
a) Central banks	28
b) Other banks	259
Total	287

Forward transactions

(Table 10.5 B.I.) *(€/mil)*

Categories of operations	Hedged	Negotiation	Other	Total
1. Purchase/sale of				
1.1 Securities				
– purchases	-	474	-	474
– sales	-	213	-	213
1.2 Currencies				
– currency against currency	1,387	712	-	2,099
– purchases against euro	3,789	219	-	4,008
– sales against euro	2,679	141	-	2,820
2. Deposits and loans				
– to be disbursed	-	-	2,245	2,245
– to be received	-	-	585	585
3. Derivative contracts				
3.1 With underlying asset exchange				
a) securities				
– purchases	-	6	364	370
– sales	-	6	662	668
b) currencies				
– currency against currency	-	144	-	144
– purchases against euro	2,610	2,257	-	4,867
– sales against euro	90	2,257	-	2,347
c) other values				
– purchases	-	-	-	-
– sales	-	-	-	-
3.2 Without underlying asset exchange				
a) currencies				
– currency against currency	-	2	-	2
– purchases against euro	-	32	-	32
– sales against euro	-	32	-	32
b) other instruments				
– purchases	39,658	34,049	121	73,828
– sales	19,152	34,531	3,008	56,691
Total (a)	**69,365**	**75,075**	**6,985**	**151,425**

(a) Interest rate related basis swaps (shown in point 3.2 b) are included in both purchases and sales for a total of 17,315 million euro.

Financial information relating to derivative contracts and forward currency purchase/sale transactions

Notional amounts *(€/mil)*

	Interest rate related	Exchange rate related	Stockmarket index related	Other	Total
OTC trading contracts					
- Forward (a)	1,111	49	-	-	1,160
- Swap (b)	58,222	93	-	-	58,315
- Options purchased	1,706	2,317	503	-	4,526
- Options sold	1,706	2,315	436	-	4,457
Exchange traded contracts					
- Futures purchased	400	-	-	-	400
- Futures sold	-	-	-	-	-
- Options purchased	-	-	-	-	-
- Options sold	-	-	-	-	-
Total trading contracts	63,145	4,774	939	-	68,858
Total non-trading contracts	51,895	10,429	6,919	-	69,243
Total contracts (c)	**115,040**	**15,203**	**7,858**	-	**138,101**
- including OTC contracts	*114,640*	*15,203*	*7,858*	-	*137,701*

(a) The caption includes the F.R.A. contracts and forward currency purchase/sale transactions.
(b) The caption mainly includes the I.R.S., C.I.R.S. contracts and basis swap contracts.
(c) Including basis swaps for 8,657 million euro and excluding forward currency transactions with a duration of less than 2 working days, for 1,149 million euro.

Residual maturity of notional amounts underlying OTC derivative contracts *(€/mil)*

	Up to 12 months	Between 1 and 5 years	Beyond 5 years	Total
Interest rate related	61,193	34,461	18,986	114,640
Exchange rate related	11,810	2,916	477	15,203
Stockmarket index related	3,588	2,245	2,025	7,858
Other contracts	-	-	-	-

Notional amounts, market values and similar add on *(€/mil)*

	Interest rate related	Exchange rate related	Stockmarket index related	Other	Total
Notional amounts	**114,640**	**15,203**	**7,858**	-	**137,701**
A. Market value of OTC trading contracts					
A.1 positive market value	747	142	28	-	917
A.2 negative market value	-855	-142	-28	-	-1,025
B. Add on	223	37	37	-	297
C. Market value of OTC non-trading contracts:					
C.1 positive market value	1,173	193	188	-	1,554
C.2 negative market value	-918	-925	-188	-	-2,031
D. Add on	210	232	249	-	691
Credit risk equivalent (A.1+B+C.1+D)	**2,353**	**604**	**502**	-	**3,459**

Credit quality of OTC derivative contracts, by counterparty *(€/mil)*

	Positive market value	Add on	Credit risk equivalent (a) (current value)
Governments and central banks		7	7
Banks	1,987	800	2,787
Other operators	485	180	665
Total	**2,472**	**987**	**3,459**

(a) The credit risk equivalent reported in this table includes transactions with an original life not exceeding 14 days. The existence of Master Netting Agreements allows a reduction in the equivalent credit risk of 1,942 million euro with regard to banks and 125 million euro with regard to other operators.

Credit derivative contracts

(Table 10.6 B.I.) *(€/mil)*

Categories of operations	Dealing	Other	Total
1. Hedging purchases			
1.1 With underlying asset exchange (1)			
– credit default swap	-	285	285
1.2 Without underlying asset exchange (1)			
– credit default swap	250	-	250
2. Hedging sales			
2.1 With underlying asset exchange (1)			
– credit default swap	-	372	372
– credit linked note	-	40	40
2.2 Without underlying asset exchange (1)			
– credit default swap	150	-	150
– credit linked note	6	30	36
Total	**406**	**727**	**1,133**

(1) Credit derivatives which provide for physical delivery.

Information on the statement of income

SECTION 1 - INTEREST

Interest income and similar revenues (caption 10)

Break-down of caption 10 "interest income and similar revenues" (table 1.1 B.I.)

	31/12/2004 (€/mil)
a) On amounts due to banks	636
of which: *– due from central banks*	*26*
b) On loans to customers	2,562
of which: *– loans using public funds*	-
c) On debt securities	345
d) Other interest income	14
e) Net differential on hedging transactions	-
Total	**3,557**

Detail of caption 10 "interest income and similar revenues" (Table 1.3 B.I.)

	31/12/2004 (€/mil)
a) On assets denominated in foreign currency	72

Interest expense and similar charges (caption 20)

Analysis of caption 20 "Interest expense and similar charges" (Table 1.2 B.I.)

	31/12/2004 (€/mil)
a) On amounts due to banks	809
b) On amounts due to customers	417
c) On securities issued	601
of which: *– certificates of deposit*	*24*
d) On loans using public funds	-
e) On subordinated liabilities	280
f) Negative balance of differentials on hedging transactions	38
Total	**2,145**

Detail of caption 20 "interest expense and similar charges" (Table 1.4 B.I.)

	31/12/2004 (€/mil)
a) On liabilities denominated in foreign currency	162

SECTION 2 - COMMISSIONS

Commission income (caption 40)

Break-down of caption 40 "commission income" (Table 2.1 B.I.)

	31/12/2004 (€/mil)
a) Guarantees granted	73
b) Credit derivatives	4
c) Management, dealing and advisory services:	
1. securities dealing	4
2. currency trading	17
3. portfolio management	
3.1. individual	-
3.2. collective	-
4. custody and administration of securities	18
5. depositary bank	55
6. placement of securities (a)	424
7. orders collections	35
8. advisory services	-
9. distribution of third party services:	230
9.1. portfolio management:	
9.1.1. individual	93
9.1.2. collective	-
9.2. insurance products	132
9.3. other products	5
d) Collection and payment services	179
e) Servicing for securitization transactions	-
f) Tax collection services	-
g) Other services	461
Total	**1,500**

(a) Commissions earned on the placement of securities mainly include those earned on the placement of mutual fund units for 402 million euro (418 million euro as at 31 December 2003).

	31/12/2004 (€/mil)
Loans granted	157
Deposits and current account overdrafts	176
Current accounts	93
Other services - Domestic branches	33
Other services - Foreign branches	2
Total	**461**

Detail of caption 40 "commission income" (Table 2.2 B.I.) - products and services distribution channels

	31/12/2004 (€/mil)
a) with own operating points:	
1. portfolio management	-
2. placement of securities	424
3. third party services and products	230
b) outside supply:	
1. portfolio management	-
2. placement of securities	-
3. third party services and products	-
Total	654

Commission expense (caption 50)

Break-down of caption 50 "commission expense" (Table 2.3 B.I.)

	31/12/2004 (€/mil)
a) Guarantees received	4
b) Credit derivatives	4
c) Management and dealing services:	
1. securities dealing	-
2. currency trading	1
3. portfolio management:	
3.1. own portfolio	-
3.2. third party portfolio	-
4. custody and administration of securities	11
5. placement of securities	-
6. door-to-door sales of securities, products and services	-
d) Collection and payment services	56
e) Other services	14
Total	90

	31/12/2004 (€/mil)
Dealing activities on loan transactions	-
Loans obtained	-
Dealing activities on financial transactions	-
Other services - Domestic branches	13
Other services - Foreign branches	1
Total	14

SECTION 3 - PROFITS AND LOSSES FROM FINANCIAL TRANSACTIONS

Profits and losses from financial transactions (caption 60)

Analysis of caption 60 "profits (losses) from financial transactions" (Table 3.1 B.I.) *(€/mil)*

Captions / Transactions	Security transactions		Currency transactions		Other transactions		Total
A1. Revaluations	76	(a)	-		684	(e)	760
A2. Writedowns	-21	(b)	-		-734	(e)	-755
B. Other profits and losses	9	[c]	39	(d)	79	(f)	127
Total	64		39		29		132
1. Government securities	*31*						
2. Other debt securities	*24*		-		-		
3. Equities	*8*		-		-		
4. Security derivatives	*1*		-		-		

(a) Revaluations refer to the valuation of the investment securities portfolio for 74 million euro and to the repurchase of own shares for two million euro.
(b) Writedowns refer to the valuation of the investment securities portfolio for 20 million euro and to the technical exposure of one million euro.
(c) Profits refer to eight million euro from dealings in securities and to one million euro from operations in derivative contracts with underlying securities (futures).
(d) Includes exchange gains of 26 million euro and income on transactions in foreign currency derivative contracts of 13 million euro.
(e) The negative result of 50 million euro refers mainly to derivative contracts linked to dealing securities and is substantially offset by the valuation of the securities referred to in notes (a) and (b).
(f) Profits from other transactions refer to gains from dealings in derivative contracts.

