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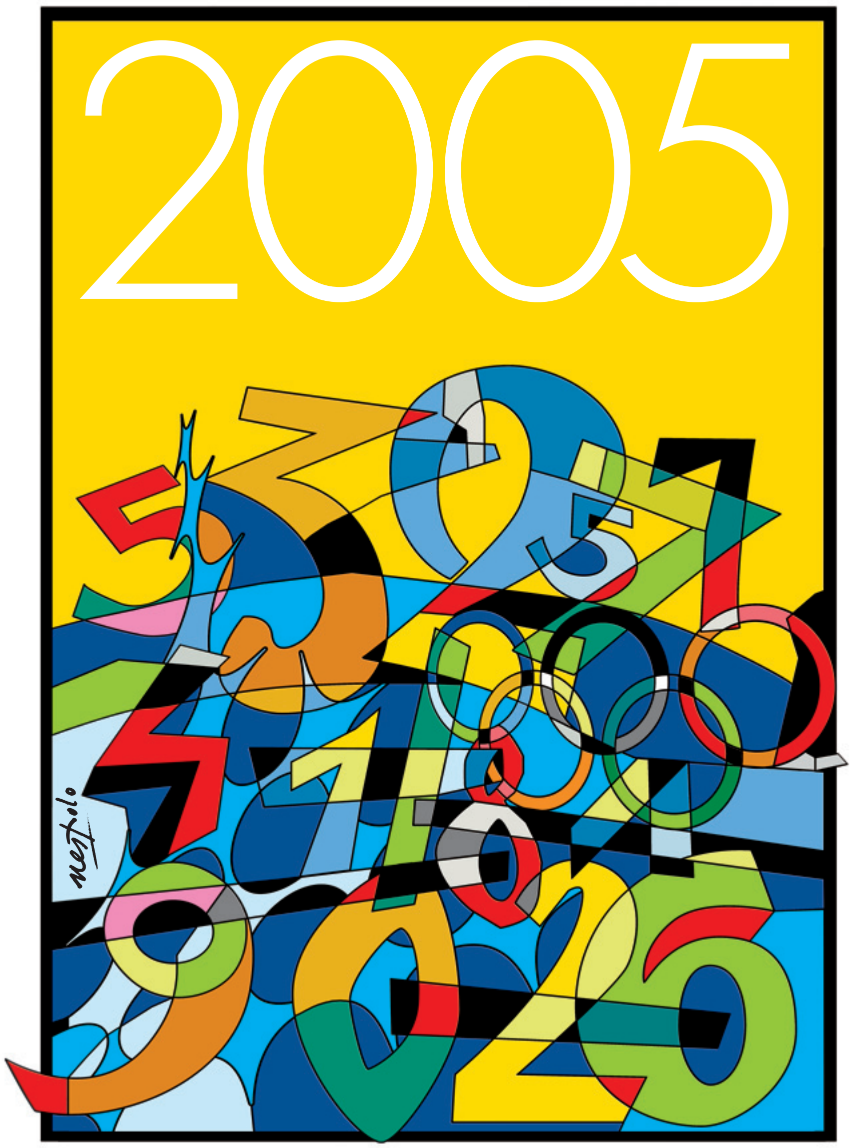



# HALF YEAR REPORT 2005

PREPARED ACCORDING TO IAS/IFRS INTERNATIONAL ACCOUNTING STANDARDS

SANPAOLO IMI GROUP

# Half Year Report 2005

## PREPARED ACCORDING TO IAS/IFRS INTERNATIONAL ACCOUNTING STANDARDS


SANPAOLO IMI S.p.A.

COMPANY REGISTERED IN THE REGISTER OF BANKS

PARENT BANK OF THE SANPAOLO IMI BANKING GROUP

REGISTERED IN THE REGISTER OF BANKING GROUPS

REGISTERED OFFICE: PIAZZA SAN CARLO 156, TURIN, ITALY

SECONDARY OFFICES:

- VIALE DELL'ARTE 25, ROME, ITALY

- VIA FARINI 22, BOLOGNA, ITALY

SHARE CAPITAL EURO 5,235,781,140.80 FULLY PAID

FISCAL CODE, VAT NUMBER AND REGISTRATION NUMBER

TURIN REGISTER OF COMPANIES: 06210280019

ABI CODE 1025-6

MEMBER OF THE INTERBANK DEPOSIT GUARANTEE FUND


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

| | | |
|---|---|---|
| | Luigi Arcuti | *Honorary Chairman* |
| **Board of Directors** | Enrico Salza (*) | *Chairman* |
| | Maurizio Barracco | *Director* |
| | Pio Bussolotto (*) | *Director* |
| | Giuseppe Fontana | *Director* |
| | Ettore Gotti Tedeschi (*) | *Director* |
| | Alfonso Iozzo (*) | *Managing Director* |
| | Virgilio Marrone | *Director* |
| | Iti Mihalich | *Director* |
| | Anthony Orsatelli | *Director* |
| | Emilio Ottolenghi (*) | *Director* |
| | Orazio Rossi (*) | *Deputy Chairman* |
| | Gian Guido Sacchi Morsiani (*) | *Director* |
| | Alfredo Saenz Abad | *Director* |
| | Mario Sarcinelli | *Director* |
| | Leone Sibani | *Director* |
| | Alberto Tazzetti | *Director* |
| | Josè Manuel Varela (*) | *Director* |
| | *(*) Members of the Executive Committee.* | |
| **Board of Statutory Auditors** | Maurizio Dallocchio | *Chairman* |
| | Aureliano Benedetti | *Auditor* |
| | Gianluca Ferrero | *Auditor* |
| | Augusto Franchini | *Auditor* |
| | Paolo Mazzi | *Auditor* |
| | Carlo Pavesio | *Supplementary Auditor* |
| | Paolo Piccatti | *Supplementary Auditor* |
| **Chief Executive Officer** | Pietro Modiano | |
| **Independent Auditors** | PricewaterhouseCoopers S.p.A. | |

# Contents

# Summary of Group figures

| | 30/6/2005 | 31/12/2004 (1) | Change 30/6/2005 - 31/12/2004 (%) |
|---|---|---|---|
| **CONSOLIDATED BALANCE SHEET (€/mil)** | | | |
| Total assets | 267,626 | 248,391 | +7.7 |
| Loans to customers (excluding NPLs) | 131,334 | 125,143 | +4.9 |
| Shareholdings | 796 | 839 | -5.1 |
| Subordinated liabilities | 7,120 | 6,955 | +2.4 |
| Group net shareholders' equity | 12,295 | 12,035 | +2.2 |
| **CUSTOMER FINANCIAL ASSETS (€/mil)** | | | |
| Total financial assets | 400,960 | 384,111 | +4.4 |
| - direct deposits | 143,932 | 141,796 | +1.5 |
| - indirect deposits | 257,028 | 242,315 | +6.1 |
| - asset management | 151,932 | 144,813 | +4.9 |
| - asset administration | 105,096 | 97,502 | +7.8 |
| **LOAN RISK RATIOS (%)** | | | |
| Doubtful financing / Loans to customers | 2.5 | 2.8 | |
| Non-performing financing / Loans to customers | 0.8 | 0.9 | |
| Problem and restructured financing / Loans to customers | 0.9 | 1.1 | |
| Financing due/overdue by more than 180 days / Loans to customers | 0.8 | 0.8 | |
| **EQUITY SOLVENCY RATIOS (%)** (2) | | | |
| Core tier 1 ratio | 7.2 | 7.4 | |
| Tier 1 ratio | 7.9 | 8.1 | |
| Total risk ratio | 11.6 | 12.0 | |
| **SHARES** | | | |
| Number of shares (thousands) | 1,869,922 | 1,863,457 | +0.3 |
| Listing for the period (€) | | | |
| - average | 11.305 | 9.826 | +15.1 |
| - low | 10.201 | 8.799 | +15.9 |
| - high | 12.476 | 11.072 | +12.7 |
| Market capitalization (€/mil) | 21,242 | 19,753 | +7.5 |
| Dividend per share (€) | | 0.47 | |
| Dividend per share / Average annual listing (%) | | 4.78 | |
| Book value per share (€) (3) | 6.59 | 6.47 | +1.8 |
| **OPERATING STRUCTURE** | | | |
| Employees (4) | 43,628 | 43,441 | +0.4 |
| Domestic branches | 3,134 | 3,126 | +0.3 |
| Foreign branches and representative offices | 134 | 131 | +2.3 |
| Financial planners | 4,192 | 4,317 | -2.9 |
| | First half 2005 | First half 2004 (5) | Change first half 2005 / First half 2004 (%) |
| **CONSOLIDATED STATEMENT OF INCOME (€/mil)** | | | |
| Net interest income | 1,908 | 1,871 | +2.0 |
| Net commissions | 1,613 | 1,600 | +0.8 |
| Total operating income | 4,021 | 3,872 | +3.8 |
| Net adjustments to loans and other financial assets | -232 | -416 | -44.2 |
| Net operating income | 3,789 | 3,456 | +9.6 |
| Operating costs | -2,322 | -2,375 | -2.2 |
| Pre-tax operating profit | 1,415 | 1,047 | +35.1 |
| Net profit | 894 | 631 | +41.7 |
| Net profit per share (€) (6) | 0.48 | 0.34 | +41.2 |
| Diluted net profit per share (€) (6) | 0.48 | 0.34 | +41.2 |
| **MAIN RATIOS (%)** | | | |
| Annualized RoE (7) | 14.7 | 11.0 | |
| Cost / Income ratio (8) | 57.7 | 61.3 | |

*(1) IAS compliant balance (cf. full IAS) including the impact of transition to IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts). For reconstruction methods, see "SANPAOLO IMI Group transition to international accounting standards".*
*(2) Solvency ratios have been calculated according to the usual regulations.*
*(3) Net shareholders' equity / Number of shares in circulation.*
*(4) Including atypical contracts.*
*(5) Pro forma figures reconstructed on a homogeneous basis including an estimate of the impact of IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts). For reconstruction methods, see "SANPAOLO IMI Group transition to international accounting standards".*
*(6) Calculated on the basis of IAS 33.*
*(7) Annualized net profit / Average net shareholders' equity (calculated as average values at period end).*
*(8) Personnel costs, other administrative costs and amortization / Total operating income.*

# Group structure

## SANPAOLO IMI GROUP

## BANKING

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

### PRIVATE AND RETAIL BANKING
- Sanpaolo IMI-Private and Retail
- Cassa di Risparmio di Padova e Rovigo-Private and Retail
- Cassa di Risparmio in Bologna-Private and Retail
- Cassa di Risparmio di Venezia-Private and Retail
- Friulcassa-Private and Retail
- Banca Popolare dell'Adriatico-Private and Retail
- Sanpaolo Banco di Napoli-Private and Retail
- Neos Banca *(96.8%)*
- Farbanca *(22.7%)*
- Sanpaolo Fiduciaria

- IMI Investimenti
- GEST Line

## SAVINGS AND ASSURANCE

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

### ASSICURAZIONI INTERNAZIONALI DI PREVIDENZA (A.I.P.)
- Fideuram Assicurazioni
- Sanpaolo Life *(Ireland)*
- Egida *(50%)*
- Universo Servizi

## ASSET MANAGEMENT AND INTERNATIONAL PRIVATE BANKING

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

### SANPAOLO BANK (Luxembourg)
- Sanpaolo Bank Suisse *(Switzerland)*
- Sanpaolo Immobiliere

## CENTRAL FUNCTIONS

### SANPAOLO IMI
- Governance, support and control functions
- Shareholdings
  - Santander Central Hispano *(Spain; 2.2%)*
  - Ixis Asset Management Group *(France; 12%)*
  - Ixis Corporate & Investment Bank *(France; 2.5%)*
  - Banque Palatine *(France; 40%)*
  - Cassa di Risparmio di Firenze *(18.7%)*
  - Cassa dei Risparmi di Forlì *(29.8%)*
  - Banca delle Marche *(7%)*
  - Other shareholdings
- Finance
- Macchina Operativa Integrata (Integrated Operating Vehicle)

*(1) On 26 July 2005, the merger by incorporation of Sanpaolo IMI Institutional Asset Management into Sanpaolo IMI Asset Management was decided.*

# Consolidated Half Year Report

# Reclassified consolidated financial statements

# Reclassified consolidated statement of income (1)

| | First half 2005 (€/mil) | First half 2004 (2) (€/mil) | Change first half 2005 / First half 2004 (%) |
|---|---|---|---|
| A. Net interest income | 1,908 | 1,871 | +2.0 |
| B. Net commissions | 1,613 | 1,600 | +0.8 |
| C. Income from credit disposals, assets held to maturity and repurchase of financial liabilities | 17 | 2 | n.s. |
| D. Dividends and income from other financial assets and liabilities | 226 | 197 | +14.7 |
| E. Profits (losses) on equity shareholdings | 75 | 38 | +97.4 |
| F. Income from insurance business | 182 | 164 | +11.0 |
| - Total operating income | 4,021 | 3,872 | +3.8 |
| G. Net adjustments to loans | -229 | -304 | -24.7 |
| H. Net adjustments to other financial assets | -3 | -112 | -97.3 |
| - Net operating income | 3,789 | 3,456 | +9.6 |
| I. Personnel costs | -1,379 | -1,403 | -1.7 |
| L. Other administrative costs | -741 | -762 | -2.8 |
| M. Net adjustments to tangible and intagible assets | -202 | -210 | -3.8 |
| - Operating costs (I+L+M) | -2,322 | -2,375 | -2.2 |
| N. Other net income (expenses) | 43 | 18 | +138.9 |
| O. Impairment of goodwill | - | - | - |
| P. Profits (losses) from disposals of investments | 13 | - | n.s. |
| Q. Net provisions for risks and charges | -108 | -52 | +107.7 |
| - Pre-tax operating profit | 1,415 | 1,047 | +35.1 |
| R. Taxes for the period | -494 | -444 | +11.3 |
| S. Profits (losses) on discontinued operations | - | 55 | n.s. |
| T. Profit attributable to minority interests | -27 | -27 | - |
| - Net profit | 894 | 631 | +41.7 |
| Net profit per share (€) | 0.48 | 0.34 | |
| Diluted net profit per share (€) | 0.48 | 0.34 | |

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

*(2) Pro forma figures reconstructed on a homogenous basis, including an estimate of the impact of IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts). For an explanation of the reconstruction, see "SANPAOLO IMI Group transition to international accounting standards".*

# Reclassified consolidated balance sheet

| | 30/6/2005 (€/mil) | 31/12/2004 (1) (€/mil) | Change 30/6/05-31/12/2004 (%) |
|---|---|---|---|
| **ASSETS** | | | |
| A. Cash and liquid assets | 1,016 | 1,364 | -25.5 |
| B. Financial assets (other than credit and assets held to maturity) | 91,190 | 78,230 | +16.6 |
| C. Assets held to maturity | 1,660 | 1,818 | -8.7 |
| D. Loans to banks | 26,165 | 24,908 | +5.0 |
| E. Loans to customers | 132,443 | 126,280 | +4.9 |
| F. Hedging derivatives | 855 | 1,569 | -45.5 |
| G. Fair value changes of generically hedged items (+/-) | - | - | - |
| H. Shareholdings | 796 | 839 | -5.1 |
| I. Technical reserves reassured with third parties | 23 | 25 | -8.0 |
| L. Tangible assets | 2,248 | 2,328 | -3.4 |
| M. Goodwill | 762 | 766 | -0.5 |
| N. Other intangible assets | 259 | 289 | -10.4 |
| O. Tax assets | 3,299 | 3,789 | -12.9 |
| P. Non-current assets and groups of assets being disposed | - | - | - |
| Q. Other assets | 6,910 | 6,186 | +11.7 |
| Total assets | 267,626 | 248,391 | +7.7 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| A. Due to banks | 39,963 | 28,293 | +41.2 |
| B. Due to customers | 92,436 | 88,735 | +4.2 |
| C. Securities issued | 51,496 | 53,061 | -2.9 |
| D. Financial liabilities held for trading | 11,685 | 11,270 | +3.7 |
| E. Financial liabilities evaluated at fair value | 21,672 | 19,255 | +12.6 |
| F. Hedging derivatives | 874 | 1,941 | -55.0 |
| G. Provision for financial liabilities of generically hedged items (+/-) | 34 | 18 | +88.9 |
| H. Tax liabilities | 1,261 | 1,106 | +14.0 |
| I. Liabilities on groups of assets being disposed | - | - | - |
| L. Other liabilities | 11,378 | 9,790 | +16.2 |
| M. Provisions for risks and charges | 2,627 | 2,700 | -2.7 |
| N. Technical reserves | 21,709 | 19,983 | +8.6 |
| O. Minority interests | 196 | 204 | -3.9 |
| P. Group shareholders' equity | 12,295 | 12,035 | +2.2 |
| Total liabilities and shareholders' equity | 267,626 | 248,391 | +7.7 |

*(1) IAS compliant balance (cf full IAS) including the impact of transition to IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts). For an explanation of the reconstruction, see "SANPAOLO IMI Group transition to international accounting standards".*

# Report on Group Operations

# Economic background

## The international context

In the first six months of 2005, the world economy continued the trend of positive growth, although it did slow down slightly. Inflation remained under control, despite the rise in the price of oil that reached US$60 a barrel in June. At the same time, no significant corrections have been made to the major imbalances affecting the global economy: the continuing large trade deficit of the United Sates and the accumulation of excessive monetary reserves in some Asian countries. The United States, China and India still are the drivers for growth as seen last year and emerging countries have further consolidated much of the progress made in 2004.

The leap in oil prices – a barrel doubling in cost between the beginning of 2004 and June 2005 – has so far had a limited impact on the more mature economies, but has been a fundamental factor in the lively performances of the crude producing countries. On the demand side, the increase in energy costs, even though base inflation has remained limited, has been a negative influence on consumer confidence. With the exception of the United States, where the rise in wealth linked to the property market has continued to sustain family spending, in the other mature economies, especially the eurozone, internal demand has remained weak.

US GDP in the first half of the year increased by 3.6%, still above potential but less than the second half of 2004. This growth was founded on internal demand which was surprising in its capacity to absorb the gradual but continual rises in Federal Reserve (Fed) interest rate and external shocks. The labor market and the increase in salaries, especially in the variable element, have sustained consumption, while profits and especially favorable loan conditions have supported a trend for substantial investments also in the non-residential sector.

Although the Fed continued its restrictive actions, begun in mid-2004, which raised the benchmark rate to 3.25% at the end of the June, after an initial rise, long-term rates began to fall again. This was defined as "anomalous" by the chairman of the Fed, Alan Greenspan, considering the cyclical phase. The spread of corporate and sovereign debt securities also returned to historically low levels after a rise in the middle of the period. In light of a long period of price and market stability, some observers questioned whether operators might not be undervaluing financial risks taken on in the portfolio.

Consumer prices slightly increased as against the increase in the price of raw materials. Nonetheless, the deflator of personal spending, the measure of inflation used by the Fed, reached 1.9% in June 2005, compared with 1% in 2003, very close to the upper limit (2%) for the period considered acceptable by the Central Bank.

Starting from January 2005, the dollar/euro exchange rate sharply reversed its trend. After strong depreciation at the end of 2004 and early 2005, that brought the rate to over 1.35, thanks also to the progressive broadening of the differential between US and eurozone interest rates, there was an appreciation which brought the rate to around 1.20. Between January and June 2005, depreciation of the euro and the yen against the dollar was 12% and 2%, respectively.

In Japan, GDP rose by 3.3% in the first quarter of 2005 due to the exceptional performance of production (+5.4%). In the second quarter, the economy continued to expand (+1.1%) but slowed down due to the increase in crude oil prices and a deceleration of private consumption, while foreign demand made a positive contribution. Consumer prices remained level.

Overall, emerging economies slightly slowed down, although with some exceptions such as China which continued to grow at rates of over 9% in the first two quarters of 2005. Elsewhere in Asia, a decrease in infra-regional trading contained growth.

In Eastern Europe, despite the structural weakness of the eurozone, its biggest trade partner, economic performance was well above the continental average. On one hand, the results of the referendum on the European constitution in France and The Netherlands, and diminishing consensus by governments of some Eastern countries on the other, made it difficult to implement recovery policies for public accounts, in some cases making the prospects for entry into the eurozone more distant.

Although Latin American economies confirmed signs of growth, they had to face political problems – accusations of corruption for president Lula in Brazil, difficult negotiations between the IMF and the Argentine government and the uncertain climate in Venezuela – as well as economic difficulties – especially competition from Chinese products with the abolition of textile quotas as the country became part of the WTO. Following the reduction of manufactured exports to the United States, Mexico showed a sharp deceleration in production.