SECTION 5 - ADJUSTMENTS, WRITE-BACKS AND PROVISIONS

Adjustments to tangible and intangible fixed assets (caption 90)

	31/12/2004 (€/mil)
Adjustments to intangible fixed assets	
– amortization of merger differences and goodwill	71
– amortization of software in use	134
– amortization of software not yet in use	10
– amortization of other deferred charges	12
Adjustments to tangible fixed assets	
– amortization of property	56
– depreciation of fixtures and fittings	119
Total	**402**

Adjustments to loans and provisions for guarantees and commitments (caption 120)

Analysis of caption 120 "adjustments to loans and provisions for guarantees and commitments" (Table 5.1 B.I.)

	31/12/2004 (€/mil)
a) Adjustments to loans	273
of which:	
– general adjustments for country risk	*3*
– other general adjustments	*37*
b) Provisions for guarantees and commitments	16
of which:	
– general provisions for country risk	-
– other general provisions	*16*
Total	**289**

Writebacks of adjustments to loans and provisions for guarantees and commitments (caption 130)

	31/12/2004 (€/mil)
Revaluation of loans previously written down	25
Revaluation of loans previously written off	-
Revaluation of guarantees	-
Collection of default interest previously written down	17
Collection of loans previously written off	13
Collection of loan principal previously written down	89
Total	**144**

Adjustments to financial fixed assets (caption 150)

	31/12/2004 (€/mil)
Cassa dei Risparmi di Forlì S.p.A.	109
Cassa di Risparmio di Firenze S.p.A.	108
IMI Investimenti S.p.A.	67
Centradia Group Ltd	3
Compagnia Assicuratrice Unipol S.p.A.	3
Banca Popolare dell'Adriatico S.p.A.	-
Banca Comerciala Sanpaolo IMI Bank Romania S.A.	-
Sanpaolo IMI Internazionale S.p.A.	-
GEST Line S.p.A.	-
Total	290

SECTION 6 - OTHER STATEMENT OF INCOME CAPTIONS

Dividends and other revenues (caption 30)

	31/12/2004 (€/mil)
On equity investments	
- Banca Fideuram S.p.A.	115
- Cassa di Risparmio di Padova e Rovigo S.p.A.	112
- Sanpaolo Banco di Napoli S.p.A.	108
- Sanpaolo IMI Asset Management Sgr S.p.A.	87
- Banca di Intermediazione Mobiliare IMI S.p.A.	70
- Assicurazioni Internazionali di Previdenza S.p.A.	50
- Cassa di Risparmio in Bologna S.p.A.	44
- Cassa di Risparmio di Venezia S.p.A.	30
- GEST Line S.p.A.	30
- Sanpaolo Leasint S.p.A.	20
- Friulcassa S.p.A.	18
- Finemiro Banca S.p.A.	11
- Santander Central Hispano S.A.	17
- Cassa di Risparmio di Firenze S.p.A.	11
- Banque Sanpaolo S.A.	8
- CDC Ixis	8
- Banca Koper D.D.	5
- Banca d'Italia	4
- Cassa dei Risparmi di Forlì S.p.A.	4
- Banca delle Marche S.p.A.	2
- Banco del Desarrollo S.A.	2
- Compagnia Assicuratrice Unipol S.p.A.	2
- Sanpaolo Fiduciaria S.p.A.	1
- Cr Firenze Gestion Internationale S.A.	1
- Borsa Italiana S.p.A.	1
- Centroleasing S.p.A.	1
- Banksiel S.p.A.	1
- Sanpaolo IMI International S.A.	-
- Sanpaolo IMI Wealth Management S.p.A.	-
- Banca OPI S.p.A.	-
- Sanpaolo Bank S.A.	-
- Sanpaolo IMI Bank Ireland Plc	-
- Esatri S.p.A.	-
- Prospettive 2001 S.p.A.	-
- Sanpaolo IMI Bank (International) S.A.	-
- Banca Popolare dell'Adriatico S.p.A.	-
- Eptafund S.G.R.p.A.	-
- Egi Ltd	-
- other dividends received	3
Tax credits	-
Total	766

Dividends distributed by subsidiaries	31/12/04 (€/mil)	Board of Directors' meeting dates	Shareholders' meeting dates (a)
Banca Fideuram S.p.A.	115	16-mar-05	27-apr-05
Cassa di Risparmio di Padova e Rovigo S.p.A.	112	10-mar-05	12-apr-05
Sanpaolo Banco di Napoli S.p.A.	108	15-mar-05	22-apr-05
Sanpaolo IMI Asset Management Sgr S.p.A.	87	28-feb-05	11-apr-05
Banca di Intermediazione Mobiliare IMI S.p.A.	70	11-mar-05	5-apr-05
Assicurazioni Internazionali di Previdenza S.p.A.	50	21-mar-05	11-apr-05
Cassa di Risparmio in Bologna S.p.A.	44	11-mar-05	12-apr-05
Cassa di Risparmio di Venezia S.p.A.	30	10-mar-05	12-apr-05
GEST Line S.p.A.	30	10-mar-05	8-apr-05
Sanpaolo Leasint S.p.A.	20	7-mar-05	4-apr-05
Friulcassa S.p.A.	18	9-mar-05	11-apr-05
Finemiro Banca S.p.A.	11	9-mar-05	11-apr-05

(a) The dates refer to the first call for the meetings.

Other operating income (caption 70)

Break-down of caption 70 "other operating income" (Detail 6.1 B.I.)

	31/12/2004 (€/mil)
Expenses recovered from customers	
– stamp duties	77
– other duties	20
– legal costs	8
– other recoveries	8
Reimbursement of services rendered to third parties	29
Property rental income	6
Income from services rendered to Group businesses (a)	333
Premiums collected on options implicit to structured transactions	19
Other income	17
Total	**517**

(a) The income refers mainly to the supply of outsourcing services in favor of the Group's banking networks.

Other operating expenses (caption 110)

Break-down of caption 110 "other operating expenses" (Detail 6.2 B.I.)

	31/12/2004 (€/mil)
Finance leasing charges	11
Premiums paid on options implicit to structured transactions	19
Other expenses	4
Total	34

Extraordinary income (caption 180)

Break-down of caption 180 "extraordinary income" (detail 6.3 B.I.)

	31/12/2004 (€/mil)
Extraordinary income	
- use of reserves in excess	9
- other	33
Dividends received by subsidiaries	1
Gains on transfer/disposal of company branches	-
Gains on:	
– financial fixed assets - equity investments (a)	106
– financial fixed assets - investment securities	1
– tangible fixed assets	-
– own shares in portfolio (b)	61
Fiscal clean-up (c)	277
Total	488

(a) This caption includes gains from the sale of the investments detailed in Part B – Section 3 of these Notes, as well as two million euro for the adjustment to the sale price of the 60% shareholding in Banque Sanpaolo S.A. made last year.

(b) This caption refers to the gains realized by the subsidiary Invesp, which already held 9.28% of Banca Fideuram, following the disposal - for an outlay of 69.4 million euro - of 6,793,642 SANPAOLO IMI shares received in exchange for the partial spin off of Fideuram Vita from Banca Fideuram and recorded to the financial statements at the date of the spin off for an outlay of 8.4 million euro. Invesp was subsequently merged into SANPAOLO IMI.

(c) This caption includes revaluation of the investment in Cassa di Risparmio di Firenze S.p.A. for 210 million euro and 67 million euro revaluation in the holding in IMI Investmenti S.p.A. Both revaluations were made following the reversal of adjustments to value made solely for tax purposes in previous years. (See Part A – Section 2 of these Notes).

Extraordinary expense (caption 190)

Break-down of caption 190 "extraordinary expense" (Detail 6.4 B.I.)

	31/12/2004 (€/mil)
Provisions for incentive retirement schemes	15
Other out-of-period expenses	22
Expenses for tax reform	-
Losses on transfer/disposal of company branches (a)	50
Losses on disposal of:	
- financial fixed assets - equity investments	-
- financial fixed assets - investment securities	-
- tangible fixed assets	3
Total	**90**

(a) The amount refers to the loss from the transfer of the CDC Ixis shareholding in the company vehicles to which the Bank had repositioned the investment following the restructuring of the French group Caisse d'Epargne. The interest transferred had already been written down for the same amount in the first quarter of 2004.

Income taxes for the period (caption 220)

Break-down of caption 220 "Income taxes for the period" (Table 6.5 B.I.) *(€/mil)*

1. Current taxes	43
2. Change in advanced taxes	159
3. Change in deferred taxes	-
4. Income taxes for the period	202

Proposal for the approval of the financial statements and allocation of net income for the year

Dear Shareholders,

We submit to your approval the SANPAOLO IMI financial statements for 2005.

SANPAOLO IMI exercised the right to draw up the financial statements for the year 2005 in compliance with the IAS/IFRS international accounting standards, as granted by art. 4, sub-section 2 of D.Lgs. 38/05, ratified by the European Commission until 31 December 2005, pursuant to EC Regulation no. 1606 of 19 July 2002.

With regard to the Half Year Report as at 30 June 2005, the Company's reconciliation statements of the shareholders' equity and of the statement of income were published as required by IFRS 1 and by the abovementioned regulations issued by CONSOB. The Appendix to Part B of the Explanatory Notes to the financial statements contains a summary of the effects of transition to IAS/IFRS international accounting standards on the shareholders' equity of the Bank as at 1 January 2005, in pursuance of the final provision of D.Lgs. 38/2005.

Taking account of the above provisions as well as the guidelines provided by the Bank of Italy with Circular no. 262 of 22 December 2005, it should be pointed out that the Bank charged the effects exercised by the IAS/IFRS transition on the shareholders' equity as follows:

- specific valuation reserves were created for the valuation of available-for-sale financial instruments and the valuation of cash flow hedging derivatives, net of the relevant deferred taxation (reserve from valuations of available-for-sale financial instruments; reserve from valuation of cash flow hedging derivatives);
- the transition effects were charged to the shareholders' equity on available profit reserves to Extraordinary Reserves;
- the increase in shareholders' equity due to the booking of tangible assets to fair value was entered as a cost substitute to a specific valuation reserve for which we hereby suggest the entry as share capital of the Bank to be approved during the Extraordinary Shareholders' Meeting.

As international accounting standards provide for valuation effects to be entered as counter-items of the shareholders' equity, net of the relevant deferred taxation, rather than to be accounted for in the statement of income, the shareholders' equity of the Bank as at 31 December 2005 was affected by such components described below and further explained in Section 14 – Explanatory Notes - Liabilities.

During the year, the Bank's share capital increased by 21,544,600 euro due to the exercise of 7,694,500 subscription rights of ordinary shares granted according to the stock option plans for executives approved in previous years. Therefore, the Legal Reserve is below the 20% maximum threshold provided under par. 1, Art. 2430 of the Italian Civil Code.

In order to bring up the Legal Reserve and to distribute all of the income for the year, it is hereby suggested to increase the same by 38,317,524.05 euro, up to 1,081,853,352.21 euro, that is by over one fifth of the share capital which will result from the free increase of capital submitted to the Shareholders' Meeting in its extraordinary part and from the exercise of all subscription rights of SANPAOLO IMI ordinary shares granted according to the stock option plans for executives exercisable before the date of distribution of the income for the year 2005. The increase of the Legal Reserve should be carried out by using share premiums.

In order to highlight the effects on the different components of the Banks' shareholders' equity which occurred in relation to 1 January 2005, accepting the approval of the proposal for increase of the Legal Reserve, the development and the break-down of the shareholders' equity of SANPAOLO IMI S.p.A. as at 31 December 2005 before the allocation of net income is shown as follows:

(euro)

	Share capital and reserves as at 1/1/05 before FTA IAS	Impact FTA IAS/IFRS	2004 Profit allocation	Changes in 2005 shareholders' equity	Increase of the legal reserve to 20% of the share capital	Share capital and reserve before 2005 profit distribution
Capital	5,217,679,141			21,544,600		5,239,223,741
Additional paid-in capital	724,718,927			44,412,443	-38,317,524	730,813,846
Other reserves:	4,107,282,806					3,356,773,574
Legal reserve	*1,043,535,828*				*38,317,524*	*1,081,853,352*
Extraordinary reserve	*2,042,389,606*	*-953,840,774*	*161,912,350*	*773,436*		*1,251,234,618*
Reserve for purchase of own shares	*1,000,000,000*					*1,000,000,000*
Reserve pursuant to clause 21 D.Lgs. 213/98	*15,721,469*					*15,721,469*
Reserve pursuant to clause 13 par. 6 D.Lgs. 124/93	*5,417,855*					*5,417,855*
Reserve pursuant to D.Lgs. 429/82	*218,048*					*218,048*
Reserve for instruments at fair value		*1,258,864*		*-773,436*		*485,428*
Reserve for stock option plans		*4,873,400*		*-3,030,596*		*1,842,804*
Valuation reserves						445,357,476
Reserve pursuant to Law 342/2000	*4,164,891*					*4,164,891*
Valuation reserve for tangible assets		*168,418,756*				*168,418,756*
AFS valuation reserve		*307,380,327*		*128,657,923*		*436,038,250*
CFH valuation reserve		*-23,726,313*		*2,213,792*		*-21,512,521*
Reserve for actuarial profits and losses				*-141,751,900*		*-141,751,900*
Own shares in portfolio		-42,508,503				-42,508,503
Profit for the year to be distributed	1,035,918,830		-1,035,918,830			1,165,128,414
	11,089,764,595	-538,144,243	-874,006,480	52,046,262	-	10,894,788,548

Pursuant to Art. 6, par. 1, lett. a) of D.Lgs. no. 38/2005, by applying the fair value principle, a restricted reserve shall comprise a share of the income for the year corresponding to gains booked in the statement of income, net of the relevant tax charge. As at 31 December 2005, this amount equals 7,433,722 euro.

Considering that after the above increase, the Legal Reserve should exceed the maximum threshold provided for under par. 1, Art. 2430 of the Italian Civil Code (i.e. 20% of the share capital), under the law and according to Art. 23 of the Articles of Association, the allocation of a portion of the net income for the year to this Reserve should not be necessary. Consistently with this assumption, and taking into account that that Art. 23 of the Articles of Association provides for the attribution to preference shares of 5% of their nominal value, we hereby propose the allocation net income for the year, amounting to 1,157,694,692 euro, net of the portion provided for under Art. 6, par. 1 a) of the D.Lgs. no. 38/2005, to be distributed as follows:

- 1,066,556,262 euro to the Shareholders, with recognition of a dividend of 0.57 euro for each of the 1,586,967,318 ordinary shares and 284,184,018 preference shares that form the Capital, to be distributed to the shares outstanding, allocating to the Extraordinary reserve the undistributed

amount against any own shares held by the Bank as of 22 May 2006, the dividend issue date; and
• 91,138,430 euro to the Extraordinary Reserve.

Considering that some stock option plans envisage a period of exercise of the rights to subscribe new shares before the issue of the dividend, the number of ordinary shares in circulation could be higher than the existing 1,867,135,417, on the same date. Should these rights be exercised, without altering the dividend per share of 0.57 euro, the majority share of net income distributed will involve a corresponding reduction of the share of net income allocated to the Extraordinary Reserve.

The dividends will be paid on 25 May 2006.

The proposal for the distribution of net income is consistent with the positive trend registered by the Bank in the early months of 2006 and with the levels of adequacy of the Bank's and the Group's regulatory capital and solvency ratio.

Should the proposal in question be approved, after allocating net income for the year, before the free increase of capital to be resolved upon by the Extraordinary Shareholders' Meeting and should the proposal in question be approved, after allocating net income for the year and regardless of any issue of new shares following the exercise of the stock option rights, as well as of the specification of own shares held by the Bank on the date the dividend is issued, the SANPAOLO IMI net shareholders' equity will be composed as follows:

(euro)

	SANPAOLO IMI shareholders' equity break-down after 2005 profits allocation
Capital	5,239,223,741
Additional paid-in capital	730,813,846
Other reserves:	3,455,345,726
Legal reserve	*1,081,853,352*
Extraordinary reserve	*1,342,373,048*
Reserve for purchase of own shares	*1,000,000,000*
Reserve pursuant to clause 21 D.Lgs. 213/98	*15,721,469*
Reserve pursuant to clause 13 par. 6 D.Lgs. 124/93	*5,417,855*
Reserve pursuant to D.Lgs. 429/82	*218,048*
Reserve for instruments at fair value	*7,919,150*
Reserve for stock option plans	*1,842,804*
Valuation reserves	445,357,476
Reserve pursuant to Law 342/2000	*4,164,891*
Valuation reserve for tangible assets	*168,418,756*
AFS valuation reserve	*436,038,250*
CFH valuation reserve	*-21,512,521*
Reserve for actuarial profits and losses	*-141,751,900*
Own shares in portfolio	-42,508,503
	9,828,232,286

Turin, March 23, 2006

The Board of Directors

Report of the Board of Statutory Auditors to the Shareholders' Meeting in accordance with Art. 153 of D.Lgs. no. 58 dated 24 February 1998

Shareholders,

The 2005 financial statements submitted for your examination and approval, as well as the consolidated financial statements for 2005 which are at your disposal, have been submitted to us in compliance with legislation and have been prepared in accordance with the international accounting standards contained in Art. 3 and 4 of D.Lgs. no.38 of 28 February 2005 and with the methods provided for by Bank of Italy Circular no. 262 of 22 December 2005.

The Report on Operations of the Parent Bank and of the Group, presented with the financial statements, give a full and exhaustive illustration of the financial position, results of operations and the performance of the Parent Bank and of the Group during 2005, as well as developments after the end of the year. The Reports on Operations of the Parent Bank and consolidated financial statements for the first half of 2005, received by us from the Board of Directors within the terms of the law, were also prepared and published in compliance with Consob recommendations. The quarterly reports were published within the terms established.