Middle Eastern countries continued to grow strongly, supported by high demand for oil products and the unstoppable rise in the price of crude oil.

## The eurozone and Italy

The economic cycle of the eurozone was still unsettled in the first half of 2005, influenced by the continuing weakness of internal demand. In the first six months of the year, GDP increased by 0.7% overall compared with the preceding half-year. Growth benefited from the particularly positive contribution of the foreign balance partially arising from a reduction in imports in the first quarter and a robust increase in stocks in the second. Industrial production remained at the same levels in January to March and only began to grow, albeit slightly (+0.4%), in the second quarter thanks to the depreciation of the euro/dollar exchange rate.

At the beginning of the year, the board of Ecofin approved reform of the “pact for stability and growth”, authorizing more flexible interpretation of EU accounting. In the light of a weaker cyclical phase, the new rules could delay bringing the deficits of France, Germany and Italy below the limits set by the Maastricht treaty.

Inflation rose slightly in the first quarter, driven by the rise in energy prices. Weak demand and deflation in the food sector nonetheless slowed down the trend, keeping inflation near the limits set by the ECB (mean +2.1% for the first six months). Low growth and inflation near targets favored the ECB’s decision to leave policy rates at 2%. The gradual reverse of operators’ expectations of a rise in benchmark rates led to a lowering of monetary future rates as long-term rates, with a leveling of the yeld curve in the last part of the period.

The growth cycle in Italy was different to the European one. GDP fell in the first quarter (-0.5%), then rose in the second (+0.7%). Overall, however, in comparison with the same period in the previous year, GDP fell by 0.4% in the first half of 2005. The rise in internal consumer demand could not compensate for the negative impact of foreign trade linked to the slump in the competitivity of Italian exports. In the line with the trend of the end of last year, inflation (averaging +1.9% in the first six months) was slightly lower than the rest of the eurozone.

## Banking industry

Cyclical weakness and low nominal and real interest rates saw bank loans rise sharply in the first half of 2005 (+4.3%), compared with 1.5% in the same period of 2004. The ratio between loans and nominal GDP rose.

The rise in credit was mainly driven by the demand for medium-/long-term loans in the private sector (+5.8%). Home mortgages remained healthy in the family market (+7.9%), although signs of a stabilization in the property market continued to show a small decrease compared with preceding periods. Consumer credit grew by 10.1%.

Loans to companies were mainly to the service sectors, especially communications, and the property market, while the drop continued in loans to the manufacturing sector, especially “Made in Italy” which registered a considerable decrease in production over the six months. The larger growth in medium- and long-term loans (+4.7%) as against short-term ones (+1.8%) again benefited from the restructuring of debt deadlines for companies and long-term interest rates remaining low.

In the first half of 2005, deposits (+4% against the 1.9% for the same period in 2004) were affected by the lack of optimism on the part of economic operators. Uncertainty about the economy and the major financial variables favored an increase in current account deposits for families and companies (+3.5%), while the decrease in long-term interest rates helped placement of banking debt securities (+5.9% in the half year).

During the first half of 2005, the trend in reference rates and strong market competition led to further reductions in bank interest rates. The fall in interest on loans, higher than that on passive rates, meant that margins fell. The short-term spread for families and non-financial companies decreased by 12 basis points.

## Securities brokerage

Performance of the international stock markets in the first half of 2005 differed according to geographical location. In the United States, the S&P500 fell 1.7% and Nasdaq

Composite 5.4%. On the other hand, in Japan, the Nikkei 225 index rose by 0.8% and in Europe DJ Euro Stoxx by 8.8%. In Italy, SPMIB and Mibtel increased by 4.7% and 5.1% respectively.

Overall, stock exchanges benefited from a positive trend in company earnings. US indices, however, suffered from the restrictive monetary policy of the Fed, while European exchanges enjoyed more expansive monetary conditions and low exchange, as well as the diversification in the composition of the indices.

In Italy, stock market transactions reached 480 billion euro between January and June 2005, with a daily average of some 3.8 billion euro (compared with 3 billion in the first half of 2004). At the end of June, capitalization of Italian companies reached 591.5 billion euro (from 581 billion at the end of 2004), equal to 43% of GDP (basically stable compared with the end of the previous year). Investments on the primary market channeled through Public Offers amounted to 1.5 billion euro (1.8 billion in the first half of 2004) and can be attributed to seven transactions (four in the first half of 2004), five of which were aimed at initial listing. Funds obtained through capital increase by listed companies totaled 2.5 billion euro (1.3 billion in the first half of 2004), linked to eight operations.

## Asset management

In the first six months of 2005, placement of family finances penalized asset deposits as against direct deposits. Bank securities, that grew by a nominal 1.3% overall, decreased in the six-month period in the family sector (-0.5%).

Although benefiting from a positive revaluation of composition, mutual investment funds struggled to regain customer trust and increased by only 0.7 billion euro during the six months. Concerning the breakdown, placement of portfolios was still cautious. The highest flows were seen in bonds (+8.3 billion) while shares declined (-5.5 billion). Liquidity funds also suffered heavy losses (-6.5 billion) but were offset by the good performance of total deposits which grew by 19.6 billion. The positive performance of bond and share prices led to considerable revaluation of assets managed that reached 557.2 billion (+3.7%) at the end of June.

The available data for asset management indicate a lively trend, in terms of deposits and revaluation, in the capital of assets managed and continuing growth in the life insurance sector. In the first half of the year, premiums for new personal policies amounted to 28 billion, an increase of 22.6% over the same period for 2004.

# Action points and initiatives in the half year

In the first half of 2005, the SANPAOLO IMI Group began a reorganization process, approved by the Board of Directors on 5 July 2005, and aimed at specializing activities in the various Sectors: "Banking", comprising corporate and private and retail; "Savings and Assurance"; "Asset Management and International Private Banking". Each Sector is linked to the central functions of governance, support and control so as to ensure a unified and single strategy.

Other initiatives were begun both to increase revenues and to improve efficiency by optimizing costs.

With regard to the first objective, plans were implemented concentrating on the following projects:

- strengthening of the role of loaner to both retail customers, by increasing the market share of home mortgages and consumer credit, and corporate customers with especial attention to small- and medium-sized enterprises (SMEs) and maintaining the high quality of the loan portfolio. A boost is also envisaged for loan activities as well as consultancy services and assistance for businesses with good creditworthiness and public authorities and entities;
- consolidation of the leadership in asset management by optimizing customer investments on the basis of specific risk/return profiles, and gaining a primary role in insurance thanks to market outlook, with particular reference to the private assurance sector.

With regard to the second objective – optimization of human and financial resources – initiatives have been implemented concentrating on:

- defining a branch operating model aimed at improving customer relations and network productivity and improving the front office in terms of both numbers of employees and training;
- improving cost management so as to use resources better by reviewing the processes of cost management and related responsibilities.

Hereafter, the main initiatives taken during the period are explained.

## Banking

The new organizational structure has confirmed the multi-specialist and territorial model for the bank based on the international and local orientation of the Group, pursued through the deep territorial roots of its operating points and strengthened by the improvement in relations between local managers and central functions.

At the beginning of the period, the reorganization of the distribution network was completed to optimize local potential. This led to the movement of operating points between banks on the basis that existing branches in a specific reference territory holding an historical brand should belong to the bank holding that brand. The project was concluded in January with the transfer to Sanpaolo of 9 operating points of Cassa di Risparmio di Padova e Rovigo and 21 operating points of Cassa di Risparmio in Bologna. At the same time, 10 operating points were transferred from Sanpaolo to both Cassa di Risparmio di Venezia and Friulcassa.

The progressive adoption of the organizational and commercial models of the Sanpaolo network by the other banking networks continued. Extension of the organizational structure by local markets has involved both operating points and territorial areas established as a presidium for the network. In reference to the latter, the organizational model has been aimed at maximizing both commercial effectiveness and operational efficiency on the territory and to facilitate the exchange of information and operations between the network and central functions.

### Corporate Banking

During the half year, the importance of strengthening operations with small- and medium-sized companies (SMEs) was confirmed with the continuation of co-operative projects with credit syndicates aimed at consolidating existing relations and acquiring new medium/high credit customers. In particular, the plafond of 250 million euro set up at the beginning of July 2004 for medium-term loans to applied research projects was doubled, the cost limit on projects open to financing was raised and the loan process was simplified. Moreover, in co-operation with the Eurofidi loan syndicate, a new plafond of 100 million euro was set up to finance the working capital of Turin area SMEs with operational speed and efficiency.

In relation to activities abroad, initiatives continued to strengthen the Group's presence in the Mediterranean area with the opening of a representative office in Casablanca, dedicated to supporting Italian companies operating there. This opening, together with the previous year's commercial agreements with Banque Marocaine du Commerce Extérieur (BMCE) and Banque Internationale Arabe de Tunisie (BIAT, in which the Group has a shareholding of 5.61% through Sanpaolo IMI Internazionale), is a further step in the internationalization of the Group whose priority aims are to assist Italian companies in both direct investments and commercial trade by offering high-quality and efficient services. In the same light, a commercial agreement was drawn up with ICICI Bank, one of the most important Indian banks, and a representative office was opened in Dubai as a reference point for Italian companies operating in the Persian Gulf area with the additional goal of developing relations with banking institutions in the area.

Banca IMI has strengthened its leading role on the Italian investment banking market, increasing its corporate finance activities thanks to its role as advisor in a number of merger transactions and acquisitions, and activity in the equity capital markets sector, through the presidium of capital increases and placements.

With the objective of strengthening relations with its public authority and entity customers, characterized by increasingly widespread administrative and financial decentralization and growing competition in profit margins, Banca OPI has drawn up a new business model aimed at increasing origination capabilities in the operating points. More precisely, an agreement was signed, effective from 1 January 2005, between Banca OPI and the Group's banking network aimed at maximizing cross selling between the various structures in the relative areas of competence (medium-/long-term loans and bridging loans for medium-/long-term transactions for Banca OPI and short-term loans for the Group banking networks). Local presidium offices entirely dedicated to public authorities and entities have the task of directly initiating origination actions and supporting the operating points in their promotional function so as to increase commercial effectiveness in the reference market.

## Private and Retail Banking

The first half of 2005 saw particular attention paid to the sector of small businesses. A program was drawn up to support investments in the sector aimed at promoting competitiveness and qualitative excellence of products and services through the support of the major credit syndicates. The program is characterized by the preparation of retail branches for specific medium-term financing with broad and innovative aims and efficient, rapid preliminaries. Furthermore, this type of customer will have a consultancy service made available through agreement with leading consultancy companies and university faculties.

The pivotal role of retail mortgages in the growth strategy of SANPAOLO IMI has led to an increase in the product range. More specifically, a mortgage has been created to cover real estate purchases at 100%. The offer of this product has been made possible by an agreement with Genworth Financial, a leading American insurance company specialized in residential property mortgage loans offering specific insurance against credit risks above 80% of the property's value.

Furthermore, in the mortgage sector an agreement was made with Banca Fideuram for the placement of similar financing to private clients by financial planners. The agreement will increase the distributive potential of the Group with the cross selling of products hitherto exclusively limited to the operating points.

In relation to the Turin 2006 Olympic Winter Games, SANPAOLO IMI has continued its commercial activities aimed at exploiting the Group's role as Principal Sponsor. Overall, initiatives were aimed at strengthening customer relations, by improving trust and cross selling, and increasing the client base through quality service and high value.

## Other Banking initiatives

IMI Investimenti is the company responsible for managing major industrial investments, including the FIAT group and Italenergia Bis (IEB). Agreements on such investments experienced considerable development during the period.

In April 2005, SANPAOLO IMI, together with other banks who subscribed to the “convertible facility” of 3 billion euro for the FIAT group, confirmed its support of the group's management to meet the economic and financial goals of the next three years, reiterating the aim of respecting the debt conversion contract. On 20 September 2005, the integral loan conversion was effected at the share price of 10.28 euro, with the consequent subscription of FIAT shares for the relevant increase in capital. A share offer is currently underway for shareholders and a eventual unsold share option will be put on the market. After subscription, and depending on the results of the share offer, SANPAOLO IMI investment in FIAT deriving from the debt conversion should amount to 3.3% and overall interests of 4% of voting rights.

As of 30 June 2005, through IMI Investimenti, the Group had an investment of 12.48% in IEB. On 1 September 2005, SANPAOLO IMI, together with Banca Intesa and Capitalia and following the sale options related to EDF – Electricité de France foreseen in the contracts drawn up in 2002, ceded to the company entirely controlled by EDF IEB shares and warrants and Edison shares. Capital ceded by the Group totaled 7.82% of IEB and 0.97% of Edison, for an overall total of 387.7 million euro. On 9 September 2005, these banks, on the basis of the Framework Agreement of May 2002 by which they took over a further 14% of IEB capital from FIAT (4.66% ascribable to SANPAOLO IMI) and with reference to the put option stipulated in 2002, sold the share to another company controlled by EDF for a sum of 217.5 million euro, together with related warrants at the same time as the closing of sale options between FIAT and EDF.

### Savings and Assurance

In pursuing the goals rationalizing the insurance activities of the Group – given concrete shape in 2004 with the establishment of the Insurance Pole – and taking into account market development, in the first half of 2005 the need was recognized to strengthen the project, increase its industrial value, economic weight and market relevance. In this light, on 5 July 2005 the Board of Directors of SANPAOLO IMI decided to concentrate the insurance activities of Assicurazioni Internazionali di Previdenza (A.I.P.) and asset gathering of Banca Fideuram in a new company structure, the Savings and Assurance Pole, directly controlled by the Parent Bank. The aims of the new Pole are to gather together the Group's competences in the production and distribution of insurance and financial products, in order to meet the needs of savings protection, personal assurance and defense of capital.

The aims of this organizational and company reconfiguration may be defined as:
- strategic positioning with greater visibility and perception of the value of asset gathering and management of insurance and pension investments;
- focusing of existing structures and activities, characterized by related competences and mutual opportunities for exploitation, with the creation of a large and highly efficient production/distribution platform;
- strategic options linked to growth opportunities for external business lines in the context of the ongoing aggregations.

The reorganization should ensure positive strategic and business returns for the two companies, A.I.P. and Banca Fideuram. In more detail, both:
- should confirm their present mission and business model – leadership in the management of reference customer savings for Banca Fideuram and excellence in business insurance for A.I.P. – opening new opportunities for development through the better exploitation of respective know-how;
- should benefit from the complementary nature of production and distribution, maximizing speed of action on behalf of customers;
- improve respective positions through direct dependence on an aggregation with an integrated strategy focused on asset management and assurance.

### Asset Management and International Private Banking

The Sector brings together Asset Management, the business line dedicated to developing wealth management activities for private and institutional clients, and International Private Banking, active in advisory investment management through international private banking companies.

Following the reorganization of asset management activities at the end of last year through the spin off of the insurance branch, in the first half of 2005 possible synergies were studied deriving from the merger of Sanpaolo IMI Institutional Asset Management SGR, specialized in management and advisory services for institutional customers, into Sanpaolo IMI Asset Management which holds total control. The merger, authorized on 26 July 2005 by the Board of Directors of SANPAOLO IMI, is aimed at raising levels of management efficiency through company and product integration.

# Consolidated results

## Presentation of information

The consolidated results for the first half of 2005 must be considered in the light of the major changes brought about by the introduction of international accounting standards (IAS/IFRS) adopted by the SANPAOLO IMI Group for the first time in this Half Year Report. These standards have had a profound impact on the criteria for drawing up the report, altering ways of evaluating transactions, the content of entries and making new statements opportune.

In order to provide the most consistent comparison, pro forma information for the first half year of 2004 has been reconstructed full IAS, including an estimate of the effects of the application of IAS 32 and 39 on financial instruments and of IFRS 4 on insurance contracts, even if the International Accounting Standards Board (IASB) does not require it.

Application of the new accounting standards has also led to a modification of the perimeter of consolidation: the most important change is the line by line consolidation of the insurance companies, previously reported in the financial statements according to the net shareholders' equity method. The significance of inclusion of these companies in the financial statements, partially not homogeneous with banking activities, has rendered opportune grouping revenue entries in a specific margin of the insurance sector when drawing up the reclassified statement of income, so as to provide a more proper reflection of the performance of income aggregates. Minor effects are related to the change from pro rata consolidation to line by line consolidation of Banka Koper and evaluation of net shareholders' equity of Cassa dei Risparmi di Forlì, previously consolidated pro rata.

## Summary of results of the half year

During the first half of 2005, the SANPAOLO IMI Group showed a positive evolution in the main income margins compared with the same pro forma period for 2004, with an acceleration in the second quarter as against the first.

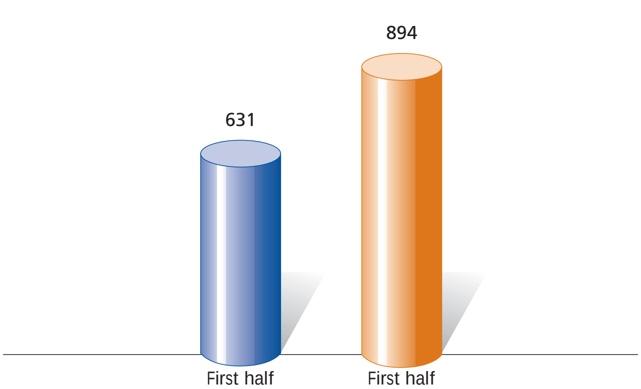
Total operating income, represented by revenue, increased by 3.8% thanks to the favorable trend in all components. Net operating income, that benefited from reductions in net adjustments, rose by 9.6% compared with the first half of 2004. The growth in pre-tax operating profit varied by 35.1%, mainly due to containment of operating costs.

Net profit in the first half of 2005, equal to 894 million euro, increased by 41.7% compared to the 631 million for the same period in the previous year. It should be noted that the profit recorded in the Half Year Report 2004, in conformance with national accounting standards, amounted to 691 million euro. This sum was also inclusive of important revaluations not accountable in the statement of income drawn up under international accounting standards.

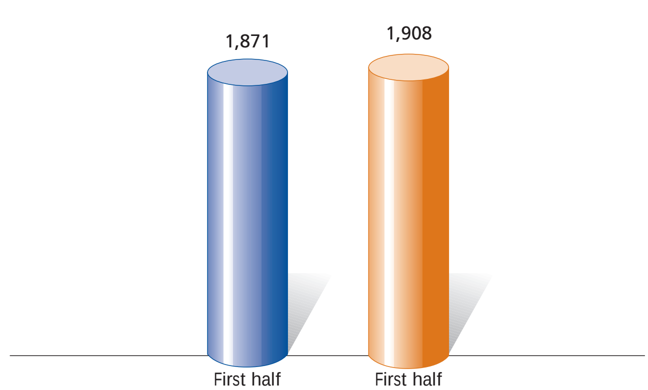
## Net interest income

Net interest income in the first half of 2005, equal to 1,908 million euro, increased by 2% compared to the same period in 2004, a percentage that rises to 3.3% with the exclu-

**Net profit** (€/mil)




**Net interest income** (€/mil)



sion of atypical components characterized by greater volatility attributable to the trading services offered by Banca IMI.