Given the above, the Statutory Auditors point out the following:

1. The "Report on Corporate Governance" describes the SANPAOLO IMI Corporate Governance system, which complies with the principles in the Code of Conduct for Listed Companies, to which the Bank subscribes. In compliance with the recommendations of the Code, the Bank has:
   - set up internal committees in the Board of Directors;
   - adopted an internal procedure for the processing of confidential information, which reaffirms the principle of discretion to which the Directors, Statutory Auditors and others having access to such information are bound;
   - drawn up Regulations for meetings;
   - revealed in the Explanatory Notes to the Parent Bank Financial Statements the positions held by Directors of the Parent Bank as Directors or Statutory Auditors in listed companies, financial institutions, banks, insurance companies or other significant businesses.

   As you are aware, on 14 March 2006, the Committee for Corporate Governance promoted by the Italian Stock Exchange, released a new Code of Conduct that replaces the one drawn up in 1999 and later amended in 2002. Issuers are invited to apply the new Code by the end of year 2006, informing the market of such adherence with the report on corporate governance to be published in 2007.

2. In the context of the activity undertaken by the Board of Directors and the Ethical Committee, the Bank has defined an "Ethical Code" and published a "Social Report" which together constitute the general fame of reference for the principles and ethical values of the Group, as well

as the corpus for the criteria of conduct of its Directors, employees and co-workers in every operating and geographical area.

3. With respect to the adequacy of organization, and in respect to the Report on Corporate Governance, the Bank has "Group Regulations" which define the basic principles on which it operates, the areas of competence and the responsibilities of the Parent Bank central structures, as well as the mechanisms and instruments used to coordinate the entire Group. These Regulations are aimed at providing the reference regulatory framework which, together with the definitions of procedures, directives and preventive authorizations, will characterize the Group by its common entrepreneurial design, strong internal cohesion and single leadership, consistent with Bank of Italy directives and with the needs for good and prudent management.

4. In implementing the provisions of D.Lgs. no. 231/2001 on administrative responsibility of legal persons for offences committed by those holding high positions within their relative structures, or by those subject to their management or regulation, in 2003 the Bank approved the "Reference principles for the adoption of organization, management and control models", conferring the qualification of Supervisory Body to the Technical Audit Committee pursuant to the Decree. In 2005 and the early months of 2006, the Board of Directors of the Bank approved an updating of the Standards in the light of the legal actions that have extended administrative responsibility to include new types of criminal misconduct. Consequently, mapping of the company areas with a possible risk of committing the crimes foreseen by the Decree has been updated, evaluating in particular the risks of the new penal and administrative crimes of abuse of confidential information and market rigging. In order to strengthen the requirements of judgmental independence and autonomy of the Technical Audit Committee, the requisite of independence has been applied to all Directors making up the Committee, and not merely a majority of them.

5. Application of the Bank of Italy's directives of July 2004 on business continuity and disaster recovery led to the constitution of a special presidium that has defined the project (issued by the Bank of Italy) for the creation of a plan of business continuity, completion of which is expected by 31 December 2006. On 25 October 2005, the Board of Directors approved the guidelines for the Group's policy of business continuity which was followed by the release of the "Crisis Management Model", signed by the Managing Director, and the definition of operational regulations for the model and the rules for dealing with crises and the return to normal operations.

6. With reference to the listing of SANPAOLO IMI shares on the NYSE and the relative registration with the Security and Exchange Commission, the Bank is subject to US laws on capital markets, including the Sarbanes-Oxley Act of 30 July 2002 (SOXA), a law that has significantly increased company and managerial responsibility in controlling company market information. In more detail, Section 404 of SOXA, applicable to foreign registrants in 2006, has introduced the obligation for the Managing Director and Chief Financial Officer to agree to a Management Assessment of Internal Controls over financial reporting and for the external auditor to release an independent report on the same subject. During 2005, the Bank perfected initiatives to create a model of administrative and financial governance for the Group that is unequivocal and highly integrated, especially concerning the control systems for company information procedures aimed at producing obligatory issues and financial information with market value. In 2002, the bank also set up a special Disclosures Committee to cooperate with the company Bodies in executing their duties and responsibilities with respect to the accuracy and promptness of the release of financial information. In the context of this specific regulation, the Statutory Auditors have been assigned the role of Audit Committee with a consequent broadening and enhancement of the Statutory Auditors' areas of intervention and responsibility, specifically in controlling company information and transparency in the relations between the Bank and the external auditors. To this end, the Shareholders' Meeting of 29 April 2005 approved the assignation of a plafond to be used, with the obligation to be accounted for in

this Report, for the remuneration of any external, independent consultants for costs attributable to applying such regulations. It should be mentioned that to date no problems have emerged requiring recourse to the plafond.

7. In 2005, the SANPAOLO IMI Group adopted the new IAS/IFRS international standards in drawing up the consolidated financial statements, as well as the results of operations of the Parent bank and the majority of subsidiaries. Transition to IAS/IFRS accounting standards was made with the Half Year Report 2005 and made public in accordance with Consob Communication no. 5015175 of 10 March 2005.

8. The Parent Bank and consolidated Reports on Operations, and the relevant Explanatory Notes, contain the information required by the regulations issued by the Bank of Italy and Consob. To provide comparison between the financial statements for 2005 and those of the preceding year, there is also a description of the criteria used in drawing up the pro forma financial and equity positions in reference to 2004, prepared taking into account the Consob directives. The Explanatory Notes give a full illustration of the accounting and evaluation standards used in drafting the financial statements.

9. During 2005 and up to the date of the present report, SANPAOLO IMI completed a number of extraordinary transactions. Among the most important was the concentration of the insurance activities of Assicurazioni Internazionali di Previdenza S.p.A. (A.I.P.) and those of asset gathering carried out by Banca Fideuram under a new company structure answering directly to the Parent Bank. The operation was perfected in November 2005 with the "in kind" conferral by SANPAOLO IMI of investments held in Banca Fideuram and A.I.P. to a newly-founded subsidiary (New Step, now Eurizon Financial Group S.p.A.). The Board of Statutory Auditors was especially vigilant over adherence to directives for the execution of conferral transactions.

10. With regard to transactions with related parties, the Bank has adopted a specific organizational procedure for the Group which identifies the consolidation area of the related parties and the significant operations (on the basis of analytical thresholds and considering the types of operations and the nature of the counterparties), defines duties and responsibilities and indicates the flow of information between the organizational units of the Bank and its directly and indirectly controlled subsidiaries, as well as towards the Company bodies, also to implement the request for information from the Board of Statutory Auditors in accordance with Art. 150 of D.Lgs. no. 58/1998 (T.U.F. – Consolidated Financial Law). In relation to transactions with infra-Group companies and related companies, the overall framework of which is fully illustrated in the relative paragraphs of the Explanatory Notes, it is highlighted that these are encompassed in the ordinary operations of the Group and are executed under market conditions and are, in any case, valued on the basis of reciprocal economic convenience. The Explanatory Notes show the transactions with related parties of particular relevance. Receivable and payable balances with related parties at the end of the year, net of infra-Group transactions, amount to a total that is irrelevant compared to the size of the Group's equity.

    With respect to transactions of an atypical and/or unusual nature, the Explanatory Notes to the consolidated financial statements provide details of a compromise agreement between Sanpaolo S.A. and Ente Holding S.r.l. (100% controlled by the Pensions Fund of the SANPAOLO IMI Group, a related party of the Bank) concerning a real-estate transaction between Ente Holding and a third-party seller in default, with which Sanpaolo Bank worked on the basis of the fiduciary contract. The compromise was deemed adequate and basically fair also from the point of view of Sanpaolo Bank, thereby avoiding any legal contestation and the related additional risks and losses arising from the peculiar nature of Ente Holding.

11. The Board of Statutory Auditors guarantees that the transactions with subjects who carry out administrative, managerial and executive duties for the Bank or for Group companies have been executed in compliance with Art. 136 of D.Lgs. 385/93 (Consolidated Banking Law). These

transactions were the subject of unanimous decisions by the Board of Directors and with the favorable vote of all the Statutory Auditors, subject to the obligations provided for in the Italian Civil Code regarding the interests of directors. The same procedure also applies to the parties who carry out administrative, managerial and executive duties within a bank or company belonging to the Group, for the actions taken in connection with the company itself or for financing transactions entered into with other banks or companies within the Group.

12. During the year, the Board of Statutory Auditors, in accordance with Art. 2389 of the Italian Civil Code and Art. 15 of the Bank's Articles of Association, issued their opinions with respect to the remuneration of Directors holding particular offices, as decided by the Board of Directors considering the proposals formulated by the Technical Committee for Remuneration and Personnel Policies. Part H of the Explanatory Notes to the Parent Bank financial statements lists remuneration awarded to directors, auditors and the managing director of the Parent Bank.

13. The information required by Art. 10 of Law 72/83 concerning monetary valuation of goods and capital is given in those sections of the Explanatory Notes relating to revalued assets.

14. We inform you on 11 April 2005 the Board of Statutory Auditors received a complaint pursuant to Art. 2408 of the Italian Civil Code concerning the request for information on the disposal of Fiat shares from the convertible facility and on some aspects of the financial statements, subjects which the Board deems adequately illustrated in the Report on Operations and the Explanatory Notes.