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

The main growth factor in net interest income was the significant contribution of volumes dealt. Average amounts of the Group's interest-earning assets rose by 3.7% compared with the first six months of 2004. The increase was the result of the growth of all the principal components: securities (+25.3%), other interest-earning assets (+8.6%), loans to customers (+0.6%). Average interest-bearing lia-

*Net interest income*

| | First half 2005 (€/mil) | First half 2004 (1) (€/mil) | Change first half 2005 / First half 2004 (%) |
|---|---|---|---|
| Interest income and similar revenues | 3,661 | 3,629 | +0.9 |
| Interest expenses and similar charges | -1,753 | -1,758 | -0.3 |
| **Net interest income** | **1,908** | **1,871** | **+2.0** |
| *of which: Banca IMI* | *25* | *48* | *-47.9* |
| **Net interest income excluding investment banking** | **1,883** | **1,823** | **+3.3** |

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

*Analysis of average amounts and interest rates (1)*

| | First half 2005 | | First half 2004 | | Change first half 2005 / First half 2004 | |
|---|---|---|---|---|---|---|
| | Average amounts (€/mil) | Annualized average rate (%) | Average amounts (€/mil) | Annualized average rate (%) | Change in average amounts (%) | Difference in rates (points %) |
| Interest-earning assets | 188,192 | n.s. | 179,159 | n.s. | +5.0 | n.s. |
| - interest-earning assets excluding investment banking | 161,600 | 4.28 | 155,865 | 4.28 | +3.7 | - |
| *- loans to customers (excluding repurchase agreements)* | *122,611* | *4.82* | *121,860* | *4.81* | *+0.6* | *+0.01* |
| *- securities* | *15,470* | *3.06* | *12,350* | *3.09* | *+25.3* | *-0.03* |
| *- other interest-earning assets* | *23,519* | *2.27* | *21,655* | *2.01* | *+8.6* | *+0.26* |
| - interest-earning assets from investment banking | 26,592 | n.s. | 23,294 | n.s. | +14.2 | n.s. |
| Non interest-earning assets | 74,231 | | 83,101 | | -10.7 | |
| **Total assets** | **262,423** | | **262,260** | | **+0.1** | |
| Interest-bearing liabilities | 180,804 | n.s. | 172,535 | n.s. | +4.8 | n.s. |
| - interest-bearing liabilities excluding investment banking | 154,771 | 2.03 | 149,371 | 2.04 | +3.6 | -0.01 |
| *- direct customer deposits (excluding repurchase agreements)* | *121,855* | *1.86* | *117,731* | *1.88* | *+3.5* | *-0.02* |
| *- due to customers* | *74,162* | *0.98* | *69,349* | *0.93* | *+6.9* | *+0.05* |
| *- securities issued* | *47,693* | *3.25* | *48,382* | *3.25* | *-1.4* | *-* |
| *- other interest-bearing liabilities* | *32,916* | *2.66* | *31,640* | *2.63* | *+4.0* | *+0.03* |
| - interest-bearing liabilities from investment banking | 26,033 | n.s. | 23,164 | n.s. | +12.4 | n.s. |
| Non interest-bearing liabilities | 69,454 | | 78,278 | | -11.3 | |
| Shareholders' equity | 12,165 | | 11,447 | | +6.3 | |
| **Total liabilities and shareholders' equity** | **262,423** | | **262,260** | | **+0.1** | |

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

bilities increased by 3.6%, benefiting from a rise in customer deposits (+3.5%), driven by deposits, and other interest-bearing liabilities (+4%).

The total average spread was 2.25%, one basis point higher than in the first half of 2004, thanks to customer transactions. Protection of the spread is more notable in the context of markets characterized by excessive supply of loans by the system that has fueled levels of competition. At the same time, the liquidity of companies has led to an increase in the usually more costly corporate deposits.

Money market rates rose slightly: three-month Euribor increased an average 6 basis points in the first half of 2005 (2.13%) compared with the same period in 2004 (2.07%).

## Total operating income

Total operating income, expressed in the main revenues including income from insurance business, totaled 4,021 million euro, a rise of 3.8% compared to the same period in the previous year. Growth was especially sustained by the performance of the above-mentioned net interest income, the doubling of profits on equity shareholdings, the growth in dividends and income from other financial assets and liabilities (+14.7%) and the rise in revenues from insurance business (+11%).

Net commissions amounted to 1,613 million euro compared to the 1,600 million in the first half of 2004. Commissions from the management, dealing and advisory services, making up over 60% of the total, rose by 6.5% compared to the first six months of 2004 mainly due to the increase in commissions on asset management (+7.2%). The performance of the aggregate benefited from the recovery of financial markets: the Comit index showed a positive performance of 5% since the beginning of the year after an increase of 17.4% in the previous year. Moreover, endogenous factors included the favorable performance of the recurring commissions and the change in the mix of asset management attributable to the orientation of the customers towards products with a higher equity component, particularly fund-based portfolio management and insurance. There was in fact a re-conversion of the assets accumulated on the money compartment towards products with a higher added value, in terms of both portfolio manager actions and protection of capital and assurance.

*Total operating income*

| | First half 2005 (€/mil) | First half 2004 (1) (€/mil) | Change first half 2005 / First half 2004 (%) |
|---|---|---|---|
| Net interest income | 1,908 | 1,871 | +2.0 |
| Net commissions | 1,613 | 1,600 | +0.8 |
| - management, dealing and advisory services | 987 | 927 | +6.5 |
| *- asset management* | *868* | *810* | *+7.2* |
| *- securities dealing and safekeeping, and currency dealing* | *119* | *117* | *+1.7* |
| - loans and guarantees | 164 | 160 | +2.5 |
| - collection and payment services | 125 | 123 | +1.6 |
| - deposits and current accounts | 252 | 252 | - |
| - other services | 85 | 138 | -38.4 |
| Income from credit disposals, assets held to maturity and repurchase of financial liabilities | 17 | 2 | n.s. |
| Dividends and income from other financial assets and liabilities | 226 | 197 | +14.7 |
| Profits (losses) on equity shareholdings | 75 | 38 | +97.4 |
| Income from insurance business | 182 | 164 | +11.0 |
| **Total operating income** | **4,021** | **3,872** | **+3.8** |

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

Loans and guarantees rose by 2.5%, attributable to the growth of transactions in the loan sector. Other commission revenues recorded modest changes, except for the residual aggregate of other services that dipped by 38.4%. This was mainly due to the lack of acquisition of commissions on tax collection for over 30 million euro following the non-regulation of fixed contributions in the sector for the extension of lending for 2005 and 2006.

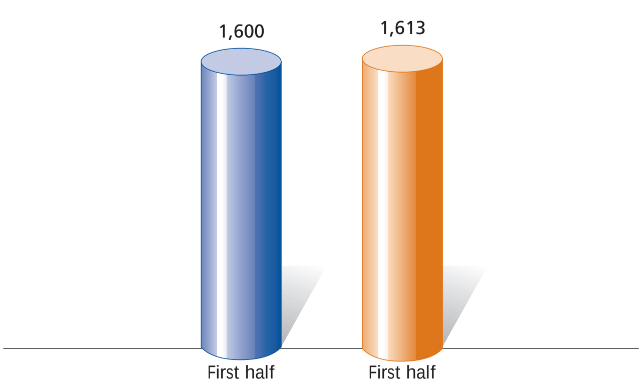
Income from credit disposals and assets held to maturity, amounting to 17 million euro, mainly comprise the pro-soluto disposal (22 million) of non-performing loans lower that 50,000 euro for a total declared loan of 278 million and a net value of 37 million created by SANPAOLO IMI, Sanpaolo Banco di Napoli and Cassa di Risparmio in Bologna.

Dividends and income from other financial assets and liabilities include current income from transactions in financial instruments, realized or evaluated at fair value, profits and losses on the available portfolio for sales and dividends. The latter include figures related to the minority interests of the Group in the sales portfolio and also trading securities of the investment banking activities of Banca IMI. Dividends and income from other financial assets and liabilities amounted to 226 million euro, a rise of 14.7% compared to the 197 million recorded in the first half of 2004. The trend is attributable to the typical operational compartments of Banca IMI in corporate finance and the equity capital markets, as well as distribution of securities, exchange and derivative contracts by the commercial banks. During the period, market evaluation of the derivative implicit in the FIAT group convertible facility had no significant economic effects as the listing of FIAT shares was in line with that of 31 December 2004; on the other hand, the good share performance after the end of the six months will have a positive impact in the third quarter after conversion of the debt. Finally, income for the half year includes the effect of the fair value evaluation of the overall position of the Group with regard to Italenergia Bis (IEB), consisting of current financial instruments, and equity investment classified as available for sale. The net economic effect, taking into account the lack of negotiating problems initially set by EDF – Electricité de France in executing the put option, was around 4 million euro. On the approval of the present Half Year Report, the transaction was concluded with the execution of the put option held by the banks holding IEB equity; the overall positive effect that will be booked in the statement of income for the first nine months will amount to around 120 million euro.

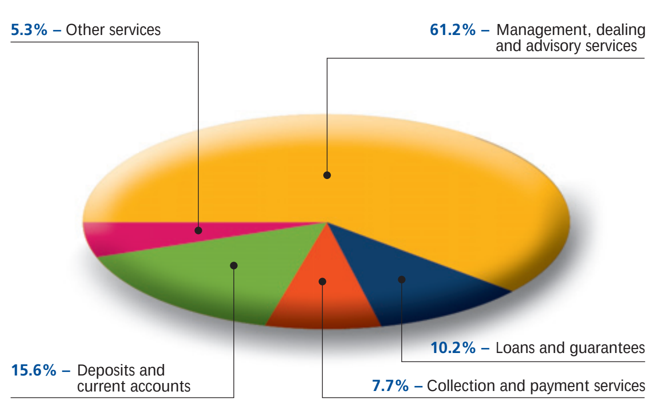
Profits on equity shareholdings, equal to 75 million euro, rose compared to the first half of 2004 mainly due to the capital gain achieved by the private equity compartment.

In the first half of 2005, income from the insurance business related to the life and casualty companies headed by Assicurazioni Internazionali di Previdenza amounted to 182 million euro, an increase of 11% over the same period for 2004. The growth is attributable to an increase in new business and the performance of financial management and was also seen in an increase in valuation reserves for financial assets available for sale, equal, at the end of the period, to 141 million euro as against the 94 million at the beginning of the year.

**Net commissions** (€/mil)




**Break-down of commissions in the first half 2005**



## Net operating income

In the first half of 2005 net operating income increased by 9.6%, totaling 3,789 million euro.

This growth benefited from the decrease in net adjustments to loans (-24.7%) and other financial assets (-97.3%) which in the first half of 2004 discounted permanent losses on investments in Hutchison 3G Italia (61 million) and CDC Ixis (50 million). The decrease in adjustments to loans is attributable to the improvement of the risk profile of the Group's loan portfolio which led to a significant fall in analytic adjustments on doubtful loans that passed from the 260 million euro for the corresponding period in 2004, including some major ones, to 86 million. During the half year, evaluation of credit risk inherent in the performing portfolio led to general flat rate adjustments of 143 million euro, linked to current uncertainty over the economic cycle.

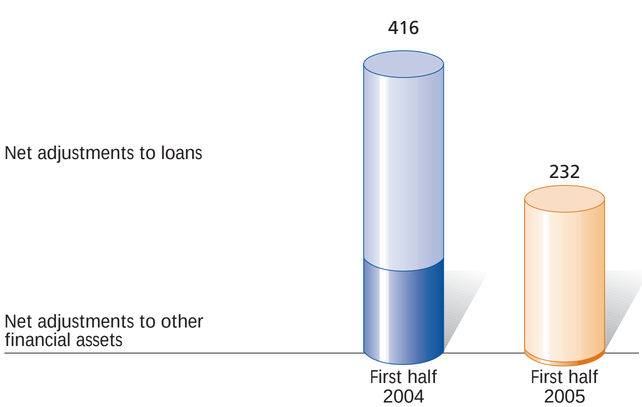
## Pre-tax operating profit

Pre-tax operating profit totaled 1,415 million euro, an increase of 35.1% over the first half of 2004. The performance benefited from both the positive trend in revenues and the reduction in operating costs, as well as the positive evolution of other net income and profits from disposals of investments.

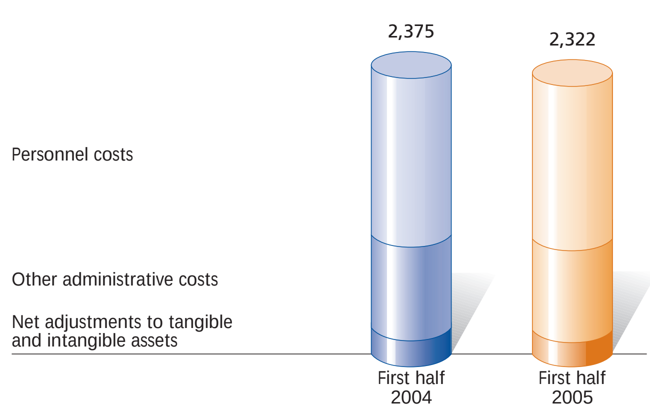
Containment of costs in the first half led to a decrease of 2.2% in operating costs which amounted to 2,322 million euro.

In more detail, personnel costs, totaling 1,379 million euro, decreased by 1.7% compared to the same period in 2004. Containment of these costs is related to staff leaving incentive plans, also through the "Fund for staff in the banking industry", and the reduction in personnel effected through rationalization of the structure of the corporate center and the integration of the distribution networks. The efficiency of these actions, carried out in the last two years mainly in the commercial banks, can be seen in an average reduction in personnel (-1.2% compared to the first half of 2004) which has led to the absorption of the ordinary dynamics of payroll and the rises caused by the national collective labor contract, renewed in February 2005. It should be noted that in accordance with the new accounting standards, personnel costs include atypical labor contracts, the cost of

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




**Operating costs** (€/mil)




*Net operating income*

| | First half 2005 (€/mil) | First half 2004 (1) (€/mil) | Change first half 2005 / First half 2004 (%) |
|---|---|---|---|
| Total operating income | 4,021 | 3,872 | +3.8 |
| Net adjustments to loans | -229 | -304 | -24.7 |
| Net adjustments to other financial assets | -3 | -112 | -97.3 |
| **Net operating income** | **3,789** | **3,456** | **+9.6** |

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

employee stock options, net provisions for fixed-term insurance funds and excluding personnel costs for projects which are amortized on a three-year basis commencing on the conclusion of the reference project.

Other administrative costs, stated according to the new accounting standards net of related recoveries, fell by 2.8% compared to the first half of 2004 and amounted to 741 million euro. Falls were seen in IT costs, attributable to completion of the integration of the commercial banks and unification of contracts with suppliers, and real-estate costs following rationalization of property that led to savings in charges for maintenance, security and cleaning. Indirect personnel costs also decreased, thanks to lower charges for mobility, as did utilities due to a reduction in telephone costs which more than compensated for the increase in energy charges. On the other hand, there was an increase in professional and insurance costs, particularly in insurance premiums and especially in medium-/long-term financing and consumer credit with insurance coverage, sales of which are growing strongly in the Group's distribution network, as well as in costs for enquiries before contract and professional fees linked to obligations and commercial development. Promotion, advertising and mar-

*Pre-tax operating profit*

| | First half 2005 (€/mil) | First half 2004 (1) (€/mil) | Change first half 2005 / First half 2004 (%) |
|---|---|---|---|
| Net operating income | 3,789 | 3,456 | +9.6 |
| Operating costs | -2,322 | -2,375 | -2.2 |
| - personnel costs | -1,379 | -1,403 | -1.7 |
| - other administrative costs | -741 | -762 | -2.8 |
| - net adjustments to tangible and intangible assets | -202 | -210 | -3.8 |
| Other net income (expenses) | 43 | 18 | +138.9 |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | 13 | - | n.s. |
| Net provisions for risks and charges | -108 | -52 | +107.7 |
| **Pre-tax operating profit** | **1,415** | **1,047** | **+35.1** |

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

*Other administrative costs*

| | First half 2005 (€/mil) | First half 2004 (1) (€/mil) | Change first half 2005 / First half 2004 (%) |
|---|---|---|---|
| IT costs | -188 | -207 | -9.2 |
| Property costs | -141 | -147 | -4.1 |
| General expenses | -124 | -125 | -0.8 |
| Professional and insurance fees | -152 | -138 | +10.1 |
| Utilities | -42 | -44 | -4.5 |
| Promotion, advertising and marketing expenses | -51 | -41 | +24.4 |
| Indirect personnel costs | -47 | -50 | -6.0 |
| Indirect duties and taxes | -156 | -132 | +18.2 |
| Cost recoveries | 160 | 122 | +31.1 |
| **Other administrative costs** | **-741** | **-762** | **-2.8** |

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

keting expenses also rose due to sponsorship of the Olympic Winter Games 2006 and the launch of the new company advertising campaign, as well as indirect duties and taxes which must be seen in the light of the increase in related recoveries.

Net adjustments to tangible and intangible fixed assets amounted to 202 million euro, a fall of 3.8% compared to the same period in the previous year. The decrease is attributable to better efficiency of investments in the IT segment following its concentration in the Parent Bank.

During the first half, the cost/income ratio of the Group fell from 61.3% to 57.7%, an improvement of 3.6 percentage points on the same period in the previous year, due to the favorable performance in revenues and, to a lesser extent, containment of costs.

In the first half of 2005, net provisions for risks and charges doubled compared to the same period for the previous year and totaled 108 million euro. The increase was caused by the strengthening in the Parent Bank and the network banks holding the presidium of risks against legal causes and in the tax collection sector, as well to the effect of the change in discounted value of outlay estimates following the fall in rates and the rescheduling of outlay. Capital allocated by Banca Fideuram to meet the dispute risk of the placement of default securities, and by Sanpaolo IMI Private Equity in presidium of the risk arising from the disposal of investment, also contributed to the rise.

## Net profit

Profit for the period, after deduction of taxes and the share attributable to minority interests, amounted to 894 million euro, a rise of 41.7% compared to the first half of 2004.

For the purposes of IRES and IRAP, the results of the IAS statement of income are recorded partly as taxes for the period and partly as deferred taxes and, consequently, application of the new accounting standards has had no major tax effects compared with the past.

With a tax charge of 494 million euro, the tax rate of the SANPAOLO IMI Group was 34.9% less than that recorded in the first half of 2004, mainly as a result of the lack in 2005 of adjustments to non-deductible financial assets according to the norms for expenses and income on equity investments introduced in 2004. Moreover, the first half of 2005 benefited from the reduced effect of non-deductible costs for IRAP made up of personnel costs and adjustments to loans.

It is underlined that profits on discontinued operations, including assets which have been formally excluded from the product process, include the booking, in accordance with IFRS 5, of the capital gain of 55 million euro of the disposal of the last tranche of Finconsumo during the first half of 2004.

## Developments in the second quarter of 2005

The second quarter of 2005 was marked by an increase in income compared with the first quarter, partly attributable to structural components linked to the good performance of transactions and partly to one-off events such as the capital gain of the disposal of loans and investments and the collection of dividends. Concerning operational aggregates, both customer financial assets and financing showed a higher annual growth trend in the second quarter.

Total operating income in the second quarter of 2005 was above the 18% of the first. The biggest revenues,

*Net profit*

| | First half 2005 (€/mil) | First half 2004 (1) (€/mil) | Change first half 2005 / First half 2004 (%) |
|---|---|---|---|
| Pre-tax operating profit | 1,415 | 1,047 | +35.1 |
| Taxes for the period | -494 | -444 | +11.3 |
| Profits (losses) on discontinued operations | - | 55 | n.s. |
| Profit attributable to minority interests | -27 | -27 | - |
| **Net profit** | **894** | **631** | **+41.7** |

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

equal to 337 million euro, mainly came from the widespread recovery of transactions which was seen in a growth of loans and deposits, effecting net interest income and commissions. Particular mention should be made of the positive trend in medium-/long-term loans and private and retail customer sight deposits, the growth of loans and guarantees to companies and the expansion of corporate finance activities.

Operating costs in the second quarter were more or less the same as in the first: the bigger rise in other administrative costs and adjustments was counterbalanced by a smaller expense in personnel costs mainly attributable to a new date for the start of planned rises in the national labor contract.

Net profit in the second quarter was 69% higher than the previous quarter.

# Embedded value of the life insurance business

## Introduction

The Group's insurance business is concentrated in Assicurazioni Internazionali di Previdenza (A.I.P.) which also controls the Dublin-based life insurance company Sanpaolo Life, the casualty companies Egida Assicurazioni (jointly owned for 50% with Reale Mutua) and Fideuram Assicurazioni, as well as the insurance administrative IT outsourcing company Universo Servizi.

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

The consolidated result of A.I.P., determined by both Italian GAAP and IAS, contributed 94 million euro to Group income in the first half of 2005. Net income for the half year generated in other Group companies related to insurance business, determined after associated costs, adjustments for deferred acquisition costs and taxes, and net of minority interests (mainly in Banca Fideuram), amounted to 89 million euro.

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

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

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

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

## Methodology and assumptions

Calculations at 30 June 2005 and 31 December 2004 have been carried out with the assistance and under the supervision of leading consulting actuaries. The evaluations use actuarial methods typically used in traditional embedded value reporting, based on deterministic projections of future net flows founded on civil law for the technical insurance entries. Inherent risks are accounted for through the use of a single discount rate and an explicit assumption for the level and cost of holding capital. The allowance for risk may not correspond to capital market-based valuations.

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

The value of in-force business is calculated as the present value of the projected after-tax profits that are expected to be generated in A.I.P. and other group companies by the portfolio of policies in force at the valuation date, calculating assets against technical reserves on the basis financial statement values, adjusted to allow for the cost of holding an amount of free capital equal to the minimum EU solvency margin.

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

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

In particular, the reference economic background as of 30 June 2005 showed investment returns on 10-year BTP of 3.40% (compared to 3.85% at 31 December 2004), while total returns on equities were set equal to 5.90% (6.35%

in 2004). On this basis, a discount rate was set at 6.15% for all business lines (6.6% at 31 December 2004). The risk premium between the discount rates and the 10-year government bond rate was therefore kept at 2.75%.

The rates of return on assets backing life technical reserves reflect the characteristics of the various portfolios, in particular by separating the funds resulting from the merger of Sanpaolo Vita, Noricum Vita and Fideuram Vita, as shown below:

- for the segregated funds, the average rates (including only management/minimum deduction commissions) used were: for Sanpaolo Vita 4.28% for the first five years and 3.43% for subsequent years (compared to 4.36% for the first five years and then 3.51% in 2004, for Noricum Vita 4.1% (4.1% in 2004) and for Fideuram Vita 4.5% (4.55% in 2004). These rates allow for the emergence of unrealized gains and losses in the funds;
- for unit-linked funds, the projected rates of return, before all management charges, were set at 3.91% (4.29% in 2004) for Sanpaolo Life, whereas for Fideuram Vita the average rates considered were 3.85% (4.35% in 2004) for guaranteed funds and 4.0% (4.25% in 2004) for non-guaranteed funds.

## Group embedded value and added value

The consolidated embedded value of the Group's life insurance business as of 30 June 2005, net of minority interest, was estimated at 2,551 million euro, an increase of 118 million euro compared to 31 December 2004. The value earnings in the half year of the Group's life insurance business amount to 257 million euro and are determined as (i) the change in the embedded value during the six months, plus (ii) dividends distributed by A.I.P. during the half year and other capital movements, plus (iii) the life insurance business income generated in other Group companies (net of costs, adjustments for deferred acquisition costs, taxes and minority interests), associated with distribution and asset management activities.

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

*Embedded value of the life insurance business*

| | | | *(€/mil)* |
|---|---|---|---|
| Embedded value as of 31/12/2004 | a | | 2,433 |
| Embedded value as of 30/6/2005 | b | | 2,551 |
| Change in the embedded value in the first half of 2005 | c=b-a | | 118 |
| Dividends distributed | d | | 50 |
| Net income generated in other group companies | e | | 89 |
| Added value for the period | c+d+e | | 257 |
| *of which* | | | |
| Expected return on initial embedded value | | | 86 |
| Experience variances in the half year | | | (22) |
| Changes in assumptions | | | 20 |
| Value added by new business and transformations | | | 173 |
| *of which* | | | |
| *SANPAOLO IMI Group bank branches* | | *146* | |
| *Private Bankers of Banca Fideuram/Sanpaolo Invest (1) (2)* | | *27* | |

*(1) Of which originating from the simultaneous disinvestment from Banca Fideuram asset management for 11 million euro.*
*(2) Of which originating from traditional business to unit-linked for 2 million euro.*

# Operating volumes and organization

## Assets managed on behalf of customers

At the end of June 2005 customer financial assets reached 401 billion euro, up 4.4% since the beginning of the year. The increase is attributable to the positive trend in indirect deposits, in terms of both asset management and administration and, to a lesser extent, to direct deposits.

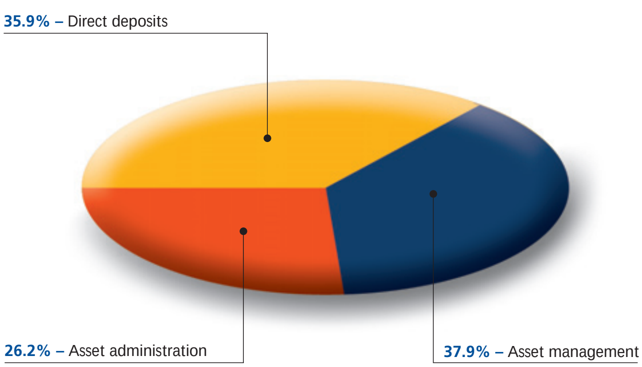
Indirect deposits have increased by 6.1% since the end of December 2004, thanks to the high number of placements and the positive performance of financial markets. Direct deposits registered a 1.5% increase from the beginning of the year.

## Asset management and administration

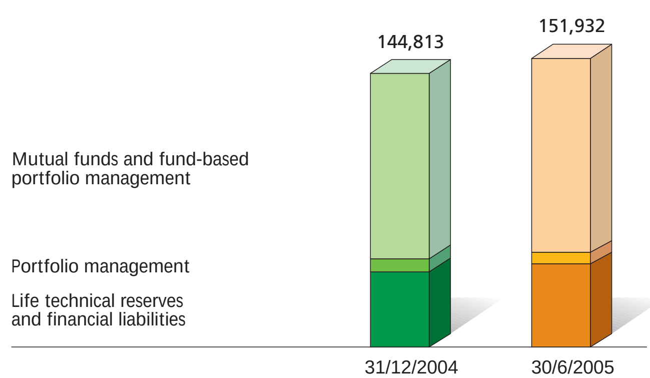
At the end of the first half of 2005 the volume of assets under management reached 151.9 billion euro, up 4.9% since the end of December 2004. This increase is attributable to the net flow of 2.5 billion euro and the positive performance of the financial markets.

As regards the various products, mutual funds and fund-based portfolio management reached 101.1 billion euro, up 3.2% since the beginning of the year. Unlike the out-

**Break-down of customer financial assets in the first half 2005**




**Asset management** (€/mil)




*Customer financial assets*

| | 30/6/2005 (€/mil) | 30/6/2005 % | 31/12/2004 (€/mil) | 31/12/2004 % | Change 30/6/05-31/12/04 (%) |
|---|---|---|---|---|---|
| Asset management | 151,932 | 37.9 | 144,813 | 37.7 | +4.9 |
| Asset administration | 105,096 | 26.2 | 97,502 | 25.4 | +7.8 |
| Direct deposits | 143,932 | 35.9 | 141,796 | 36.9 | +1.5 |
| Customer financial assets | 400,960 | 100.0 | 384,111 | 100.0 | +4.4 |

*Asset management*

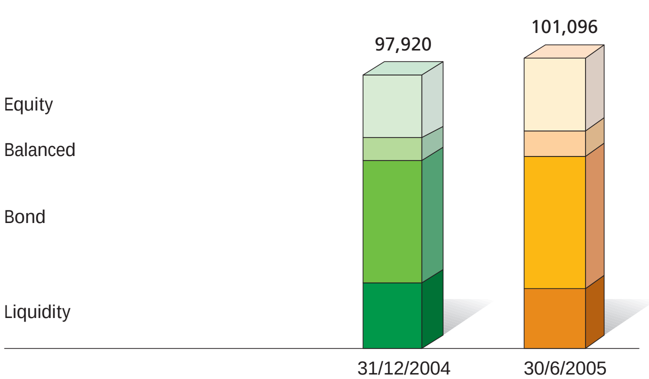
| | 30/6/2005 (€/mil) | 30/6/2005 % | 31/12/2004 (€/mil) | 31/12/2004 % | Change 30/6/05-31/12/04 (%) |
|---|---|---|---|---|---|
| Mutual funds and fund-based portfolio management | 101,096 | 66.5 | 97,920 | 67.6 | +3.2 |
| Portfolio management | 5,856 | 3.9 | 6,044 | 4.2 | -3.1 |
| Life technical reserves and financial liabilities | 44,980 | 29.6 | 40,849 | 28.2 | +10.1 |
| Asset management | 151,932 | 100.0 | 144,813 | 100.0 | +4.9 |

flow reported in the previous year, this year's boost is mainly attributable to the net inflow of fund-based portfolio management, which showed increasing growth rates during the half year. The recovery in share prices led customers to opt for higher added value products, such as equity and balanced funds, which at the end of June 2005 accounted for 33.8% of the total, hence reporting an increase of one percentage point over six months. As regards the various types of low-risk funds, liquidity funds in the customer portfolios fell as bond funds increased. At the end of the first half of the year, the SANPAOLO IMI Group continued to rank first on the domestic market in terms of mutual funds, boasting a 19.3% market share.

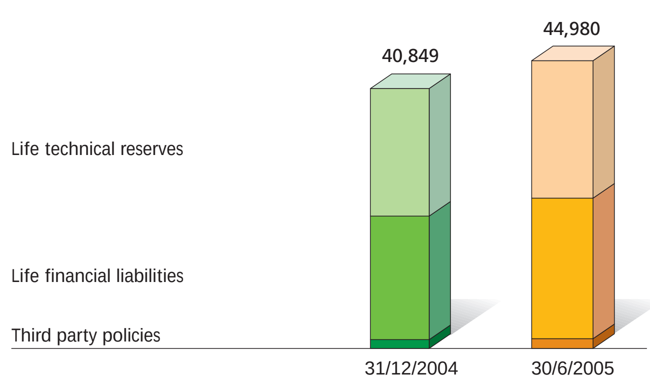
In the first half of the year the life insurance sector continued to be the most dynamic of the asset management sector. Net inflow recorded by the Group's distribution networks brought the insurance portfolio to 45 billion euro at the end of June 2005, reporting a 10.1% growth since the beginning of the year. In the period under review, customers opted for both traditional policies and index- and unit-linked ones, with a greater financial content.

Also worth noting is the increase in asset administration in the first half of the year, mainly attributable to the positive trend in net inflow. At the end of the period the balances had reached 105.1 billion euro, a 7.8% increase compared to the end of December 2004.

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




**Life technical reserves and financial liabilities** (€/mil)




*Change in asset management*

| | First half 2005 (€/mil) | First half 2004 (€/mil) |
|---|---|---|
| Net inflow for the period | 2,532 | -1,950 |
| - mutual funds and fund-based portfolio management | 190 | -3,017 |
| - portfolio management | -498 | -1,375 |
| - life policies | 2,840 | 2,442 |
| Performance effect | 4,587 | 2,036 |
| Change in asset management | 7,119 | 86 |

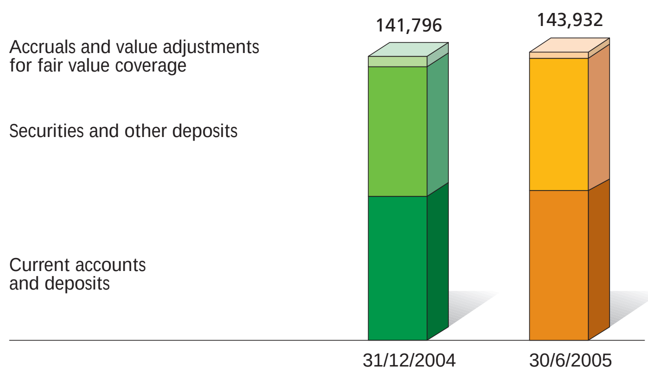
*Mutual funds by type*

| | 30/6/2005 (%) | 31/12/2004 (%) |
|---|---|---|
| Equity | 25.2 | 24.8 |
| Balanced | 8.6 | 8.0 |
| Bond | 45.7 | 44.0 |
| Liquidity | 20.5 | 23.2 |
| Total Group mutual funds | 100.0 | 100.0 |

## Direct deposits

At the end of June 2005, direct customer deposits amounted to 143.9 billion euro, an increase of 1.5% since the beginning of the year. The trend over the half year is attributable especially to current accounts and deposits (+3.2%), to repurchase agreements and the lending of securities (+8.5%), other deposits (+13.3%), especially those correlated to technical exposures, and subordinated liabilities (+2.4%). In contrast, commercial paper declined (-16.8%), along with bonds (-1.1%) and certificates of deposits (-15.2%).

**Direct customer deposits** (€/mil)




*Direct customer deposits*

| | 30/6/2005 | | 31/12/2004 (1) | | Change 30/6/05-31/12/04 |
|---|---|---|---|---|---|
| | (€/mil) | % | (€/mil) | % | (%) |
| Current accounts and deposits | 75,555 | 52.5 | 73,191 | 51.6 | +3.2 |
| Certificates of deposits | 2,462 | 1.7 | 2,904 | 2.0 | -15.2 |
| Bonds | 37,521 | 26.1 | 37,953 | 26.8 | -1.1 |
| Commercial paper | 2,790 | 1.9 | 3,352 | 2.4 | -16.8 |
| Subordinated liabilities | 7,120 | 5.0 | 6,955 | 4.9 | +2.4 |
| Repurchase agreements and securities lending | 12,650 | 8.8 | 11,664 | 8.2 | +8.5 |
| Other deposits | 4,960 | 3.4 | 4,377 | 3.1 | +13.3 |
| Accruals and value adjustments for fair value coverage | 874 | 0.6 | 1,400 | 1.0 | -37.6 |
| **Direct customer deposits** | **143,932** | **100.0** | **141,796** | **100.0** | **+1.5** |

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

*Direct customer deposits by Business Sector*

| | 30/6/2005 (€/mil) | 31/12/2004 (€/mil) | Change 30/6/05-31/12/04 (%) |
|---|---|---|---|
| Banking | 93,633 | 90,243 | +3.8 |
| - Corporate Banking | 36,906 | 32,874 | +12.3 |
| *- Companies* | *12,529* | *12,163* | *+3.0* |
| *- International* | *4,583* | *3,436* | *+33.4* |
| *- Large Groups* | *861* | *871* | *-1.1* |
| *- Public Authorities and Entities* | *4,751* | *4,447* | *+6.8* |
| *- Other companies* | *14,182* | *11,957* | *+18.6* |
| - Private and Retail Banking | 56,727 | 57,369 | -1.1 |
| *- Private and Retail* | *56,579* | *57,229* | *-1.1* |
| *- Other companies* | *148* | *140* | *+5.7* |
| Savings and Assurance | 4,767 | 4,097 | +16.4 |
| Asset Management and International Private Banking | 3,090 | 2,777 | +11.3 |
| Central Functions (1) | 42,442 | 44,679 | -5.0 |
| **Direct customer deposits** | **143,932** | **141,796** | **+1.5** |

*(1) Including deposits of Group Finance.*

An analysis of the Group's Business Sectors shows that Banking deposits, which represent around 65% of the total aggregate, showed a 3.8% annual increase thanks to the contribution by the Corporate Banking which have more than offset the fall in the Private and Retail Banking. Particularly worthy of notice is the favorable trend in the foreign sector and in the more volatile sector connected to investment banking. The 5% reduction recorded by the Central Functions is mainly attributable to the expiry of funding through securities issued by the Treasury and by vehicle companies headed by the same.

At 30 June 2005 the Group's share of direct deposits on the domestic market, calculated on harmonized figures, was 10.3%, in line with that at the beginning of the year.

## Loans to customers

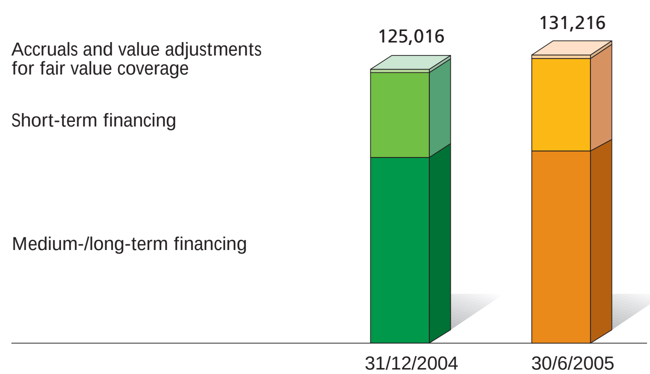
Loans to customers, including debt securities and non-performing loans, totaled 132.4 billion euro at the end of June 2005, a 4.9% growth since the beginning of the year. Financing to customers (excluding non-performing financing) reached 131.2 billion euro, up 5% compared with the end of 2004. This positive trend is attributable to both the increase in short-term financing (+6.7%) and medium-/long-term financing (+3.9%).

A continued positive trend was reported in medium-/long-term financing directed to the retail sector: in the first six months of the year mortgage disbursements to households by the Group's banks were about 2.3 billion euro, a growth of 9.2% compared with the same period of last year. As regards the evolution of loans made by Banca OPI for public works and infrastructure, the stock at the end of June amounted to 20 billion euro, a growth of 3.8% since the beginning of the year.

The analysis of loans to customers by counterparty shows an increase over the past six months; worthy of notice is the growth in financing to financial companies (+9.4%). By contrast, financing to governments and public entities have dropped by 6.3%, mostly owing to the fall in loans related to tax collection activities.

Loans by Group Business Sector have grown thanks to all the Sectors, the only exception being Asset Management

**Financing to customers excluding NPF** (€/mil)




*Loans to customers*

| | 30/6/2005 | | 31/12/2004 (1) | | Change 30/6/05-31/12/04 |
|---|---|---|---|---|---|
| | (€/mil) | % | (€/mil) | % | (%) |
| Short-term financing | 41,326 | 31.2 | 38,736 | 30.7 | +6.7 |
| Medium-/long-term financing | 88,477 | 66.8 | 85,134 | 67.4 | +3.9 |
| Accruals and value adjustments for fair value coverage | 1,413 | 1.1 | 1,146 | 0.9 | +23.3 |
| Financing to customers excluding NPF | 131,216 | 99.1 | 125,016 | 99.0 | +5.0 |
| Non-performing financing | 1,109 | 0.8 | 1,137 | 0.9 | -2.5 |
| Total financing to customers | 132,325 | 99.9 | 126,153 | 99.9 | +4.9 |
| Debt securities held in the portfolio | 118 | 0.1 | 127 | 0.1 | -7.1 |
| Accruals and value adjustments for fair value coverage | - | 0.0 | - | 0.0 | - |
| Debt securities excluding non-performing debt securities | 118 | 0.1 | 127 | 0.1 | -7.1 |
| Non-performing debt securities | - | 0.0 | - | 0.0 | - |
| Total debt securities | 118 | 0.1 | 127 | 0.1 | -7.1 |
| Loans to customers | 132,443 | 100.0 | 126,280 | 100.0 | +4.9 |

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

and International Private Banking, the total impact of which is in any case negligible. The most significant loans are attributable to Corporate Banking, especially in the international and companies sectors. The Private and Retail line of business showed a 4.6% growth since the beginning of the year, attributable to both the recovery in short-term loans and the growing trend in household mortgages.

At the end of June 2005, the Group's market share in the domestic market, calculated on harmonized figures, was 9.9% for total loans, in line with the figures reported at

*Loans to customers by counterparty*

| | 30/6/2005 | | 31/12/2004 (1) | | Change 30/6/05-31/12/04 |
|---|---|---|---|---|---|
| | (€/mil) | % | (€/mil) | % | (%) |
| Financing to households | 29,055 | 21.9 | 27,400 | 21.7 | +6.0 |
| Financing to family businesses and non-financial companies | 75,047 | 56.7 | 70,973 | 56.2 | +5.7 |
| Financing to financial companies | 12,299 | 9.3 | 11,243 | 8.9 | +9.4 |
| Financing to governments and public entities (2) | 13,907 | 10.5 | 14,835 | 11.7 | -6.3 |
| *of which: tax collection* | *441* | *0.3* | *1,229* | *1.0* | *-64.1* |
| Other | 604 | 0.4 | 556 | 0.5 | +8.6 |
| Accruals and value adjustments for fair value coverage | 1,413 | 1.1 | 1,146 | 0.9 | +23.3 |
| **Financing to customers** | 132,325 | 99.9 | 126,153 | 99.9 | +4.9 |
| Debt securities held in the portfolio | 118 | 0.1 | 127 | 0.1 | -7.1 |
| Accruals and value adjustments for fair value coverage | - | 0.0 | - | 0.0 | - |
| **Debt securities** | 118 | 0.1 | 127 | 0.1 | -7.1 |
| **Loans to customers** | 132,443 | 100.0 | 126,280 | 100.0 | +4.9 |

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

*Loans to customers (excluding NPLs) by Business Sector*

| | 30/6/2005 (€/mil) | 31/12/2004 (€/mil) | Change 30/6/05-31/12/04 (%) |
|---|---|---|---|
| Banking | 123,607 | 118,306 | +4.5 |
| - Corporate Banking | 79,415 | 75,280 | +5.5 |
| *- Companies* | *37,399* | *35,489* | *+5.4* |
| *- International* | *6,103* | *5,113* | *+19.4* |
| *- Large Groups* | *6,542* | *6,421* | *+1.9* |
| *- Public Authorities and Entities* | *20,026* | *19,285* | *+3.8* |
| *- Other companies* | *9,345* | *8,972* | *+4.2* |
| - Private and Retail Banking | 43,724 | 41,792 | +4.6 |
| *- Private and Retail* | *39,530* | *37,875* | *+4.4* |
| *- Other companies* | *4,194* | *3,917* | *+7.1* |
| - Other Banking companies | 468 | 1,234 | -62.1 |
| Savings and Assurance | 923 | 830 | +11.2 |
| Asset Management and International Private Banking | 229 | 456 | -49.8 |
| Central Functions (1) | 6,575 | 5,551 | +18.4 |
| **Loans to customers excluding NPLs** | 131,334 | 125,143 | +4.9 |

*(1) Including loans of Group Finance.*

the end of 2004. More specifically, the market share in terms of medium-/long-term loans to family businesses and non-financial companies was 8.8% and short-term loans 10%.