15. The Directors' reports in respect of all the items on the agenda of the Shareholders' Meeting called to approve the financial statements are complete and have been prepared in accordance with the law and the Articles of Association. In more detail, the proposal on the agenda regarding the request for authorization to purchase or sell own shares, also for the purpose of compensation plans for employees of the Bank and its controlled companies, is compliant with the provisions pursuant to Articles 2357 and 2357-ter of the Italian Civil Code, Art. 132 of the Consolidated Financial Law and the regulations issued by Consob.

    The Board of Statutory Auditors does not have any proposals of its own to submit to the Shareholders' Meeting according to Art. 152, para. 2, of the Consolidated Financial Law.

16. In compliance with Consob Recommendation no. 1025564 of 6 April 2001, you are informed that during 2005, and pending authorization from the Board of Directors and the favorable decision of the Board of Statutory Auditors, your Bank instructed PricewaterhouseCoopers S.p.A. to perform, over and above the audit of the financial statements and additional activities required by law or by legal deeds, the assignment concerning the release of Comfort Letters in connection with the Offering Circular relating to the long-term program for the placement of Euro Medium Term Notes. The independent auditor received fees of 161,500 euro (excluding VAT) for these activities. Lastly, the Board of Statutory Auditors reports that in 2005, the Bank did not assign engagemets to subjects or companies connected to PricewaterhouseCoopers S.p.A. by continuative collaboration.

Finally, we inform you that during the year ended 31 December 2005, we performed our supervisory activities required by law, and for this purpose:

- we attended the Shareholders' Meeting, the 15 meetings of the Board of Directors and the 19 meetings of the Executive Committee regularly held during the year. In the same period, the Board of Statutory Auditors met 12 times to perform its examinations and received from the Directors, in accordance with Art. 150 of the Consolidated Financial Law, information on a quarterly basis on the activities performed by the Group and the operating trend, the major economic, financial and balance sheet transactions of the Company or its subsidiaries, already presented in the Group and Parent Bank Report on Operations, the exercise of powers of attorney within the Parent Bank, transactions in which the directors have a personal interest or an interest on behalf of third parties, as well as transactions with related parties. We confirmed that all activities deliberated and carried out were done so in compliance with the law and with the company Articles of Association and that they were not openly imprudent, hazardous, potentially conflicting or such as to compromise the integrity of the company's equity, or incompatible with the resolutions of the Shareholders' Meeting;

- we have gained knowledge of, and supervised, in respect of our duties, the adequacy of the organizational structure of the Bank and the observance of the principles of correct management, as well as the adequacy of the system of internal controls and of the administration-accounting system and its suitability to represent operations correctly, through obtaining information from the heads of the respective departments, examining company documents and analyzing the results of the work of the independent auditors. More in detail:
  - we have acquired detailed information on the controls performed by Audit Management in relation to the Parent Bank, foreign branches and Group companies through the examination of the quarterly reports, illustrated during the periodical meetings of the Board of Statutory Auditors and of the analytical reports made available to us, as well as through attendance by the Chairman of the Board at the meetings of the Technical Audit Committee;
  - we have verified, by checking directly and reviewing information provided by the Independent Auditors, compliance with the laws concerning the preparation and layout of the financial statements and the report on operations. Our checks revealed that the administration-accounting system is adequate and reliable to represent the operations correctly;
  - we have also checked the provisions imparted by the bank to the subsidiary companies in accordance with Art. 14, para. 2 of the Consolidated Financial Law, considering them adequately specific and consistent.

The work performed did not reveal any significant issues that might require reporting to the Regulatory Authorities or mention in this report.

Having reported the above, and having examined the draft contents of the report issued by the Independent Auditors PricewaterhouseCoopers S.p.A. and considering that the information provided therein – consistently with the information received from the auditors – shows no critical issues, we express an opinion in favor of approving the financial statements for the year 2005, formally acknowledging that the proposal for distribution of dividends expressed by the Board of Directors complies with current legislation and with the company Articles of Association and is adequately motivated in relation to the economic and financial position of the Bank. You are informed that the derogation provided for in Art. 2423, para. 4, of the Italian Civil Code with regard to the preparation of the financial statements has not been exercised.

Turin, 11 April 2006

The Board of Statutory Auditors

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

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

To the Shareholders of
Sanpaolo IMI SpA

1 We have audited the financial statements of Sanpaolo IMI SpA, which comprise the balance sheet, statement of income, statement of changes in shareholders' equity, statement of cash flow and the related explanatory notes as of 31 December 2005. These financial statements are the responsibility of Sanpaolo IMI's Directors. Our responsibility is to express an opinion on these financial statements based on our audit. The aforementioned financial statements have been prepared for the first time in accordance with the International Financial Reporting Standards as adopted by the European Union.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. In accordance with those standards and criteria, the audit has been planned and performed to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are reliable. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

3 The financial statements present, for comparative purpose, the prior year corresponding figures prepared in accordance with the same accounting principles, except for the effect of the application of IAS 32 and IAS 39 which, as permitted by IFRS 1, have been applied starting from 1 January 2005. Furthermore, note "Effect of the transition to the IAS/IFRS on the shareholder's equity of Sanpaolo IMI SpA", appendix to Part B of the explanatory notes to the financial statements, explains the effects of the transition to International Financial Reporting Standards as adopted by the European Union. The Directors have reclassified the information related to the IFRS transition information required by IFRS 1, which have been formerly approved and published in appendix on the mandatory half year report at 30 June 2005. This IFRS transition information has been previously audited by us and reference is made to our report dated 25

October 2005. The information presented in note "Effect of the transition to the IAS/IFRS on the shareholder's equity of Sanpaolo IMI SpA" have been audited by us to provide a reasonable basis for our opinion on the financial statements at 31 December 2005.

4 In our opinion, the financial statements of Sanpaolo IMI SpA as of 31 December 2005 comply with International Financial Reporting Standards as adopted by the European Union; accordingly, they give a true and fair view of the financial position, the results of operations, the changes in shareholders' equity and cash flows of Sanpaolo IMI SpA for the year then ended.

Turin, 11 April 2006

PricewaterhouseCoopers SpA

Signed by
Sergio Duca
(Partner)

(This report has been translated from the original which was issued in accordance with Italian legislation. References in this report to the Financial Statements refer to the Financial Statements in original Italian and not to their translation)

Attachments

ATTACHMENT TO THE REPORT ON PARENT BANK OPERATIONS

PRO FORMA RECONSTRUCTION OF THE PARENT BANK STATEMENT OF INCOME FOR 2004 (FULL IAS)

PRO FORMA RECONSTRUCTION OF THE PARENT BANK STATEMENT OF INCOME FOR 2004 (FULL IAS)

The following is a detailed description of the reconstruction of the reclassified 2004 Statement of Income according to full IAS used for the notes on the economic performance of the Bank and for the purpose of preparation of the Report on Operations.

Reclassified (full IAS) 2004 statement of income

(€/mil)

	Balances as at 31/12/2004 after caption reclassification pursuant to IAS (A)	Pro forma adjustments (B)	Adjustments for branch grant/ acquisition	December 2004 pro forma
Net interest income	1,403	31	(54)	1,380
Net commissions on services	1,409		(34)	1,375
Income from credit disposals and assets held to maturity	9			9
Net income from other financial assets and liabilities and repurchase of financial liabilities	108	(40)	(3)	65
Dividends on investments	787			787
Total operating income	**3,716**	**(9)**	**(91)**	**3,616**
Net adjustments to deterioration of loans	(145)	(6)	1	(150)
Net adjustments to other financial assets	29	(29)		
Net operating income	**3,600**	**(44)**	**(90)**	**3,466**
Personnel costs	(1,541)	19	38	(1,484)
Other administrative costs	(830)		13	(817)
Net adjustments to tangible and intangible assets	(340)		1	(339)
Other net income/expenses	436	(61)	(2)	373
Profits (losses) from equity investments	110			110
Profits (losses) from disposals of investments	(3)			(3)
Accruals to provisions for risks and charges	(109)			(109)
Pre-tax operating profit	**1,323**	**(86)**	**(40)**	**1,197**
Income taxes on current operations	(211)	(1)	13	(199)
Profits on discontinued operations after taxes				
Net profit	**1,112**	**(87)**	**(27)**	**998**

(A) Balances reconstructed on the basis of IAS/IFRS, excluding IAS 32 and 39.
(B) Pro forma reconstruction of the impact of IAS 32 and 39.

The “pro forma adjustments” column highlights pro forma adjustments relating to a 2004 estimate of the effects arising from IAS 32 and 39 with a transition date as of 1 January 2005. Reconstruction was carried out at the sole purpose of creating a homogeneous base of comparison against the 2005 results. This reconstruction shall not be subject to review.

Adjustments relating to the interest margin refer to the effects of the application of the amortized cost method and to the timing effect relating to the discounting back of doubtful loans, which both in 2004 and in 2005, at the sole purpose of the reclassified statement of income, was reclassified within the interest margin.

The impact on the operating income is due to the estimate of effects relating to the cancellation of own securities held in portfolio and to the reversal of valuations referred to own shares.