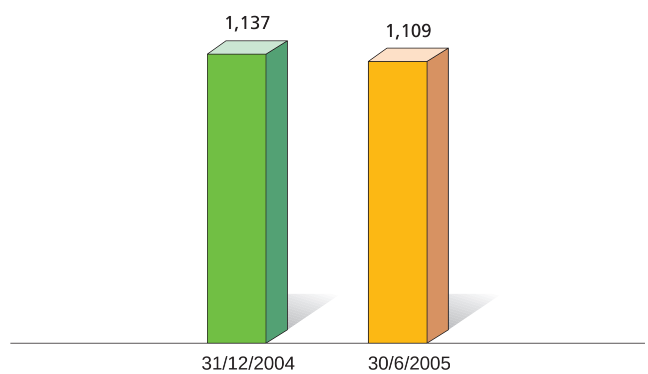
## Quality of the loan portfolio

During the first half of the year the Group has continued to pay attention to the quality of assets, through loan-issue selection policies and careful provision policies across all the commercial banks. The trend in doubtful loans and their lower impact on net loans to customers (from 2.8% at the end of 2004 to 2.5% at the end of June) gave rise to further improvement in the quality of the Group's loan portfolio.

At the end of June 2005 net doubtful loans including, for the first time, financing that is due or overdue by more than 180 days, totaled 3,353 million euro, a 4.9% reduction since the beginning of the year. More specifically, as regards loans to customers:

- non-performing financing was 1,109 million euro, a drop of 2.5% against the 1,137 million at the end of 2004, thanks also to the non-recourse sale of non-performing loans of amounts lower than 50,000 euro; the ratio of non-performing financing to loans to customers was 0.8%, a drop of one-tenth of a percentage point since the beginning of the year. At the end of June 2005, the coverage ratio of the Group's non-performing financing rose from 75.3% at end 2004 to 75.5%;
- problem and restructured financing totaled 1,159 million euro, a 14.5% reduction compared to the end of December 2004. The coverage ratio was 31.5% against 31.1% at the beginning of the year;
- non guaranteed financing to customers in countries subject to country risk amounted to 29 million euro, against 26 million at the end of 2004;

**Non-performing financing to customers** (€/mil)

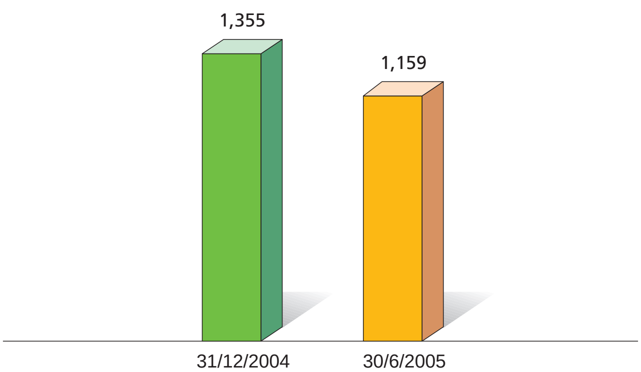



*Qualitative analysis of the loan portfolio (1)*

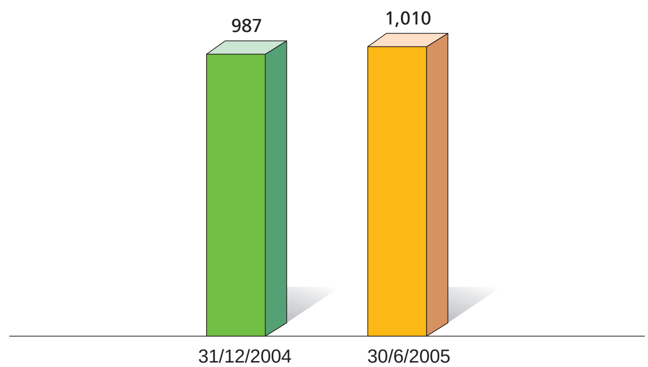
| | 30/6/2005 (€/mil) | 30/6/2005 % | 31/12/2004 (2) (€/mil) | 31/12/2004 (2) % | Change 30/6/05-31/12/04 (%) |
|---|---|---|---|---|---|
| Non-performing financing | 1,109 | 0.8 | 1,137 | 0.9 | -2.5 |
| Problem and restructured financing | 1,159 | 0.9 | 1,355 | 1.1 | -14.5 |
| Financing to countries at risk | 29 | 0.0 | 26 | 0.0 | +11.5 |
| Financing due/overdue by more than 180 days | 1,010 | 0.8 | 987 | 0.8 | +2.3 |
| Doubtful securities held in the portfolio | - | 0.0 | - | 0.0 | - |
| Doubtful loans - customers | 3,307 | 2.5 | 3,505 | 2.8 | -5.6 |
| Performing financing | 129,018 | 97.4 | 122,648 | 97.1 | +5.2 |
| Performing debt securities held in the portfolio | 118 | 0.1 | 127 | 0.1 | -7.1 |
| Loans to customers | 132,443 | 100.0 | 126,280 | 100.0 | +4.9 |
| Non-performing and problem financing - banks | - | | - | | - |
| Financing due/overdue by more than 180 days - banks | - | | - | | - |
| Financing to countries at risk - banks | 46 | | 19 | | +142.1 |
| Doubtful securities held in the portfolio - banks | - | | - | | - |
| Total doubtful loans - customers and banks | 3,353 | | 3,524 | | -4.9 |

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

**Problem and restructured financing to customers** (€/mil)




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




- financing due and overdue by more than 180 days totaled 1,010 million euro, up 2.3% on the beginning of the year. The coverage ratio was 11.6% against 10.6% at the end of 2004.

At the end of June 2005, general adjustments to the performing loan portfolio amounted to 1,014 million euro, corresponding to 0.8% of the performing loan portfolio, an increase of one-tenth of a percentage point compared to the figure reported at the end of 2004.

## Activities on financial markets

### Treasury and financial management activities

The control of treasury activities and the financial risk management of the domestic bank networks is carried out centrally by the Parent Bank's Finance.

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

The management of financial risks related to the banking books of the Group's networks (Asset and Liability Management) is pursued with the goal of maximizing profitability, through operating methods compatible with the stability of economic results over a long-term basis. To this end, consistent with the strategic views of the Group Financial and Market Risk Committee, measures are taken against interest rate risk. Such measures are applied primarily by monitoring the natural composition of cash products (assets and liabilities) deriving from commercial flows and the management of liquidity. Therefore hedging derivatives are used only when necessary: given the large dimension of the banking books, hedging derivatives may be used even for significant amounts.

With reference to the centralized management of liquidity, as of 30 June around 70% of interbank lending and 54% of interbank borrowing of the Parent Bank referred to infra-Group financing and deposits. During the first half of 2005, the net infrabank position of the Parent Bank was characterized by an imbalance in market debt. Consequently, the Parent Bank's Treasury operates on the market to collect the necessary liquidity under a strict policy of funding diversification.

As regards medium- and long-term funding, which is also centralized, during the first half of 2005 the Parent Bank raised globally 3.7 billion euro composed as follows:

- 1.2 billion euro through the placement of senior securities by way of the internal network and of the Sanpaolo Banco di Napoli and Banca Fideuram networks;
- 2.4 billion euro through the placement of securities on international markets with Italian and foreign institutional investors, of which 500 million euro were subordinated (Lower Tier II);
- 70 million euro through loans and deposits.

During the six months period, banking networks other than Sanpaolo collected 330 million euro on the domestic market through the placement of senior securities with retail customers.

In the context of its own activities, the Banca IMI subsidiary issued structured bonds for 1.5 billion euro placed through the Group's networks.

In relation to the funding from International Organizations, funds previously issued by EIB continued to be employed, especially those destined to finance Research and Development initiatives in Italy, for which a further EIB loan of 100 million euro is expected before the end of the year. During the half year Banca OPI autonomously collected 320 million euro medium-long term funding from EIB.

As of 30 June 2005 the Group's securities portfolio reached 79.3 billion euro, an increase of 21.4% on the amount at the end of 2004 (65.3 billion euro). The breakdown is as follows: 51.5 billion euro of securities held for trading or carried at fair value; 25.4 billion euro available for sale investments; 1.7 billion euro of held-to-maturity investments; 0.7 billion euro reclassified to "loans and receivables".

The Parent Bank's securities portfolio, held for treasury requirements and investment purposes, amounted to 7.2 billion euro, a 3.6% drop from the 7.5 billion euro recorded at 2004 year end. The breakdown is as follows: 4.3 billion euro of securities held for trading or at fair value; 1.4 billion euro of held-to-maturity investments; 0.8 billion euro available for sale investments; 0.7 billion euro reclassified to "loans and receivables".

*Interbank position, securities and derivatives*

| | 30/6/2005 | | 31/12/2004 (1) | | Change 30/6/05-31/12/04 |
|---|---|---|---|---|---|
| | (€/mil) | % | (€/mil) | % | (%) |
| INTERBANK | | | | | |
| ASSETS (2) | 25,571 | 100.0 | 24,367 | 100.0 | +4.9 |
| - Parent Bank | 13,082 | 51.2 | 12,625 | 51.8 | +3.6 |
| - Banca IMI | 7,196 | 28.1 | 6,901 | 28.3 | +4.3 |
| - Others | 5,293 | 20.7 | 4,841 | 19.9 | +9.3 |
| LIABILITIES | 39,963 | 100.0 | 28,293 | 100.0 | +41.2 |
| - Parent Bank | 16,915 | 42.3 | 11,293 | 39.9 | +49.8 |
| - Banca IMI | 13,364 | 33.5 | 8,701 | 30.8 | +53.6 |
| - Others | 9,684 | 24.2 | 8,299 | 29.3 | +16.7 |
| SECURITIES (3) | 79,263 | 100.0 | 65,271 | 100.0 | +21.4 |
| - Parent Bank | 7,243 | 9.1 | 7,517 | 11.5 | -3.6 |
| - Banca IMI | 19,692 | 24.8 | 11,661 | 17.9 | +68.9 |
| - A.I.P. | 43,873 | 55.4 | 38,472 | 58.9 | +14.0 |
| - Others | 8,455 | 10.7 | 7,621 | 11.7 | +10.9 |
| DERIVATIVES | | | | | |
| Hedging derivatives (notional) | 63,503 | 100.0 | 75,604 | 100.0 | -16.0 |
| - Parent Bank | 32,986 | 51.9 | 45,937 | 60.8 | -28.2 |
| - Banca IMI | - | 0.0 | - | 0.0 | - |
| - Others | 30,517 | 48.1 | 29,667 | 39.2 | +2.9 |
| Dealing derivatives (notional) | 987,678 | 100.0 | 742,828 | 100.0 | +33.0 |
| - Parent Bank | 81,103 | 8.2 | 53,361 | 7.2 | +52.0 |
| - Banca IMI | 889,769 | 90.1 | 675,733 | 91.0 | +31.7 |
| - Others | 16,806 | 1.7 | 13,734 | 1.8 | +22.4 |

*(1) IAS compliant balance (cf full IAS) including the impact of transition to IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).*
*(2) The figure does not include securities classified in loans & receivables, reported among "Securities" (594 million euro at 30 June 2005 and 541 million at 31 December 2004).*
*(3) The figure includes debt and capital securities (including OICR quotas) classified in the various portfolios, except for "Other shareholding investments" described elsewhere in this Report.*

The Parent Bank's securities portfolio was mainly composed of government bonds from EU countries, equal to 57% of the total at the end of the first six months, while a further 41% comprised bonds from financial and banking issuers with the remaining 2% made up of corporate bonds. With the aim of maximizing opportunities for profitability, the portfolio maintained, through the securities eligible for Eurosystem monetary policy operations, the collateral suitable for managing liquidity and, at the same time, for pledging transactions in customer repurchase agreements.

During the six months the volume of the securities negotiated by the Parent Bank on financial markets was 15.3 billion euro, while transactions in repurchase agreements amounted to 131.6 billion euro, 61.8 billion of which were handled by the MTS/PCT platform.

### The insurance sector portfolio

As of 30 June the life insurance and property and casualty insurance companies belonging to Assicurazioni Internazionali di Previdenza showed a portfolio of 45 billion euro, an increase of 12% since the beginning of the year (43.9 billion euro, +14% since the beginning of the year, being the contribution to the SANPAOLO IMI consolidated financial statements). The investments are made on the basis of strict investment policies, against traditional policies and free capital, as well as unit- and index-linked policies.

The securities portfolio is represented by 59% of fair value securities and 41% of available for sale investments. In particular:

- fair value securities, equal to 26.4 billion euro, 56% of which are for unit-linked policies and 39% for index-linked policies; the remaining 5% of the total refers mainly to securities to be freed for index-linked products reimbursed to the customer and for specific asset policies;
- available for sale securities, mainly for traditional and free capital policies, amount to 18.6 billion euro and mainly comprise bonds and other fixed income securities which represent 97% of the total; the bond portfolio is composed of bonds issued by the Italian and foreign governments, bonds issued by International Organizations and by national banks and, to a lesser extent, by corporate bonds distributed across a wide number of issuers, especially eurozone companies; shares only represented 3% of the total.

### Brokerage activities

Brokerage activities within the Group are mainly carried out by the Group's investment bank, Banca IMI, one of the leading Italian financial operators, with a strong presence in stock and bond placements, special financial transactions and dealings in securities. Banca IMI performs dealing activities on its own account and on behalf of third parties over a wide range of financial products on regulated and over the counter markets, structuring and realization of investment products for retail customers and the management of risks for businesses and public authorities.

At the end of the half year the portfolio of the subsidiary Banca IMI was 19.7 billion euro, an increase of 68.9% compared with the 11.7 billion held at the end of 2004; this included 70.7% of debt securities, 17.0% equities and 12.3% shares in OICR (Collective Savings Investments Organization Funds). The short position amounted to 2.56 billion euro, an increase of 4.5% compared to 31 December 2004 (2.45 billion).

Dealing derivatives totaled 889.8 billion euro, an increase of 31.7% compared to 2004 (675.7 billion euro).

The half year has shown a slight drop in risk management activities and in the distribution of financial products and a strong recovery in activities on capital markets driven, on the equity side, by the recovery on stock markets and, on the debt side, by the considerable demand from institutional investors.

More specifically, in respect of *Global Markets*, it should be noted that:

- the *Fixed Income & Derivatives* sector showed a drop in trading activities on Government bonds, even if in this respect Banca IMI confirmed its role as leader in the placement and dealing of inflation-linked Government bonds; on the other hand there was an improvement in the market making activity on interest and exchange rate derivatives;
- the *Equity* sector showed significant growth, owing to *equity funding* and *equity trading* activities in particular;
- the *Credit* sector showed good results in market making activities on non government bonds and derivate contracts on loans;
- Global Brokerage activities have consistently increased, thanks especially to the development of activities on foreign customers (particularly in the USA), who are benefiting from brokerage services offered on European markets.

As far as allocation activities are concerned, the *Fixed Income* sector obtained good results, benefiting in the first months of the year from the massive presence of institutional investors in the pursuit for profitability on all primary market deals. With respect to *asset backed securities*, the securitization operation on the Fondo Immobili Pubblici (F.I.P.) fund, of which Banca IMI was one of the lead managers, aroused considerable interest among institutional investors.

The *Corporate Derivatives* sector was characterized mainly by products on interest rates and exchange rates to cover risks on *mid* customers rather than on the *large corporate* segment. In this context Banca IMI balanced brokerage activities in derivatives carried out by the Group's banking network on behalf of corporate customers, with nominal values of 17.8 billion euro at the end of the period (15.2 billion at the end of 2004).

### Placement and advisory business

Within the Group the placement and advisory business is carried out by Banca IMI; Banca OPI also operates in this business in respect of Public Authorities and Entities.

During the first six months of 2005, Banca IMI confirmed its status among the leading Italian operators on the primary debt market, occupying the role of leader in 20 bond issues, for a total amount of more than 12.5 billion euro.

The structuring of bond issues referred above all to the placement with retail customers of rate indexed issues, with particular regard to the CMS parameter, to inflation and to indices.

In the equity sector, in 2005 Banca IMI again confirmed its traditional presidium of the Italian market, participating in operations totaling 5.1 billion euro, among which the public and institutional offer of Enel IV (4.1 billion euro).

In respect of *Corporate Finance* activities, Banca IMI strengthened its role on the market, thanks also to the marked recovery worldwide in *mergers and acquisitions*, which brought Europe ever closer to the volumes and values of transactions carried out in the United States.

During the half year Banca OPI carried out financing activities and provided financial assistance to Public Entities, Local Authorities, Public Utilities and infrastructure projects. Characterized by a historical minimum interest rate curve over the medium-long term period, the market context actually encouraged the financial assistance provided to Regional Public Entities for the active management of debts.

In particular, Banca OPI concluded a substantial number of operations to restructure the debt of Regional, Provincial and Municipal councils for a total of around 800 million euro, also through the use of derivatives.

Remaining on the subject of financial assistance to customers, the arrangement activity regarding regional public entities bond issues was particularly intense, concerning more than 50 operations it totaled around 500 million euro.

## Shareholdings

As of 30 June 2005, Group shareholdings totaled 3,916 million euro, of which 796 million euro classified as "Equity investments" and 3,120 million euro classified as "Available for sale financial assets - Equities".

### Equity investments

This caption refers to the "significant" investments in companies in which the Group holds significant influence and in those subsidiaries not consolidated line by line. Totaling 796 million euro, 140 million refers to goodwill (positive differences arising on the application of the equity method). This caption has decreased by 43 million euro when compared to 31 December 2004, as a result of an increase in subscriptions (15 million euro), against a drop in sales (45 million euro, of which 18 refer to goodwill) and other decreases of 13 million euro.

The main increases refer to: the conversion of the 2004 dividend in Banque Palatine (previously Banque Sanpaolo) into shares, which resulted in the subscription to the issue of new shares for a value of 10.5 million euro; the payment of 1.6 million euro to the share capital of the subsidiary Sicilsud Leasing (in liquidation); the conversion into capital of a loan to Aeroporti Holding for a nominal value of 2.7 million euro.

The reduction in value mainly refers to:
- the affiliate Centradia Group Ltd which was put into liquidation. The partial allocation of assets, which determined the collection of 2 million euro and realized a capital gain of 500 thousand euro;

- the reimbursement of capital in 3G Mobile Investments S.A. for a total of 4 million euro;
- the disposal of some minority shareholdings, mainly in connection with the management of the merchant banking portfolio, with a book value of 23 million euro;
- the adjustment to the book value of investments carried at equity (-13 million euro) as a result of dividends distributed in the half year exceeding current income for the period.

### Other equity investments

The Group's remaining equity investments are now classified to "Available for sale financial assets – Equities", which also includes other equities. Totaling 3,120 million euro, these investments have increased by 180 million euro when compared to 31 December 2004. The increase is principally due to the fair value adjustment for 165 million euro.

## Operating structure

### The distribution network

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

As of 30 June 2005 the SANPAOLO IMI Group had a network of 3,134 banking branches in Italy, 33.5% of which are distributed throughout the North West, in-depth covered by the Sanpaolo network, 27.8% in the North East, where the branches of the four North East networks are concentrated (Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Cassa di Risparmio di Venezia e Friulcassa) and 26.0% in Southern Italy and the islands, headed by Sanpaolo Banco di Napoli on the mainland and by the Sanpaolo network on the islands. The remaining 12.7% of the Group's network is located in the Center of Italy, with the branches of Sanpaolo and Banca Popolare dell'Adriatico. The branches of Cassa di Risparmio di Firenze (in which an 18.7% interest is held) and Banca delle Marche (in which a 7% interest is held) are also located in the Center of Italy. SANPAOLO IMI has stipulated distribution agreements with both banks.

The share of branches held throughout Italy amounts to 10.1% as of 31 March 2005. The Group in particular has an 11.0% share in the North West, 10.4% in the North East, 5.6% in the Center and 13.4% in the South and the islands.