Net adjustments due to impairment relate to the reversal of write-backs booked in the statement of income in 2004 on the equity investment in SCH, now reclassified among available-for-sale investments. Net result of financial management activities and adjustments due to impairment were further reclassified due to the valuation effect resulting from the firm commitment of the Fiat Convertible Facility. Personnel costs were adjusted in order to account for the capitalization estimate of charges relating to personnel employed in software development projects.

The adjustment of other operating income refers mainly to the reversal of profits realized after the disposal of own shares.

So as to enable the comparison of economic results and their corresponding values for 2004, the transactions listed below and carried out during 2005 were accounted for. These transactions have been further described in Part F of these Explanatory Notes:
- transfer of assets and liabilities relating to 10 operational areas of SANPAOLO IMI S.p.A. to FRIULCASSA S.p.A., completed on 31 January 2005;
- transfer of assets and liabilities relating to 10 operational areas of SANPAOLO IMI S.p.A. to Cassa di Risparmio di Venezia S.p.A., completed on 24 January 2005;
- disposal by Cassa di Risparmio in Bologna S.p.A. of assets and liabilities relating to 21 operational areas, completed on 31 January 2005;
- disposal by Cassa di Risparmio di Padova e Rovigo S.p.A. of assets and liabilities relating to nine operational areas, completed on 24 January 2005;

Other points on the agenda

AUTHORIZATION FOR THE PURCHASE AND SALE OF OWN SHARES, ALSO TO SERVICE COMPENSATION PLANS FOR EMPLOYEES OF THE COMPANY AND ITS SUBSIDIARIES

THE BOARD OF DIRECTORS' REPORT
Ordinary Meeting – Point 2 of the agenda

Shareholders,

The Board of Directors has called you to an Ordinary Meeting to consider the proposal of authorization for the purchase and sale of own shares to renew the authorization already decided in the previous Shareholders' Meeting of 29 April 2005 before its expiry.

In the Explanatory Notes to the Financial Statements for 2005 you will find the operations in own shares made by SANPAOLO IMI S.p.A. in that financial year.

The proposal follows the objective of taking advantage of the various management opportunities available to the Company, and also to optimise capital structure.

It is further viewed that the directors may be given the necessary authorization also for strategic operations, related to extraordinary financial transactions concerning equity exchanges or availability of own shares for different financial transactions, including employee share plans.

The transactions will have to be made, in any case, within ruling laws and regulations. In particular, purchases will have to be made so as to ensure equal treatment among shareholders. Except pursuant to Article 132, paragraph three, D.Lgs. 24.2.1998 n. 58, they may be made exclusively by public purchase or exchange offer or on regulated markets, pursuant to letters a) and b) of Article 1 144 bis, paragraph 1, of the Regulation approved by Consob (11971, 14 May 1999) and successive modifications (Regolamento Emittenti).

Given the above, we ask you to vote, pursuant to Article 2357 of the Italian Civil Code, and the combined Articles 132 D.Lgs. 24.2.1998 58 and 144 bis, paragraph 1, letters a) and b) Regolamento Emittenti, and for 18 months from the date, the authorization for the purchase and sale of own shares at a nominal price resulting from the unpaid increase in equity capital subject to approval of the Extraordinary Shareholders' Meeting. This purchase may be made at a price, net of ordinary accessory purchase charges, of not less than a minimum of 30% and no more than a maximum of 10% of the reference price recorded in the market session of the day preceding each trade, when the purchase is made in the market, or in the market session of the day preceding the public announcement, when the purchase is made by public purchase or exchange offer. The purchase will concern a maximum of further 180 million ordinary shares and will have to be kept with the limits of the law, taking account of which, within the Group, suitable procedures to monitor the total shareholding, are applied. The purchase may happen on one or more occasions.

We propose that you confirm the amount of the Reserve for Purchase of own shares at 1,000 million euro, corresponding to that of Reserve for Purchase of own shares already established. The amount of own shares held from time to time must be kept within that limit.

We also propose that you authorise, pursuant to Article 2357 ter of the Italian Civil Code the sale, in whole or in part, of own ordinary shares, also through off-market dealing, at a price of not less than 10% of the reference price of the share recorded in the market session of the day preceding each trade. Other parameters, in line with international best practice, may also be used for transfers in whatsoever form effected in the purchase of shareholdings by the Bank or correlated with the establishment of stable cooperation relationships or connected to extraordinary financial transactions which may require availability of own shares.

Successive purchase and sale transactions may be effected.

Finally, we also propose that you approve the use of ordinary own shares also for compensation schemes for employees of the Company and more specifically for unpaid assignment - also in substitution of other forms of remuneration, taking account of the incentives envisaged under current tax law – to promote employee involvement in the progress of the company and to strengthen the relationship through direct participation in results and company development.

These plans will have to respect the following characteristics:
- they will be directed at least to all the personnel with fixed contracts – in February 2006, 20,151 people;
- the ordinary shares assigned must have a maximum individual countervalue, calculated on the basis of the normal value of the tax base, 2,065.83 euro or the greater value determinated by tax incentive regulations;
- the ordinary shares assigned will be blocked in availability for three years, according to tax regulations.

It remains the case that the Board of Directors may identify other categories of employees of the Company for compensation plans, assess individual countervalue due on objective criteria and in each case define the necessary operating modalities.

Shareholders,

We invite you to approve the proposal – and consequently to revoke, for the part not followed, the motion for the authorization for the purchase and sale of own shares taken on 29 April 2005 – also authorizing the Board of Directors to delegate, in whole or in part, the ability to make such purchase and sales.

Turin, 23 March 2006

The Board of Directors

DECISIONS IN RESPECT OF THE REMUNERATION PAYABLE TO THE DIRECTORS

THE BOARD OF DIRECTORS' REPORT
Ordinary Meeting – Point 3 of the agenda

Shareholders,

As you are already aware, Art. 15 of the Articles of Association provides that the Members of the Board of Directors and of the Executive Committee are entitled to annual remuneration, part fixed and part variable, to be established by the Shareholders' Meeting.

In compliance with this provision, the Shareholders' Meeting of 29 April 2005 established that for the total gross variable part payable to the Members of the Board for the year 2005 should be composed as follows:

i. when the Group's RoE (net consolidated profit for the period/net consolidated accounting shareholders' equity calculated as the average values at the end of the year) is equal or less than 14.99%: 1 per thousand of the net profit shown in the consolidated financial statements for the year;
ii. when the RoE is above 14.99%: 1 per thousand of that part of the net profit (shown in the consolidated financial statements for the year) determining an RoE of 14.99%, plus 1.5 per thousand of the exceeding part of net profit.

The aforementioned Meeting decided not to set any reference base for the year 2006.

Shareholders,

you are therefore invited to take the necessary decisions in respect of the above.

Turin, 23 March 2006

The Board of Directors

MODIFICATION OF THE SHAREHOLDERS' MEETING REGULATIONS

THE BOARD OF DIRECTORS' REPORT
Ordinary Meeting – Point 4 of the agenda

Shareholders,

You have been called to the Ordinary Meeting to examine, according to Art. 12.1 of the Articles of Association, the proposals to modify the Shareholder's Meeting Regulations of SANPAOLO IMI, approved by the Ordinary Shareholders' Meeting of 30 April 2001.

As you are already aware, following the modification of Art. 2370 of the Civil Code and the issuing of related effective dispositions by Consob, currently contained in articles 33 and following of the Market Regulations (Consob Del. n. 11768/1998), the legitimization of participation in the Meeting is not longer attested by the certification issued by the agent to the shareholder, but by a communication that the agent, on the request of the shareholder, makes directly to the issuer. This communication is therefore now the only way to attest the right of participation in the Meeting.

In the light of the above, last January the Board of Directors of the Bank took actions – according to Art. 16, para. 3 of the Articles of Association – to adapt the text of the Articles to the aforementioned regulation, identifying, in Art. 9, the reception by the Company of the agent's communication as the sole right to legitimize participation in the Meeting, eliminating the previous reference to "certifications attesting to participation in the central management of financial instruments".

With the aim of adapting also the Shareholders' Meeting Regulations to the current norms, it is proposed in today's Meeting to modify Art. 3 by eliminating – with reference to the documentation exhibited by those participating in the Meeting at the entrance to the areas where the meeting is held – any mention of "certification".

We would also like to take this opportunity to propose further modifications to the Regulations with the aim of giving better order to the Meeting procedure and correlating the text to the relevant dispositions in the Civil Code and introduced by SANPAOLO IMI into its Articles of Association, that is to introduce simplifications and changes also of a purely formal nature.

In relation to the above, there follows a table of the proposed modifications, containing the relative reasons and the comparative texts of the current and proposed regulations. Shareholders are invited to approve these proposals, if they agree, as shown in the table.

Turin, 23 March 2006

The Board of Directors

SHAREHOLDERS' MEETING REGULATIONS (Approved by the Ordinary Shareholders' Meeting of 30 April 2001)

Art. 1
Area of application

1. This regulation governs the course of the Ordinary and Extraordinary Shareholders' Meetings of the Company.

SHAREHOLDERS' MEETING REGULATIONS (Proposed text)

Art. 1
Area of application

1. This regulation governs the course of the Ordinary and Extraordinary Shareholders' Meetings of the Company.
2. **For that which is not expressly defined, the legal and statutory regulations for the Shareholder's Meeting apply.**

Reason

The second paragraph would be added as a closing rule, also in relation to more precise legal and statutory dispositions introduced following the reform of company law, with particular reference to the related powers assigned to the Chairman (cf the proposed modification to Art. 4 in particular).