*Shareholdings*

| | 30/6/2005 (€/mil) | 31/12/2004 (€/mil) | Change 30/6/05-31/12/04 (%) |
|---|---|---|---|
| **Equity investments (1)** | **796** | **839** | **-5.1** |
| Qualified investments | 656 | 681 | -3.7 |
| Goodwill arising on the application of the equity method | 140 | 158 | -11.4 |
| **Other equity investments (2)** | **3,120** | **2,940** | **+6.1** |
| *of which:* | | | |
| *- Santander Central Hispano* | *1,312* | *1,249* | *+5.0* |
| *- IXIS Asset Management Group S.A.* | *192* | *192* | *-* |
| *- Banca d'Italia* | *185* | *185* | *-* |
| *- Banca delle Marche S.p.A.* | *92* | *92* | *-* |
| *- IXIS Corporate & Investment Bank* | *86* | *86* | *-* |
| *- FIAT S.p.A.* | *55* | *54* | *+1.9* |

*(1) The list is given in the Explanatory Notes (Part B - Section 4).*
*(2) Included in the caption "Available for sale financial assets - Equity".*

With reference to multi-channel infrastructures, at the end of June, direct banking contracts with retail customers rose to around 910 thousand, an increase of 13.8% on 31 December 2004. Internet banking contracts with companies reached 62,700 units, an increase of more than 9% since the beginning of the year.

Customer service is also carried out through the network of automatic Bancomat tellers (at the end of June 2005 these included 1,912 Sanpaolo ATMs, 829 Sanpaolo Banco di Napoli ATMs and 1,099 ATMs related to the four North East bank networks and Banca Popolare dell'Adriatico), as well as through the POS terminals (34,173 for the Sanpaolo network, 14,258 for Sanpaolo Banco di Napoli, and 20,489 for the latter networks).

The Group's distribution structure also includes 4,192 financial planners, mainly with Banca Fideuram and Sanpaolo Invest SIM.

The Group operates abroad through a network of 115 branches and 19 representative offices (composed mainly of branches of subsidiary banks operating in Central Eastern Europe, in addition to the Parent Bank's foreign network).

## Personnel

As of 30 June 2005 the Group employed 43,381 resources, down 270 units compared with 30 June 2004 (-0.6%). This decrease is due also to the reduction in the bank networks (-264 units, -0.7%) and in the other Group companies (-6 units, -0.1%).

From the beginning of the year the workforce has grown by 240 resources (+228 in the bank networks) through around 800 new employees (500 in the bank networks and 300 in other Group companies) and 600 terminations (300 in each category).

*Group distribution network*

| | 30/6/2005 | 31/12/2004 | Change 30/6/05-31/12/04 (%) |
|---|---|---|---|
| Banking branches and area offices | 3,249 | 3,239 | +0.3 |
| - Italy (1) | 3,134 | 3,126 | +0.3 |
| *of which: Parent Bank (2)* | *1,372* | *1,371* | *+0.1* |
| - Foreign | 115 | 113 | +1.8 |
| Representative offices | 19 | 18 | +5.6 |
| Financial planners | 4,192 | 4,317 | -2.9 |
| *of which: Banca Fideuram (3)* | *4,188* | *4,313* | *-2.9* |

*(1) The data as of 31/12/04 has been reclassified, in respect of that published in the 2004 financial statements, to take into account the transfer of branches among the Sanpaolo network and the North East banking networks and excluding Cassa dei Risparmi di Forlì from the area of proportional consolidation.*

*(2) The data as of 31/12/04 has been reclassified, in respect of that published in the 2004 financial statements to take into account the transfer of the branches among the Sanpaolo network and the North East banking networks.*

*(3) Including Sanpaolo Invest SIM.*

*Group distribution network in Italy as of 30/06/2005*

| | Sanpaolo | North East banking network (1) | Banca Popolare dell'Adriatico | Sanpaolo Banco di Napoli | Other networks (2) | TOTAL | |
|---|---|---|---|---|---|---|---|
| | | | | | | | % |
| North West (Piedmont, Valle d'Aosta, Lombardy and Liguria) | 1,007 | 1 | 2 | - | 41 | 1,051 | 33.5 |
| North East (Triveneto and Emilia Romagna) | 5 | 816 | 17 | - | 32 | 870 | 27.8 |
| Center (Tuscany, Marche, Umbria, Lazio, Abruzzo and Molise) | 248 | - | 118 | 4 | 27 | 397 | 12.7 |
| South and islands (Campania, Puglia, Basilicata, Calabria, Sicily and Sardinia) | 112 | - | - | 684 | 20 | 816 | 26.0 |
| Banking branches and area offices in Italy | 1,372 | 817 | 137 | 688 | 120 | 3,134 | 100.0 |

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

*(2) Includes the branches of Banca Fideuram (91), Neos Banca (25), Farbanca (1), Banca IMI (1) and Banca OPI (2).*

The growth in the workforce in the bank networks is related to the partial recovery of the substantial reduction in workforce at the end of 2004 owing to the number of departures through the "Fund for staff in the banking industry" (more than 570 resources departed in December alone).

As a matter of fact, December 2004 saw the conclusion of staff leaving incentives through the adoption of the "Income, employment and re-training fund for staff in the banking industry". More than 3,000 employees in the bank networks participated in the initiative, of which 2,000 left in 2004, 50% of which in the second half of the year. These departures allowed new employees to join to support commercial development plans.

With particular reference to the Parent Bank, employees as of 30 June 2005 totaled 20,876, down 226 in comparison to the same period of the previous year, reclassified consistently to take into account the transfer of resources operating in the branches converged to the North East bank networks in November 2004 and January 2005 and those acquired in January 2005.

When compared with 31 December 2004, reclassified consistently, resources have increased by 111 through around 300 new employees (more than 230 in the branches and structures supporting the business) and 150 departures.

With reference to Sanpaolo Banco di Napoli, at the end of the period personnel consisted of 5,724 employees, down by 46 units compared with 30 June 2004 and substantially in line with 31 December 2004. From the beginning of the year there have been 61 new entries, 44 of which were acquired by the Parent Bank, in connection with re-training programmes and 52 resigned, 22 of which resigned from the Parent Bank.

As of the 30 June 2005 resources employed by the North East bank networks and by Banca Popolare dell'Adriatico totaled 8,912, an increase of 8 units compared with 30 June 2004 pro forma. When compared to 31 December 2004 pro forma, there is an increase of 112 resources; during that period new employees numbered 180 and departures 110.

The number of resources employed by other Group companies remained substantially in line with 30 June

*Personnel*

| | 30/6/2005 | | 31/12/2004 pro forma | | 30/6/2004 pro forma | | Change 30/6/05- 31/12/04 pro forma | | Change 30/6/05-30/6/04 pro forma | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | % | | % | | % | | (%) | | (%) |
| - Parent Bank (1) | 20,876 | 48.2 | 20,765 | 48.1 | 21,102 | 48.4 | 111 | +0.5 | -226 | -1.1 |
| - North East banking network and Banca Popolare dell'Adriatico (1) | 8,912 | 20.5 | 8,800 | 20.4 | 8,904 | 20.4 | 112 | +1.3 | 8 | 0.1 |
| - Sanpaolo Banco di Napoli | 5,724 | 13.2 | 5,719 | 13.3 | 5,770 | 13.2 | 5 | +0.1 | -46 | -0.8 |
| - other companies | 7,869 | 18.1 | 7,857 | 18.2 | 7,875 | 18.0 | 12 | +0.2 | -6 | -0.1 |
| **Period-end headcount (2)** | **43,381** | **100.0** | **43,141** | **100.0** | **43,651** | **100.0** | **240** | **+0.6** | **-270** | **-0.6** |
| of which: | | | | | | | | | | |
| - executives | 796 | 1.8 | 798 | 1.8 | 808 | 1.9 | -2 | -0.3 | -12 | -1.5 |
| - third and fourth level managers | 5,048 | 11.6 | 5,011 | 11.6 | 5,257 | 12.0 | 37 | +0.7 | -209 | -4.0 |
| - other personnel | 37,537 | 86.6 | 37,332 | 86.6 | 37,586 | 86.1 | 205 | +0.5 | -49 | -0.1 |
| **Atypical employment contracts (3)** | **247** | | **300** | | **389** | | **-53** | **-17.7** | **-142** | **-36.5** |
| **Total** | **43,628** | | **43,441** | | **44,040** | | **187** | **+0.4** | **-412** | **-0.9** |

*(1) The data as of 31/12/2004 has been reclassified in respect of that published in the 2004 financial statements, to take into account the effect of the spin off of branches in January 2005. The figures for 30/6/2004 have been reclassified to take into account the effect of the spin off branches in November 2004 and January 2005.*

*(2) The Group's headcount has been calculated applying new IAS accounting principles and therefore enters with the entry into the consolidation area of the A.I.P. group and Sanpaolo Insurance Broker. At the same time, the percentage of consolidation of Banka Koper with Sanpaolo IMI Internazionale group has changed from 63.9% to 100% and Cassa dei Risparmi di Forlì has been excluded from the consolidation area. Furthermore, the headcount for each company refers to staff actually working in that company, which includes personnel on secondment from other Group companies but excludes personnel on transfer away from the company.*

*(3) Includes workers on a fixed term contract for specific projects.*

2004. There has been a reduction in the number of GEST Line employees (-18) and in other smaller Group companies (-25), against an increase in number in Neos Groups, previously Finemiro (+30). From December 2004 the number of employees in other Group companies increased by 12.

As of 30 June 2005 the Group employed more than 247 people with atypical contracts, a drop of 37% (-142) compared to June 2004 and 18% (-53) compared to 31 December 2004. These contracts are used mainly by other Group companies (80%), while the number is insignificant in the bank networks (0.1% of the employees).

# Group capital and reserves

### Net shareholders' equity

At 30 June 2005, Group net shareholders' equity amounted to 12,295 million euro, largely by effect of the current income in the period net of dividends paid out of the net profit for 2004, the change in valuation reserves and accounting for stock options (increase in capital and share premium reserves).

As of 31 December 2004, following adoption of international accounting standards, excluding IAS 32, 39 and IFRS 4, Group net shareholders' equity stood at 12,308 million euro. At 1 January 2005, application of IAS 32, 39 and IFRS 4 led to a writeback of 273 million euro in the initial shareholders' equity.

*Movements in Group shareholders' equity* *(€/mil)*

| | |
|---|---|
| Shareholders' equity at 31 December 2004 | 12,308 |
| Adoption of IAS 32, 39 and IFRS 4 | -273 |
| Shareholders' equity at 1 January 2005 | 12,035 |
| Decreases | -882 |
| - Dividends | -874 |
| - Other changes | -8 |
| Increases | 1,142 |
| - Net profit for the period | 894 |
| - Net change in valuation reserves | 191 |
| - Net change in own shares | 7 |
| - Stock option accounting | 50 |
| Shareholders' equity at 30 June 2005 | 12,295 |

### Own shares

As of 30 June 2005, SANPAOLO IMI shares held by the Group totaled 4,905,984, equal to 0.26% of the share capital and were recorded on the basis of new IAS/IFRS criteria as a negative component of net shareholders' equity for a total of 52.1 million euro (unit value 10.63 euro). The shares were held by the Parent Bank and Banca IMI, as well as by collective investment entities in the context of the Group's insurance sector and, in accordance with international standards, were consolidated on a line by line basis.

Transactions in SANPAOLO IMI shares in the first half of 2005 were as follows:

- during the period the Parent Bank did not purchase or sell any of its own shares and held 4,015,919 own shares in its portfolio (11.2 million euro nominal value), equal to 0.21% of the share capital for a value of 42.5 million euro;
- as part of its institutional dealing activity, as of 31 December 2004, Banca IMI held 1,166 SANPAOLO IMI shares in its portfolio. During the half year, it acquired 2,746,679 shares (7.7 million euro nominal value) for a cost of around 31.5 million euro and sold 2,334,865 shares (6.5 million euro nominal value) for a total of 26.8 million euro. Consequently, as of 30 June 2005, the company held 412,980 SANPAOLO IMI shares in its portfolio (1.2 million euro nominal value), equal to 0.02% of the share capital, for a value of 4.7 million euro;
- during the first half, Banca Fideuram sold off the portfolio of SANPAOLO IMI shares existing since the beginning of the year;
- as of 31 December 2004, the group of investment companies, mainly owned by the subsidiary A.I.P. and consolidated for the first time according to IAS/IFRS standards, held a total of 519,585 shares (1.5 million euro nominal value) for a value of 5.4 million euro. During the half year, these companies acquired 182,000 SANPAOLO IMI shares (0.5 million euro nominal value) for a total of 1.9 million euro and sold 224,500 shares (0.6 million euro nominal value) for a total of 2.4 million euro. Therefore, at 30 June 2005 these companies held 477,085 SANPAOLO IMI shares (1.3 million euro nominal value), equal to 0.03% of the share capital of the Parent Bank, for a value of 4.9 million euro.

In the light of the amount of own shares in the portfolio, the Parent Bank and Banca IMI have the same amount in the undisposable reserve foreseen by law.

### Regulatory capital and solvency ratios

With regard to prudential and statistical Vigilance, the Bank of Italy has decided that consolidated results take into account the IAS/IFRS international accounting standards as of 31 December 2005. Therefore, at 30 June 2005 – before the enactment of the new regulations – the capital structure subject to Vigilance has been determined according to the usual standards, as indicated by the competent Authority.

On the basis of the above, as of 30 June 2005, the ratio of the Group's total regulatory capital to total weighted assets against risks showed an overall solvency ratio of 11.6%. The ratio of Group primary capital to total weighted assets was 7.9% (Tier 1 ratio); the Core Tier 1 ratio (calculated on the capital net of preferred shares) came to 7.2%.

*Regulatory capital and solvency ratios*

| | 30/6/2005 | 31/12/2004 |
|---|---|---|
| **Regulatory capital (€/mil)** | | |
| Tier 1 capital | 11,333 | 10,860 |
| *of which: preferred shares* | *1,000* | *1,000* |
| Tier 2 capital | 5,543 | 5,356 |
| less: prescribed deductions | -859 | -840 |
| Regulatory capital | 16,017 | 15,376 |
| Tier 3 subordinated loans | 579 | 594 |
| Total regulatory capital | 16,596 | 15,970 |
| **Weighted assets (€/mil)** | | |
| Credit risk | 125,950 | 119,600 |
| Market risk | 16,487 | 13,063 |
| Other requirements | 238 | 787 |
| Total assets | 142,675 | 133,450 |
| **Solvency ratios (%)** | | |
| Core tier 1 ratio | 7.2 | 7.4 |
| Tier 1 ratio | 7.9 | 8.1 |
| Total risk ratio | 11.6 | 12.0 |

At 30 June 2005, these ratios, calculated on a pro forma and IAS compliant basis according to informal and as yet unconfirmed Bank of Italy regulations, and in line with the guidelines of the Basel Committee and the Committee of European banking Supervisors (CEBS) were 6.9% for Core Tier 1 ratio, 7.6% of Tier 1 ratio and 11.6% of Total risk ratio.

Ratios calculated according to IAS/IFRS confirm the Total risk ratio with respect to the predictor based on current regulations. Nonetheless, there was a slight fall in Tier 1 ratios due to the inclusion in secondary, partial, capital of the added value from evaluation of the available for sale portfolio.

# Risk management and control

## The basic principles

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

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

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

The Parent Bank also performs general functions of risk management and control and makes risk-acceptance decisions in the case of major risks, supported by the Risk Management department.

The subsidiary companies that generate credit and/or financial and insurance risks are assigned limits of autonomy and each has its own control structure. For the main Group banking networks (Sanpaolo Banco di Napoli, Cassa di Risparmio in Bologna, Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio di Venezia and Friulcassa) these function are carried out, on the basis of an outsourcing contract, by the Parent Bank's risk control functions, which periodically report to the administrative bodies of the subsidiary.

## Financial risks

### Financial risks from lending activities

In the first half of 2005, the financial risk generated by the Group's lending activities (Asset and Liability Management) was lower than the average levels of the previous year. The potential loss on the fair value of lending activities, measured using sensitivity analysis, assuming an adverse movement of 100 basis points in the interest rate curve, had an average value of 63 million euro in the first six months of 2005, compared to an average value of 83 million in the previous year.

The Value at Risk (VaR) of the banking book, calculated as the maximum unexpected potential loss which could occur during the subsequent ten working days with a statistical confidence of 99%, showed an average value of 21 million euro during the half year, amounting to 30 million at the end of June.

For the main companies in the banking book, the sensitivity of the net interest income – the measure which quantifies the impact on net income of the rise in interest rates of +25 basis points – totaled 27 million euro at the end of June (-20 million on the assumption of a 25 basis points decrease).

### Equity investments in non-Group listed companies

During the half year, the Value at Risk relating to minority investments in listed companies not consolidated line by line or included at net equity progressively decreased due to a fall in volatility of share prices. At the end of June, Value at Risk amounted to 96 million euro, compared to 115 million at the end of 2004.

### Trading activities

These risks arise from dealing in fixed income securities, equity securities, currency and other derivatives.

In the first half of 2005, the VaR related to minority interests, concentrated in Banca IMI and its subsidiaries, varied between a minimum of 4.1 million euro and a maximum of 10.6 million euro. At the end of June, the VaR stood at 7.3 million euro, close to an average value for the period of 6.9 million.

In addition to VaR, Worst Case Scenario technique is also used to monitor the impact of potential losses that could arise in extreme market conditions. The maximum potential daily loss in the first half of the year showed an average value of 51 million euro, recording a maximum of 65 million at the end of March and a minimum of 36 million at the beginning of the six month period.

Backtesting showed the prudent nature of the internal measurement technique used. In fact, in the first half of 2005, actual daily losses were never higher than the risk measures expressed in terms of maximum potential loss, while actual trading loss exceeded the ex-ante VaR on a daily basis on only one occasion.

## Credit risks

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

In terms of exposure, the analytical rating covers around 70% of the credit portfolio. The unrated counterparties, to whom a rating estimated on the basis of the average probability of default has been assigned, are concentrated in the household sector. Analytical ratings coverage for other sectors is around 90%.

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

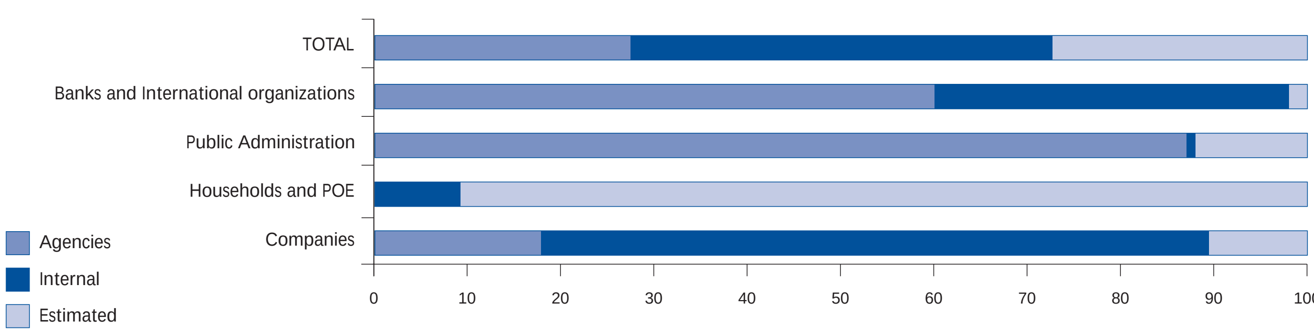
Loans to customers to which an analytical rating has been assigned, which represent the main reference of the credit risk management model, show a high credit quality with a portion of investment grade loans (from AAA to BBB) equal to about 71% of the total.

The expected loss of the portfolio considered at the end of the half year was 0.47% of loans, a slight increase over the end of 2004 (+1 basis point on a homogeneous base). This was used to establish the incurred loss to evaluate the performing loan portfolio.

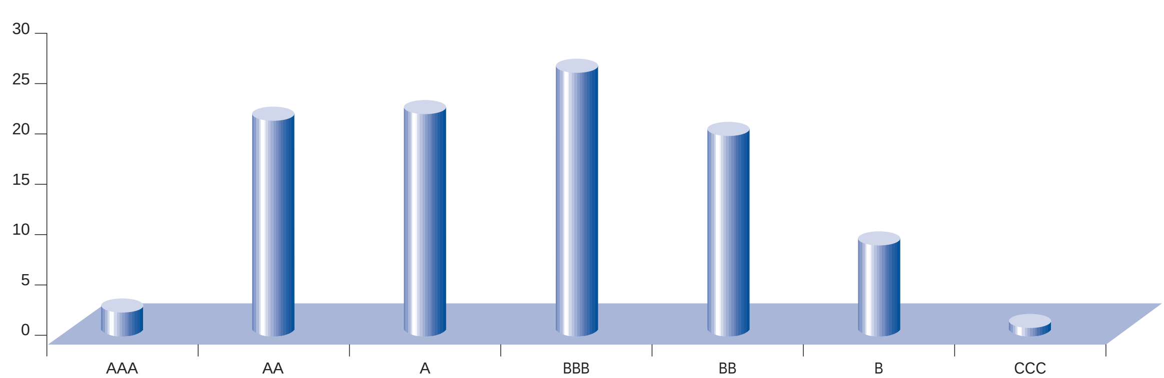
At the same date, the economic capital accounted for around 4.6% of loans, showing a modest rise from the 4.5% at the end of 2004.

## Insurance risks

Insurance risks are concentrated in the A.I.P. group and are generated by traditional available for revaluation, index-




**Drawn down loan portolio by rating source** (%)




**Drawn down loan portfolio by level of rating** (%)

linked and unit-linked life policies. Over and above return on management, the former offer insurers a guaranteed minimum level and so generate proprietary financial and credit risks for the Company linked to the characteristics of the loan portfolio against the commitments made to the insurers. On the other hand, index- and unit-linked policies do not normally create direct risks, but are in any case monitored for rating risks.

In the first half of 2005, the Company began a series of projects aimed at strengthening risk governance and bolstering protection of risk through the development of risk management tools to support investment strategies coherent with Asset and Liability Management and the objectives of profitability expected by shareholders.

More in detail, the Company has established an Investment Policy that outlines the aims and limits defining the investments of Separate Management in terms of asset allocation, fixed investment, credit risk, concentration and market. As regards investments of free capital, particular limits have been set in terms of VaR over a time scale of one year and with a level of confidence of 99%.

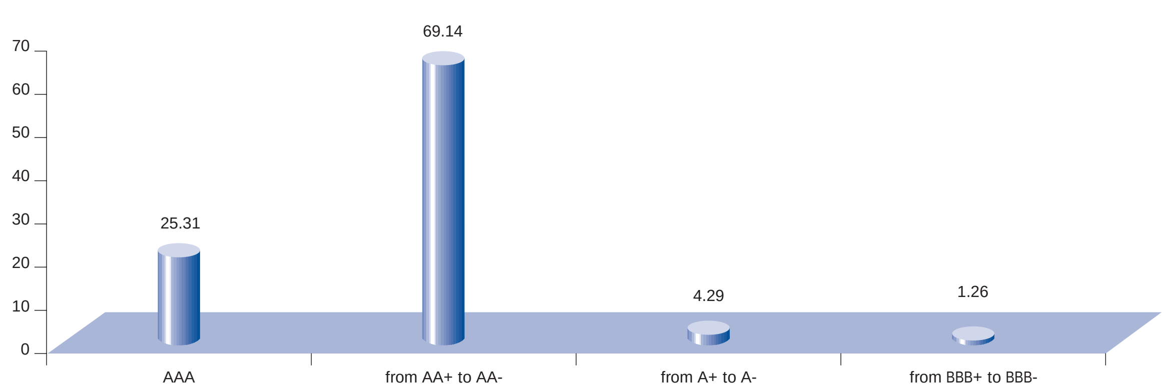
At the end of June, the investment portfolio for traditional available for revaluation policies and free capital totaled 18.6 billion euro and made up 97% of bond securities, while the share component amounted to 3%.

In accordance with the policies laid down by Investment Policy, the credit quality of bond investments is high, as shown in the graph.

### Other risks

SANPAOLO IMI also considers two other types of risk in its models:
- operational risk, defined as the risk of incurring losses as a result of weaknesses in internal control or information systems, personnel or natural calamities;
- business (or strategic) risk, defined as the risk of incurring losses as a result of changes in the macro- or microeconomic scenario which could jeopardize the ability to generate income, typically by reduced operating volumes or margin compression.

These risk categories are used to calculate the economic capital necessary to face such eventualities and controls are carried out at process level through the definition of internal rules and procedures, observance of which is monitored by Audit Management.




**A.I.P.: exposure of debt by level of rating** (%)

# Shareholders and ratings

## Shareholders

As of 30 June 2005, the shareholder structure of SANPAOLO IMI, based on the available information, was as follows:

*Shareholders of SANPAOLO IMI*

| | % of capital total | % of capital ordinary |
|---|---|---|
| Compagnia di San Paolo | 14.23 | 7.33 |
| Fondazione Cassa di Risparmio di Padova e Rovigo | 10.61 | 4.29 |
| Banco Santander Central Hispano | 8.45 | 10.66 |
| Fondazione Cassa di Risparmio in Bologna | 7.55 | 3.05 |
| Giovanni Agnelli e C. | 4.98 | 6.28 |
| Assicurazioni Generali | 2.00 | 2.53 |
| Banca Monte dei Paschi di Siena | 1.51 | 1.90 |
| Società Reale Mutua di Assicurazioni | 1.51 | 1.90 |
| Groupe Caisse d'Epargne | 1.50 | 1.90 |
| Ente Cassa di Risparmio di Firenze | 1.50 | 1.89 |
| Fondazione Cassa di Risparmio di Venezia | 1.47 | 1.86 |
| Fondazione Cassa di Risparmio di Verona Vicenza Belluno e Ancona | 1.42 | 1.79 |
| Deutsche Bank | 1.40 | 1.77 |
| Fondazione Cassa di Risparmio di Udine e Pordenone | 1.34 | 1.69 |
| Fondazione Cariplo | 1.18 | 1.49 |
| Other shareholders (1) | 39.35 | 49.67 |
| Total | 100.00 | 100.00 |

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

## Ratings

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

*SANPAOLO IMI debt ratings*

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

## Performance of share prices

At the end of June 2005, SANPAOLO IMI's share price was 11.36 euro, a rise of 14.7% compared to 30 June 2004, against an increase of 22.5% in the MIB bancario index.

On the same date, the SANPAOLO IMI share traded on a price/book value of 1.7.

On 26 September 2005, the quoted price was 12.599 euro, up 18.9% since the beginning of the year.

*SANPAOLO IMI share price and dividends*

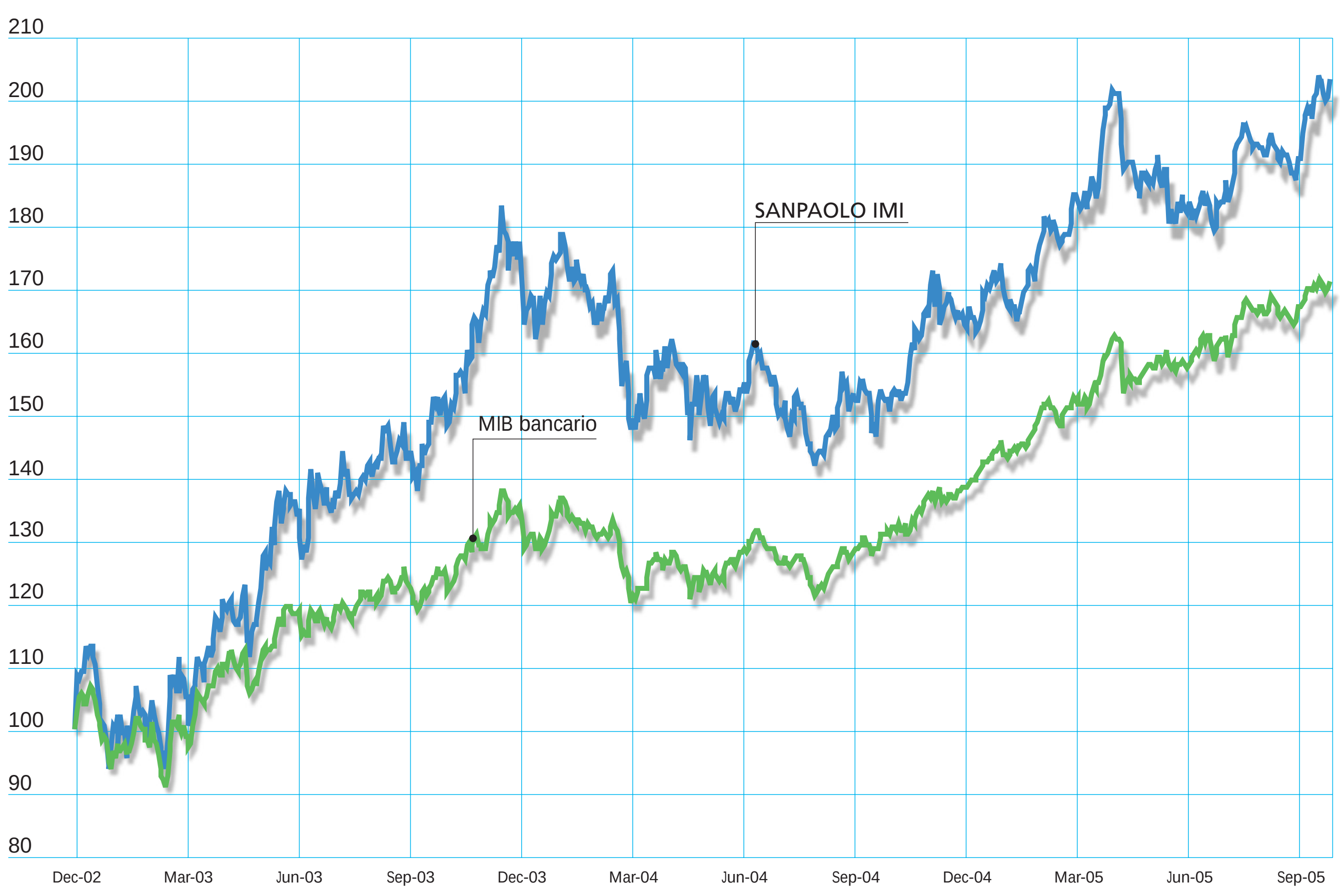
| Year | High (€) | Low (€) | Average (€) | Unit dividend (€) | Dividend yield (1) % | Payout ratio (2) % |
|---|---|---|---|---|---|---|
| 1997 | 8.800 | 4.564 | 6.275 | 0.06 | 0.91 | 53.4 |
| 1998 | 16.274 | 8.717 | 12.429 | 0.46 | 3.74 | 71.7 |
| 1999 | 16.071 | 10.970 | 13.192 | 0.52 | 3.91 | 69.0 |
| 2000 | 20.800 | 11.483 | 16.612 | 0.57 | 3.42 | 61.7 |
| 2001 | 18.893 | 8.764 | 14.375 | 0.57 | 3.97 | 66.5 |
| 2002 | 13.702 | 5.231 | 9.439 | 0.30 | 3.18 | 62.0 |
| 2003 | 11.346 | 5.796 | 8.158 | 0.39 | 4.78 | 73.7 |
| 2004 | 11.072 | 8.799 | 9.826 | 0.47 | 4.78 | 62.9 |
| 2005 (3) | 12.625 | 10.201 | 11.522 | | | |

*Market comparison*

| | 26/9/2005 | 30/6/2005 | 30/6/2004 | Change 30/6/05-30/6/04 (%) |
|---|---|---|---|---|
| SANPAOLO IMI share price (€) | 12.599 | 11.360 | 9.900 | +14.7 |
| Historical MIB bancario index | 2,958 | 2,786 | 2,274 | +22.5 |

| | 30/6/2005 | 31/12/2004 (4) |
|---|---|---|
| Book value per share (€) | 6.59 | 6.47 |

*(1) Calculated on annual average price.*
*(2) On consolidated income.*
*(3) Up to 26 September 2005.*
*(4) Pro forma.*




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

# Supplementary information

## Transactions with related parties

Information on Group transactions with related parties of the Parent Bank can be found in Section E of the Explanatory Notes to this Half Year Report.

## Corporate bond risk and protection of savers

The serious repercussions of recent national and international corporate bond defaults, which have affected savers' portfolios, have led the Group to take some measures to protect its customers. In the firm belief that it has behaved with the maximum correctness in its investment services, SANPAOLO IMI has taken an approach to examine those areas where customers have complained of specific shortcomings in the rapport with the reference branch. The aim is to verify the adequacy and formal, substantial consistency of the investment to the risk profile attributable to the customer and, consequently, where conditions exist, to resolve any controversy amicably. In the first half of 2005, the examination was effectively concluded on claims related to Cirio and Parmalat bonds. In the majority of cases, the Group was seen to have acted correctly. In those cases where transactions were judged to have been inadequate, customers have been reimbursed. Claims on Argentine bonds continue to be examined by the offices set up for the purpose according to criteria of verification and evaluation similar to those used for Cirio and Parmalat bond holders. In this area too, the Group has been seen to have operated correctly in the majority of cases.

In relation to Argentine bonds, between 14 January and 25 February 2005, Public Exchange Offers (PEO) were held in parallel in Argentina, the United Sates, Japan and some European countries, including Italy, offered by the Argentine government to all categories of investors in bonds issued by that government. The nominal value of the shares on exchange was around 82 billion US dollars at the exchange rate of 31 December 2003. The number of Italian savers involved was estimated at over 400,000 and the market was informed that global adhesion was over 76%. From June 1 to 13, old bonds were exchanged for new ones, on the basis of which Argentina issued 35,261 billion dollars of new bonds in place of 62,318 billion old ones on offer. Of these new bonds, 15 were at par (35 year securities with reimbursement from 2029), 11,932 at discount (30 year securities with reimbursement from 2024 and stock account cuts of 66.3%) and 8,329 near par (42 year securities with reimbursement from 2036 and stock account cuts of 69.9%).

As far as the SANPAOLO IMI Group is concerned, during the period of offer, just over half the private clients holding Argentine bonds ceded the old bonds by selling them on the secondary market or adhering to the Public Exchange Offer. The behavior of SANPAOLO IMI customers is in line with the Italian system.

For investors who did not adhere to the Argentine Republic's Public Exchange Offer, on 14 July 2005 the Board of Task Force Argentina (TFA) instituted a fiduciary company to represent investors at the ICSID international court, the organization answering to the World Bank and acting as conciliator or arbitrator in legal cases concerning investments between States and private foreign investors related to existing bilateral agreements between the interested countries.

The initiative will be entirely funded by the member banks of the TFA and will pursue a strategy of obtaining a fiduciary mandate from an Italian investor still holding old Argentine bonds (an estimated 250,000 Italian savers did not adhere to the Argentine PEO). Documented information of the mandates will be made available in Italian bank branches, with the prior authorization required from the competent authorities. After mandates have been obtained, and by the end of 2005, the Trustee will begin pleas to ICSID aimed at recovering capital and interest. The process will also involve holders of bonds in the Province of Buenos Aires.

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

As part of the legal actions already started, the Committee obtained, on the terms it requested, full recognition of the credit terms claimed by its members and their registration in the definitive lists of creditors of the various insolvent companies. Furthermore, bondholders have been permitted to appear as plaintiffs in the ongoing and pending legal proceedings for the crimes committed in the company default in order to obtain redress for the damage incurred. Over 32,000 customers have taken part in the initiative, amounting to around three-quarters of subscribers to the Committee. In January and March 2005, civil action was begun at the Court of Milan against two ex-auditors of Grant Thornton S.p.A.. Similar initiatives will be taken in pending cases at the courts of Milan and Parma.

On 27 May, with the authorization of Consob, the Special Commissioner for the Parmalat group registered with Consob the prospectus for the "Proposal for a Parmalat Agreement", together with a request for listing on the electronic trading market of the Italian stock exchange. In a judgment of 16 June, the appointed judges decreed that votes on the Proposal for Agreement should be held between 28 June 2005 and 26 August 2005. All participants received a letter from the Bank together with communication from the Committee on how to vote. Also included was the opinion of a university professor on the subject aimed at giving a better understanding of the content of the Proposal for Agreement.

The Committee has also obtained, for the exclusive benefit of its members, admission of loans from guarantees provided by Parmalat S.p.A. for bonds issued by Parmalat Finance Corp. B.V. for the period when Parmalat S.p.A. was entirely controlled by Parmalat Finaziaria S.p.A., that is responsible for them under paragraph 2362 of the Civil Code.

Consequently, on 26 August voting was completed and counting began on 5 September, but there is no result as yet.

Should the Agreement be ratified, bond holders (independently of voting) will be entitled to shares and warrants in the new Parmalat S.p.A. owed to them under the exchange agreements contained in the Prospectus.

In a summons to Banca IMI dated 19 September, the Commissioner for the Parmalat group, acted on behalf of Parmalat Finance Corporation B.V. and Parmalat S.p.A., initiated action against the bank for compensation over alleged responsibility for placement made as co-lead manager in relation to three bond loans issued by Parmalat Corporation B.V. guaranteed by Parmalat S.p.A. between the beginning of 2000 and beginning of 2001. The request for compensation was made for presumed damages of no less that 1,300 million euro, equal to the nominal value of the securities placed. An initial examination of the supporting arguments seems to show the claims have no basis whatsoever.

Consequently, and in the light of the opinions of the defense lawyers, no changes have been deemed necessary to the provisions already made to the 2004 financial statements for the other actions taken by the Parmalat commissioner for compensation by the Group in connection to the said bankruptcy.

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

# Group Business Structure

Following the redesign of the organizational structure initiated on 5 July 2005, the SANPAOLO IMI Group is now divided into the following Business Sectors:
- Banking
- Savings and Assurance
- Asset Management and International Private Banking
- Central Functions.

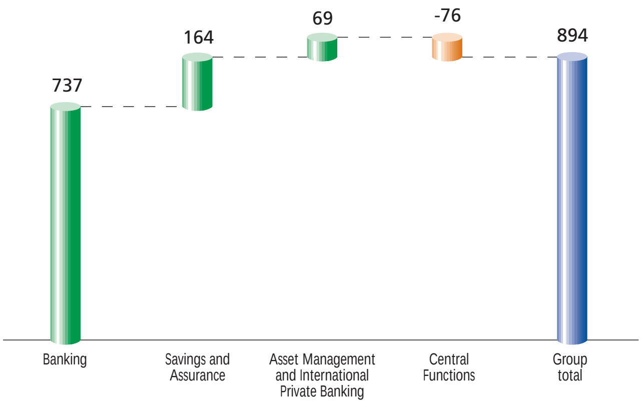
This division, which has concentrated banking transactions, further divided into the business lines of "corporate" and "private and retail", savings and assurance activities, including the insurance business and asset gathering, and asset management, is in line with the provisions of IAS 14 concerning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

The following tables show the main data for the performance of the Business Sectors.