Art. 2
Intervention, participation and attendance at the Shareholders' Meeting

(Approved text)

1. Shareholder's and others holding the right to vote may intervene at the Shareholders' Meeting.
2. General Managers, Deputy General Manager(s) – or, alternatively, members of Central Management – Company managers and representatives of the company assigned to audit the financial statements, as well as Directors, Auditors and managers of Group companies may participate in the Shareholders' Meeting. Employees of the company or of Group companies and other individuals whose presence the Chairman of the Meeting deems useful to the subjects dealt with or to the course of the meeting may also participate.
3. Experts, financial analysts and accredited journalists may attend the Meeting at the Chairman's discretion.
4. Before setting out the subjects on the Agenda, the Chairman informs the Meeting of the participation and attendance of individuals indicated in paras. 2 and 3 of this Article.

Art. 2
Intervention, participation and attendance at the Shareholders' Meeting

(Proposed text)

1. Shareholder's and others holding the right to vote may intervene at the Shareholders' Meeting**, provided they are legitimate according to current regulations and the Articles of Association, according to the indications in the Notice of Calling.**
2. General Managers, Deputy General Manager(s), Company managers and representatives of the company assigned to audit the financial statements, as well as Directors, Auditors and managers of Group companies may participate in the Shareholders' Meeting. Employees of the company or of Group companies and other individuals whose presence the Chairman of the Meeting deems useful to the subjects dealt with or to the course of the meeting may also participate.
3. Experts, financial analysts and accredited journalists may attend the Meeting at the Chairman's discretion.
4. Before setting out the subjects on the Agenda, the Chairman informs the Meeting of the participation and attendance of individuals indicated in paras. 2 and 3 of this Article.

Reason

The qualification proposed in the first paragraph is a reminder of the legal and statutory dispositions in force (as well as the specifications in the Notice of Calling) concerning legitimization of participation in the Meeting.

In the second paragraph, it is proposed to eliminate the reference to Central Management as it is no longer pertinent according to the current Articles of Association of SANPAOLO IMI.

Art. 3
Verification of legitimate status to participate in the Shareholders' Meeting and access meeting areas

1. Verification of the legitimate status to participate in the Shareholders' Meeting starts in the meeting place.
2. Those holding the right to participate in the Meeting must show, at the entrance to the meeting areas and on the request of the staff assigned by the Company, a document of personal identification <u>and the certification indicated in the Notice of Calling</u>. The staff assigned by the Company will issue a special document to be kept throughout the course of the Meeting.
3. Without the consent of the Chairman of the Meeting, no photographic, video or similar equipment, including recording tools of any type and mobile telephones, may be used in the meeting areas.
4. The meeting may be audio/video taped for broadcasting/projection in the meeting or service areas and to provide support in the preparation of answers.

Art. 3
Verification of legitimate status to participate in the Shareholders' Meeting and access meeting areas

1. Verification of the legitimate status to participate in the Shareholders' Meeting starts in the meeting place.
2. Those holding the right to participate in the Meeting must show, at the entrance to the meeting areas and on the request of the staff assigned by the Company, a document of personal identification. The staff assigned by the Company will issue a special document to be kept throughout the course of the Meeting.
3. **In order to facilitate verification of legal status and, therefore, entry into the Shareholders' Meeting, participants in the meeting may present a copy of the communication shown on the back of the notice of calling.**
4. Without the consent of the Chairman of the Meeting, no photographic, video or similar equipment, including recording tools of any type and mobile telephones, may be used in the meeting areas; **if and when the Chairman authorizes the use of such equipment, he also determines terms and conditions.**
5. The meeting may be audio/video taped for broadcasting/projection in the meeting or service areas and to provide support in the preparation of answers.

Reason

In para. 2, it is proposed to eliminate the reference to "certification", now replaced by the "communication" made by the agent directly to the issuer on the request of the shareholder.

The new para. 3 – which implies no obligation or onus on the part of the shareholder to arrive at the Meeting with a copy of the communication issued by the agent – aims to underline the need to ease accrediting and verification of legal status, in the interests of the participants.

The last clause of para. 4 is proposed to give a clearer definition of the powers of the Chairman to authorize the use of photographic, video and similar equipment, including recording instruments.

Art. 4
Constitution of the Shareholders' Meeting and opening of proceedings

1. At the time established in the notice of calling, the person indicated by the Articles assumes chairmanship of the Meeting.
2. <u>On the proposal of the Chairman, and when deemed opportune, the Meeting nominates two or more invigilators and a Secretary, also from among non-shareholders. The assistance of the Secretary is not necessary when the minutes of the Meeting are drawn up by a Notary who is appointed by the Chairman.</u>
3. <u>The secretary and the Notary can be assisted by persons in their trust and may use recording equipment for the drafting of the minutes.</u>
4. The Chairman may be assisted by individuals authorized to participate in the Meeting, appointing them to illustrate the subjects on the agenda and to reply to questions asked in relation to specific arguments.
5. The Chairman may also be assisted by especially invited external experts.
6. The Chairman announces the number present of shareholders and others with the right to vote, indicating the share of capital they represent. Once it has been established that the Meeting is properly constituted, the Chairman declares the proceedings open.
7. If the necessary quorum for the constitution of the Meeting is not met, discussion of the items on the agenda is postponed to the next calling.

Art. 4
Constitution of the Shareholders' Meeting and opening of proceedings

1. At the time established in the notice of calling, the person indicated by the Articles assumes chairmanship of the Meeting.
2. **Pursuant to the law and the Articles, the Chairman is assisted by a secretary or a Notary and, if appointed, two or more invigilators. In their turn, the secretary and the Notary can be assisted by persons in their trust and may use recording equipment for the drafting of the minutes.**
3. The Chairman may be assisted by individuals authorized to participate in the Meeting, appointing them to illustrate the subjects on the agenda and to reply to questions asked in relation to specific arguments.
4. The Chairman may also be assisted by especially invited external experts.
5. The Chairman announces the number present of shareholders and others with the right to vote, indicating the share of capital they represent. Once it has been established that the Meeting is properly constituted, the Chairman declares the proceedings open.
6. If the necessary quorum for the constitution of the Meeting is not met, discussion of the items on the agenda is postponed to the next calling.

Reason

The reason for the incorporation of paras. 2 and 3 of Art. 4 into a single provision is the attempt to avoid needless repetition in the Regulations of what is already contained in Art. 12 (paras. 2 and 3) of the Articles of Association as well as in Art. 2371 of the Civil Code, which already deliberate on the nomination of individuals called to assist the Chairman.

Art. 6
Interventions and replies

1. The Chairman of the Meeting moderates the discussion, giving the floor to directors, auditors and those who have requested to speak in accordance with the present article.
2. Individuals with legitimate status may ask to speak on the subjects under discussion, make observations, ask for information and formulate proposals. The request may be made until the Chairman declares discussion of the subject closed.
3. The Chairman establishes the way requests are made and the order of the interventions.
4. The Chairman and, on his invitation, those assisting him in accordance with Art. 4 of these Regulations, reply to the speakers at the end of all the interventions on the subject under discussion, <u>or after each intervention.</u>
5. Those who have requested the floor may respond briefly.
6. Taking account of the subject and the importance of the single arguments under discussion, as well as the number of persons requesting the floor, the Chairman may pre-set the duration of the interventions and replies. Before the end of the time allowed for the intervention or reply, the Chairman asks the speaker to conclude.
7. At the end of the interventions, replies and eventual responses, the Chairman declares the discussion closed.

Art. 6
Interventions and replies

1. The Chairman of the Meeting moderates the discussion, giving the floor to directors, auditors and those who have requested to speak in accordance with the present article.
2. Individuals with legitimate status may ask to speak on the subjects under discussion, make observations, ask for information and formulate proposals. The request may be made until the Chairman declares discussion of the subject closed.
3. The Chairman establishes the way requests are made and the order of the interventions.
4. The Chairman and, on his invitation, those assisting him in accordance with Art. 4 of these Regulations, reply to the speakers at the end of all the interventions on the subject under discussion, **or after each intervention or group of interventions.**
5. Those who have requested the floor may respond briefly.
6. Taking account of the subject and the importance of the single arguments under discussion, as well as the number of persons requesting the floor, the Chairman may pre-set the duration of the interventions and replies. Before the end of the time allowed for the intervention or reply, the Chairman asks the speaker to conclude.
7. At the end of the interventions, replies and eventual responses, the Chairman declares the discussion closed.

Reason

Modification suggested by the procedure and past experience of previous Meetings, in line with the dispositions of Art. 9.2 concerning voting.

UNPAID INCREASE IN SHARE CAPITAL, PURSUANT TO ARTICLE 2442 OF THE ITALIAN CIVIL CODE, FOR A MAXIMUM OF 168,418,756.02 EURO, THROUGH ALLOCATION TO CAPITAL OF THE VALUATION RESERVE PURSUANT TO ARTICLE 7, PARAGRAPH 6, 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.

THE BOARD OF DIRECTORS' REPORT
Extraordinary Meeting – Point 1 of the agenda

Shareholders,

Your company has taken advantage of the opportunity conceded by Article 4, paragraph 2 of D.Lgs. 38/2005 to publish the financial statements for 2005 in conformity with IAS/IFRS international accounting principles.

In particular, with effect from the Interim financial statements for the first half of 2005, the accounting documentation and information have been prepared using international accounting principles and on the basis envisaged by Article 81 of Consob Regulation 11971, as modified by Deliberation 14990 of 15 April 2005.

In the Interim financial statements at 30 June 2005, the reconciliations of net shareholders' equity and income statement as envisaged by IFRS 1 and instructions issued by Consob were published.

IFRS 1 envisages the restatement of all balance sheet items at the time of transition to IAS/IFRS, set at 1 January 2004, with the retroactive application of international accounting principles in force at the closing date of the first set of financial statements prepared in conformity with them.

IFRS 1 itself envisages certain facultative exemptions to the retroactive criterion of international accounting principles; among these, SANPAOLO IMI has taken advantage of the option of redetermining at fair value the book value of certain tangible assets, in property and works of art, as substituted for cost. In this respect, the fair value of these assets has been determined on the basis of appropriate external advice.

In applying the instructions issued by the Bank of Italy (Circular 262 of 22 December 2005), the effects of the revaluations made pursuant to this option, 168,418,756.02 euro net of related deferred taxation, have been posted to the Valuation Reserves.

The increase in shareholders' funds due to the posting at fair value of the tangible assets as substituted for cost is regulated by Article 7, paragraph 6 of D.Lgs. 38/2005 which, inter alia, envisages their assignment to equity capital.

Taking account of the supervisory guidance issued by the Bank of Italy on "prudential filters", applicable at Group level from 31 December 2005 and at individual level from 30 June 2006, which states that the increase in shareholders' funds due to the posting at fair value of the tangible assets as substituted for cost must be considered as part of supplementary capital (tier 2) and may be counted in tier 1 capital only when it is allocated to an increase in equity capital, it is possible to proceed to an unpaid increase in equity capital against that Reserve.

The proposed unpaid increase to the equity capital would allow for the strengthening of the Group's regulatory capital, improving the prudential ratios for the growth of the business, as well as allowing the Bank to benefit from lower costs connected to the acquisition or issue of financial instruments included in tier 1 capital.

In terms of method, the proposed unpaid increase in capital would happen through an increase in the nominal value of the shares. The amount of such an increase is not currently available in that the number of ordinary shares issued by SANPAOLO IMI could change, in March and April and in any case before the Shareholders' Meeting, following the exercise of rights to subscribe for ordinary SANPAOLO IMI shares assigned to employees of the Group. Thus the new nominal values of the shares would be based on the following ratio:

$$\frac{\text{EQUITY CAPITAL + VALUATION RESERVE (168,418,756.02 EURO)}}{\text{NUMBER OF SHARES}}$$

with due reference to the data available at the time of the Shareholders' Meeting for each variable.

The result of the division will be rounded by default to two decimal places. Any portion of the Reserve not used in the increase in capital will be retained in the appropriate liability line item.

It should also be noted that, in connection with the unpaid increase in equity capital it will be necessary to proceed to change the Articles and By-Laws.

Article 6, paragraph 1, should show the new equity capital and the unit nominal value of the shares. The same paragraph will indicate the exact number of SANPAOLO IMI ordinary shares, as determined by the exercise of rights described above.

Article 6, paragraph 6, should be recalculated, on the basis of the new nominal value of the shares, the increase in capital that may be effected following the Board decisions of 17 December 2002 and 14 November 2005 pursuant to Article 2443 of the Italian Civil Code as voted by the Shareholders' Meeting of 30 April 2002. at the same time, reference to the Board motion of 18 December 2001, concerning the shareholding plan falling due in March 2006, is deleted.

Shareholders,

If you agree with the above proposal, we ask you to approve:

1. unpaid increase in equity capital for a maximum amount of 168,418,756.02 euro, through allocation to capital, pursuant to Article 2442 of the Italian Civil Code and Article 7, paragraph 6, of D.Lgs. 38/2005, of the Valuation Reserve established pursuant to the latter, of an equal amount;
2. this increase to be effected through the increase in the nominal value of the shares, set in the ratio of (i) the sum of the equity capital and Valuation Reserve and (ii) the number of shares. Reference must be made for each variable to the data available at the time of the Shareholders' Meeting and the result will be rounded by default to two decimal places. Any portion of the Reserve not used in the increase in capital will be retained in the appropriate liability line item;
3. modify in consequence the motions for increases in equity capital taken by the Board of Directors on 17 December 2002 and 14 November 2005;
4. modify Article 6 of the Articles and By-Laws as follows:

Current text	**Proposed text**
ARTICLE 6	**ARTICLE 6**
6.1 The share capital is 5,239,223,740.80 euro fully paid, divided into 1,586,967,318 registered ordinary shares and 284,184,018 registered preference shares with a nominal unit value of 2.8 euro. The share capital may be increased through the issue of shares with rights different from those included in the shares already issued.	6.1 The share capital is [*] euro fully paid, divided into [*] registered ordinary shares and 284,184,018 registered preference shares with a nominal unit value of [*] euro. The share capital may be increased through the issue of shares with rights different from those included in the shares already issued.
6.2 The shares are issued in dematerialised form.	6.2 The shares are issued in dematerialised form.
6.3 The preference shares are placed centrally in one or more deposits administered by the Company and the Company is the only authorized depositary. The sale of preference shares is to be communicated without delay to the Company by the selling shareholder and triggers the automatic one-for-one conversion of the preference shares into ordinary shares, except in the case where it is disposed to a company whose capital is wholly controlled. On July 1, 2012, the preference shares will be converted one-for-one into ordinary shares with the same characteristics as the ordinary shares in circulation at that moment.	6.3 The preference shares are placed centrally in one or more deposits administered by the Company and the Company is the only authorized depositary. The sale of preference shares is to be communicated without delay to the Company by the selling shareholder and triggers the automatic one-for-one conversion of the preference shares into ordinary shares, except in the case where it is disposed to a company whose capital is wholly controlled. On July 1, 2012, the preference shares will be converted one-for-one into ordinary shares with the same characteristics as the ordinary shares in circulation at that moment.
6.4 In the case of paid issues of capital, when there is no exclusion or limit on option rights, the holders of preference shares have option rights on preference shares with the same characteristics or, if not or differently, in order, preference shares with different characteristics, savings shares or ordinary shares.	6.4 In the case of paid issues of capital, when there is no exclusion or limit on option rights, the holders of preference shares have option rights on preference shares with the same characteristics or, if not or differently, in order, preference shares with different characteristics, savings shares or ordinary shares.

6.5 Pursuant to the mandate conferred by the Shareholders' Meeting on 30 April 2002, the Board of Directors has the power to increase the share capital by means of a paid up rights issue, in one or more issues, up to a maximum amount of 51,440,648.00 euro (fifty one million, four hundred and forty thousand, six hundred and forty eight euro) nominal value, through the issue of ordinary shares reserved, according to Article 2441, par. 8, of the Civil Code and Article 134 of D.Lgs. 58 of February 24, 1998, to employees of the Company or also to employees of subsidiary companies according to Article 2359 of the Civil Code who participate in the share incentive schemes approved by the Board itself. This power may be exercised before April 27, 2007.

6.6 Following the deliberations of the Board of Directors on 18 December 2001, based on the mandate of the Shareholders' Meeting on 31 July 1998, and 17 December 2002 and 14 November 2005, on the basis of the mandate given by the Shareholders' Meeting on 30 April 2002, the capital share may be increased up to a maximum nominal amount of 40,447,400.00 euro (forty million, four hundred and forty seven thousand and four hundred euro).

6.5 Pursuant to the mandate conferred by the Shareholders' Meeting on 30 April 2002, the Board of Directors has the power to increase the share capital by means of a paid up rights issue, in one or more issues, up to a maximum amount of 51,440,648.00 euro (fifty one million, four hundred and forty thousand, six hundred and forty eight euro) nominal value, through the issue of ordinary shares reserved, according to Article 2441, par. 8, of the Civil Code and Article 134 of D.Lgs. 58 of February 24, 1998, to employees of the Company or also to employees of subsidiary companies according to Article 2359 of the Civil Code who participate in the share incentive schemes approved by the Board itself. This power may be exercised before April 27, 2007.

6.6 Following the deliberations of the Board of Directors on 17 December 2002 and 14 November 2005, on the basis of the mandate given by the Shareholders' Meeting on [**] April 2006, the capital share may be increased up to a maximum nominal amount of [***] euro.

[*] The relative data will be calculated on the basis of the equity capital and number of ordinary shares on the date of the Shareholders' Meeting.
[**] Date of Extraordinary Shareholders' Meeting.
[***] To be recalculated on the basis of the new nominal value of the ordinary shares.

Mandate to the Chairman of the Board of Directors and the Managing Director to take all powers to effect the above motions, in line with that required by the Regulatory Authorities.

Turin, 23 March 2006

The Board of Directors

Information for investors

Requests for information on the SANPAOLO IMI Group should be addressed to:

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