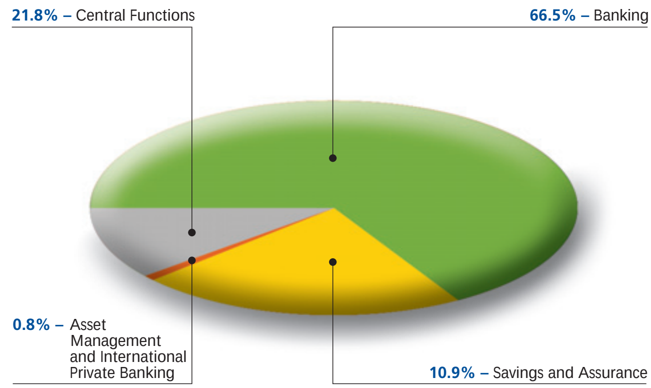
The detailed analysis of the Business Sectors and the principal business lines illustrates the initiatives taken in the fist

| | Banking | Savings and Assurance | Asset Management and International Private Banking | Central Functions | Group total |
|---|---|---|---|---|---|
| **TOTAL OPERATING INCOME** (€/mil) | | | | | |
| First half 2005 | 3,191 | 512 | 136 | 182 | 4,021 |
| First half 2004 | 3,110 | 456 | 127 | 179 | 3,872 |
| Change first half 2005 / First half 2004 (%) | +2.6 | +12.3 | +7.1 | +1.7 | +3.8 |
| **PRE-TAX OPERATING PROFIT** (€/mil) | | | | | |
| First half 2005 | 1,213 | 251 | 84 | -133 | 1,415 |
| First half 2004 | 935 | 232 | 67 | -187 | 1,047 |
| Change first half 2005 / First half 2004 (%) | +29.7 | +8.2 | +25.4 | -28.9 | +35.1 |
| **NET PROFIT** (€/mil) | | | | | |
| First half 2005 | 737 | 164 | 69 | -76 | 894 |
| First half 2004 | 525 | 149 | 54 | -97 | 631 |
| Change first half 2005 / First half 2004 (%) | +40.4 | +10.1 | +27.8 | -21.6 | +41.7 |
| **TOTAL INTEREST-EARNING ASSETS** (€/mil) | | | | | |
| 30/6/2005 | 173,022 | 5,701 | 5,114 | 27,640 | 211,477 |
| 31/12/2004 | 155,820 | 5,063 | 4,549 | 31,299 | 196,731 |
| Change 30/6/2005 - 31/12/2004 (%) | +11.0 | +12.6 | +12.4 | -11.7 | +7.5 |
| **TOTAL INTEREST-BEARING LIABILITIES** (€/mil) | | | | | |
| 30/6/2005 | 153,251 | 4,972 | 5,504 | 39,956 | 203,683 |
| 31/12/2004 | 139,920 | 4,312 | 5,554 | 40,946 | 190,732 |
| Change 30/6/2005 - 31/12/2004 (%) | +9.5 | +15.3 | -0.9 | -2.4 | +6.8 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | | | | | |
| First half 2005 | 8,088 | 1,324 | 102 | 2,651 | 12,165 |
| First half 2004 | 8,246 | 1,229 | 94 | 1,878 | 11,447 |
| Change first half 2005 / First half 2004 (%) | -1.9 | +7.7 | +8.5 | +41.2 | +6.3 |
| **ANNUALIZED PROFITABILITY** (%) | | | | | |
| First half 2005 | 18.2 | 24.8 | 135.3 | n.s. | 14.7 |
| First half 2004 | 12.7 | 24.2 | 114.9 | n.s. | 11.0 |
| **EMPLOYEES** | | | | | |
| 30/6/2005 | 35,005 | 2,287 | 596 | 5,740 | 43,628 |
| 31/12/2004 | 34,890 | 2,213 | 613 | 5,725 | 43,441 |
| Change 30/6/2005 - 31/12/2004 (%) | +0.3 | +3.3 | -2.8 | +0.3 | +0.4 |

**Net profit for first half 2005 by Business Sector** (€/mil)




**First half 2005 allocated capital by Business Sector**




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

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

## Criteria for calculating the profitability of the Business Sectors

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

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

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

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

## Initiatives and results of the Business Sectors

### Banking

Banking activities are the Group's core business and represent the reference point for the definition, development

*Banking*

| | First half 2005 | First half 2004 pro forma | Change first half 2005 / First half 2004 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 1,735 | 1,724 | +0.6 |
| Net commissions | 1,250 | 1,246 | +0.3 |
| Income from credit disposals, assets held to maturity and repurchase of financial liabilities | - | - | - |
| Dividends and income from other financial assets and liabilities | 157 | 132 | +18.9 |
| Profits (losses) on equity shareholdings | 49 | 8 | n.s. |
| Income from insurance business | - | - | - |
| Total operating income | 3,191 | 3,110 | +2.6 |
| Net adjustments to loans | -188 | -311 | -39.5 |
| Net adjustments to other financial assets | -1 | -61 | -98.4 |
| Net operating income | 3,002 | 2,738 | +9.6 |
| Personnel costs | -1,033 | -1,059 | -2.5 |
| Other administrative costs | -704 | -713 | -1.3 |
| Net adjustments to tangible and intagible assets | -15 | -21 | -28.6 |
| *Operating costs* | *-1,752* | *-1,793* | *-2.3* |
| Other net income (expenses) | 12 | 19 | -36.8 |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | - | - |
| Net provisions for risks and charges | -49 | -29 | +69.0 |
| Pre-tax operating profit | 1,213 | 935 | +29.7 |
| Taxes for the period | -474 | -409 | +15.9 |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | -2 | -1 | +100.0 |
| Net profit | 737 | 525 | +40.4 |
| **REVENUES FROM THE SECTOR** (€/mil) | 3,191 | 3,110 | +2.6 |
| **INCOME FROM THE SECTOR** (€/mil) | 1,213 | 935 | +29.7 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 8,088 | 8,246 | -1.9 |
| **RATIOS** (%) | | | |
| Annualized profitability | 18.2 | 12.7 | |
| Cost / Income ratio | 54.9 | 57.7 | |
| | 30/6/2005 | 31/12/2004 pro forma | Change 30/6/05-31/12/04 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Intermediary funds | 410,218 | 391,516 | +4.8 |
| Customer financial assets | 286,611 | 273,210 | +4.9 |
| - direct deposits | 93,633 | 90,243 | +3.8 |
| - asset management | 99,638 | 93,491 | +6.6 |
| *- mutual funds and fund-based portfolio management* | *65,746* | *63,013* | *+4.3* |
| *- portfolio management* | *5,086* | *5,298* | *-4.0* |
| *- life technical reserves and financial liabilities* | *28,806* | *25,180* | *+14.4* |
| - asset administration | 93,340 | 89,476 | +4.3 |
| Net asset management flows | 3,417 | -1,033 | |
| Net loans to customers excluding NPLs | 123,607 | 118,306 | +4.5 |
| Total interest-earning assets | 173,022 | 155,820 | +11.0 |
| Total interest-bearing liabilities | 153,251 | 139,920 | +9.5 |
| **OPERATING STRUCTURE** | | | |
| Employees | 35,005 | 34,890 | +0.3 |
| Domestic branches | 3,043 | 3,037 | +0.2 |
| Foreign branches and representative offices | 129 | 126 | +2.4 |

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

80% of the Group's personnel work in the Sector which generated 77% of total intermediary funds and contributed 82% of consolidated net profit. Banking activities also absorbed 67% of capital, a fall from the 72% of the first half of 2004 thanks to a decrease on the impact of operating risks linked to cost performances. This reduction, together with the considerable increase in net profit (+40.4%) gave rise to a significant improvement in profitability: annualized RORAC rose to 18.2%, an increase of 5.5 percentage points over the first half of 2004. In terms of efficiency, the reduction of almost three points in the cost/income ratio reflects the growth in revenues coupled with a reduction in costs.

More detailed analysis will be given under the two business lines of the Sector. However, it can be noted here that the positive performance of the main income margins, driven by the favorable trend in transactions since the beginning of the year, for both customer financial assets (+4.9%) and net customer loans (+4.5%). In particular, total operating income rose by 2.6%, mainly due to greater income from investment banking, in which Banca IMI operates, and in the public compartment where Banca OPI is active. The growth in pre-tax operating profit, approximately 30%, was favored by a reduction in net adjustments to loans and other financial assets, as well as a fall in operating costs. Net of taxes, profits for the first half of the year amounted to 737 million euro, compared to the 525 million recorded for the same period in 2004 and reconstructed pro forma.

## Corporate Banking

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

*Corporate Banking*

| | First half 2005 | First half 2004 pro forma | Change first half 2005 / First half 2004 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 666 | 676 | -1.5 |
| Net commissions | 220 | 203 | +8.4 |
| Income from credit disposals, assets held to maturity and repurchase of financial liabilities | - | - | - |
| Dividends and income from other financial assets and liabilities | 136 | 109 | +24.8 |
| Profits (losses) on equity shareholdings | 44 | -1 | n.s. |
| Income from insurance business | - | - | - |
| Total operating income | 1,066 | 987 | +8.0 |
| Net adjustments to loans | -100 | -184 | -45.7 |
| Net adjustments to other financial assets | -1 | - | n.s. |
| Net operating income | 965 | 803 | +20.2 |
| Personnel costs | -262 | -266 | -1.5 |
| Other administrative costs | -186 | -196 | -5.1 |
| Net adjustments to tangible and intagible assets | -10 | -16 | -37.5 |
| *Operating costs* | *-458* | *-478* | *-4.2* |
| Other net income (expenses) | 2 | 11 | -81.8 |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | - | - |
| Net provisions for risks and charges | -34 | -12 | +183.3 |
| Pre-tax operating profit | 475 | 324 | +46.6 |
| Taxes for the period | -155 | -119 | +30.3 |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | -2 | -1 | +100.0 |
| Net profit | 318 | 204 | +55.9 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 5,554 | 5,673 | -2.1 |
| **RATIOS** (%) | | | |
| Annualized profitability | 11.5 | 7.2 | |
| Cost / Income ratio | 43.0 | 48.4 | |
| | 30/6/2005 | 31/12/2004 pro forma | Change 30/6/05-31/12/04 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Intermediary funds | 149,415 | 138,380 | +8.0 |
| Net loans to customers excluding NPLs | 79,415 | 75,280 | +5.5 |
| Total interest-earning assets | 128,450 | 112,463 | +14.2 |
| Total interest-bearing liabilities | 92,343 | 77,996 | +18.4 |
| **OPERATING STRUCTURE** | | | |
| Employees | 8,485 | 8,514 | -0.3 |
| Domestic branches | 44 | 46 | -4.3 |
| Foreign branches and representative offices | 129 | 126 | +2.4 |

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

The 8% rise in intermediary funds is a first indicator of an upturn in Corporate transactions since the beginning of the year. This recovery has been supported by growth in financial assets (+10.9%), attributable to the liquidity of the companies seen in an increase in direct deposits and in administered securities. Net loans to customers rose by 5.5% thanks to the growth in loans to small- and medium-sized companies and the public sector, and to the favorable trend in foreign lending. The rise in trading volumes was accompanied by contained risk in the portfolio that allowed a reduction in net adjustments to loans, also due to an upturn in income on some positions.

Total operating income showed a rise of 8% compared to the first half of 2004, attributable to a growth in commissions, generated by an increase in transactions by the commercial banks, and to income from other financial assets and liabilities, thanks to the good performance of corporate finance activities and equity capital markets overseen by Banca IMI. Net interest income has been defended by the rise in operating volumes, which has partly compensated for the erosion of the spread in corporate counterparties, and thanks to non-recurrent income collected by Banca OPI on early repayment of loans to local entities.

Net operating income, that grew by 20.2%, benefited from the aforementioned resizing of adjustments to loans. Due to the reduction in operating costs, pre-tax operating profit amounted to 475 million euro compared to the 324 million recorded in the first half of 2004. The fall in costs, equal overall to 4.2%, is attributable to other administrative costs and, to a lesser extent, to personnel costs and amortization. 8,485 employees are dedicated to the line of business, representing 19% of the Group's personnel. The largest net provisions for risks and charges are mainly attributable to Sanpaolo IMI Private Equity which allocated 18 million euro for the presidium of the disputes arising from the ceding of interest in a leading fashion group.

Net profit for the first half of 2005 totaled 318 million euro compared to the 204 million for the same period in the previous year.

Corporate Banking absorbed 46% of the Group's capital, a decrease with respect to levels in the first half of 2004. This trend is explained by the decrease in operating risks linked to cost containment that more than compensated for the rise in loan risk connected to new business. Together with the growth in net profit, this has given rise to an increase in profitability in terms of annualized RORAC that rose to 11.5% from 7.2% in the same period for 2004.

Efficiency, measured by the cost/income ratio, improved by over 5 percentage points compared to the same period in the previous year.

### Companies

The Group network dedicated to the companies market comprises 249 operating points divided between branches and specialist teams assigned to the retail branches.

In the first half of 2005, a plan was drawn up and begun to rationalize and strengthen presence in the areas affected by integration with the banks of the Triveneto, Emilia and the Adriatic region, aimed at creating conditions to exploit business opportunities and initiate sustainable, long-term growth.

During the period, actions were taken to strengthen support of the domestic business system. Development strategies were aimed at improving competitiveness by increasing transaction with existing customers and acquiring new clients with a suitable risk profile.

The main initiatives concerned:

- broadening the offer of financing aimed at promoting investments and the growth of the more innovative and dynamic companies, as well as offering proper support to the needs to balance company financial structures;
- strengthening the commercial activities aimed at improving international intermediate flows; to that end, a new operational approach has been extended throughout the network with the purpose of maximizing the offer of international services at high added value;
- spread of hedging products to cover interest rate and exchange risks through solution coherent with the operative needs of the companies;

- improvement and enrichment of telematic services with the start of the new Links Sanpaolo station;
- the study and launch of a first experimental phase of a new model for commercial development aimed at increasing the efficiency of the network also through exploitation of the Group's specialist know-how.

At the same time, and in order to improve the efficiency of the service model, decentralization of the decisional process was accelerated and strengthening of commercial support instruments for customer managers continued, as did the intensive training program. During the first half, a sum total of over 12,500 training days were held for an average of around 3.5 days per employee.

Lastly, a far-reaching survey of customer satisfaction was carried out which laid the foundations for long-term monitoring. The study, which revealed a high level of overall satisfaction, also permitted the analysis and evaluation of the present offer of products and services, the organizational model adopted and the level of commercial competition.

### Large Groups

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

In a market characterized by excessive liquidity and strong commercial competition, the main aim pursued in the half year was to protect credit asset quality and profitability through an increase in the number of transactions with a higher commission revenue.

### International

International is responsible for the international activities of the Parent Bank and the controlled foreign banks, and oversees customers operating on foreign markets, and transactions with correspondent banks; it develops services for companies aimed at supporting foreign trade and promotes international cash management.

The distribution structure directly covers 33 countries and constitutes the international network of the Parent Bank made up of 13 wholesale branches, the Irish subsidiary Sanpaolo IMI Bank Ireland, 19 representative offices and two operating desks, to which must be added the three controlled banks operating in Central Eastern Europe. During the half year, an "Italian desk" structure was begun at the Commercial Bank of Kuwait, an initiative that provides complete coverage of the Gulf zone.

The 96 branches of the Central Eastern Europe banks are supervised by Sanpaolo IMI Internazionale, a company that heads the shareholdings held in the Hungarian Inter-Europa Bank (85.9%), with 31 branches, and in Sanpaolo IMI Bank Romania (98.6%), with 24 branches. The company is also responsible for the operational control of Banka Koper, operating in Slovenia through a network of 41 branches, of which 63.9% is held by the Parent Bank.

Activities in the first half continued in line with the mission, aimed at encouraging and supporting the internationalization of Italian companies, promoting and assisting the investments and activities of foreign multinationals on the European market, increasing cross selling opportunities for the Group's product factories, operating as a domestic bank in some high-growth countries, and extending relations with counterpart banks.

### Public Authorities and Entities

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

Loans issued by Banca OPI during the half year – including security subscriptions – mainly concerned railroad infrastructures, public utilities and a number of companies controlled by local entities operating in the urban transport sector, in industrial infrastructures, recycling of solid urban waste and the water compartment. Other significant initiatives were made throughout the country in favor of local entities and in support of operations set up by the Public Administration in the framework of increasing port infrastructures and by concessionary companies for airport infrastructures.

With reference to project finance, the financial structuring of the new seat of the Bologna Municipal Town Hall was closed, in collaboration with another leading bank. The other main initiatives concerned:
- the drawing up of a loan, together with other banks, for the first "mega-trading lot" of the Salerno-Reggio Calabria highway;
- the subscription to a quota of the loan in favor of Skyway Concession LLC (Chicago) in the framework of

the concession of a stretch of toll highway to enter the city of Chicago;
- the drawing up of investment in financing Autopista Madrid-Toledo Concessionaria Española de Autopistas S.A., the concessionary for the construction and management of the Madrid-Toledo highway;
- the definition, with the Astaldi-Ferrovial consortium and with other banks, of an arranging engagement in relation to the planned Straits of Messina Bridge;
- the advisory and structuring engagement for ATO Goriziano with IRIS S.p.A..

In order to improve its position on foreign markets, Banca OPI, in collaboration with the local structures of the SANPAOLO IMI Group, has increased its contacts with local entities, public companies and central administrations that are potential customers in Central Eastern Europe. Other foreign initiatives that should be mentioned are the loans issued to ATM, the consortium that manages and co-ordinates local public transport in the city of Barcelona, and to the Framtiden company, totally owned by the City of Goteborg and operating in the management of public residential real estate, as well as the acquisition of a series of Promissory Notes issued by the Republic of Cyprus.

Investments in infrastructures through public-private partnerships continued with the acquisition of 5% of the capital of Pedemontana Veneta, a project company set up for the contruction of a major stretch of highway in North East Italy, and through other initiatives favoring instruments such as closed-end funds.

During the half year, the typical activity of investment and investment management, carried out through the controlled company Fin.OPI, benefited from the positive stock exchange performance of public utilities (including AEM Torino and Hera), that made up some 70% of the investment portfolio.

### Banca IMI

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

In the first half of 2005, with reference to capital markets, and in particular the bond market, Banca IMI acted as leader in 20 bond issues, originated the new 5-year inflation-linked BTP, participated in the government bond issues for Greece and Quebec and placed at institutional investors issues by banks (including Landsbanki Iceland, Banca Agrileasing, Cassa dei Risparmi di Forlì, Veneto Banca, Banca delle Marche, Cassa di Risparmio di Bolzano, Mediocredito Trentino, Banca Lombarda e Piemontese, Banca Popolare di Intra, Carige and Banca Popolare Italiana) and corporates (GE Capital, Finmeccanica, It Holding and Enel). Structuring of bond issues remained lively especially with regard to the placement of rate-linked issues among retail customers. The placement of Calyon and Kommunalkredit Austria bonds was particularly significant.

Banca IMI confirmed its traditional presidium of capital increases and the placement of shares, in a scenario characterized by the positive performance of European stock markets. In particular, it acted as joint lead manager for the capital increase, and as co-ordinator of the guarantee consortium, in the financial restructuring of the Impregilo group; it established and ran the guarantee consortium for the capital increase of Banca Etruria; it headed the IPO for Marr, Italian leader in the food distribution sector, acting as joint global coordinator, lead manager for the public offer and joint bookrunner for the institutional offer; it terminated listing on the Expandi market of Mondo Home Entertainment; it managed the private placement of 8.9% of the share capital of CDC Point and 5.2% of the share capital of Trevi Finanziaria; it acted as a member of the Managing Group for the public offer, and as global manager for the institutional offer, of Enel IV, and in the public offers for Immobiliare Grande Distribuzione, Save and Toro. The bank also took part in the reorganization of the Pirelli-Telecom group, acting as intermediary for the Public Offer of TIM ordinary and saving shares and, as underwriter, for the capital increase in Camfin and Pirelli. It also acted as intermediary in the offer launched by Nuova Sap S.p.A. for Acque Potabili S.p.A. ordinary shares, listed on the MTA.

As regards corporate finance advisory and structured finance activities, Banca IMI strengthened its position on the Italian market, benefiting from the marked upturn in mergers and acquisitions. Transactions concluded in the period included: termination of the acquisition from Italgas of a majority share in Acque Potabili by a joint venture set up by AMGA and SMAT aided by Banca IMI, which also acted as advisor and intermediary for the subsequent compulsory Public Offer, as well as the conclusion of the sale of Worknet to Générale Industrielle by Fiat Partecipazioni, in the context of which Banca IMI acted as advisor to the seller. During the period, advisory activities continued for the FIAT group and for AEM Torino in the integration with AMGA Genova.

Banca IMI also played a leading role as advisor in the acquisition of Wind by Weather Investments. In this context, the bank also participated in the organization, structuring and underwriting of the financing of the transaction and acted as sole arranger for the further structured, collateral loan to companies of the Weather group in parallel to the completion of the main transaction.

At the end of the period, two transactions were being completed in which the bank has acted as financial advisor: the disposal of Europoligrafico by Reno de Medici to New EPG and the acquisition of Perlier by Cemlux.

After the end of the period, the placement of shares in Fondo Immobili Pubblici (FIP) on behalf of the Finance Ministry was concluded in the context of the privatization of public real estate assets.

Lastly, activities continued in support of the Group's banking networks that placed over 1,500 billion euro of structured products in the first half of 2005.

### Sanpaolo IMI Private Equity

With regard to private equity activities, carried out through Sanpaolo IMI Private Equity, in the first half of 2005 fund raising was terminated for the two new multi-regional funds – Fondo Centro Impresa and Fondo Nord Ovest Impresa – dedicated to equity investments in the capital of small- and medium-sized companies located in the areas of competence and managed by the controlled Sanpaolo IMI Fondi Chiusi SGR. Total commitment subscribed by investors was 180 million euro. In relation to the existing portfolio of fund investments (Cardine Impresa and Eptasviluppo, for a total commitment of 100 million euro), the Fondi Chiusi SGR continued monitoring and creating value for the companies in which a share is held with the support of the Alcedo advisory company. It also made its first disposal of a share in Fondo Cardine Impresa.

As regards the Fondo Mezzogiorno (Fund for Southern Italy), set up for investments in small- and medium-sized companies in Southern Italy, Sanpaolo IMI Investimenti per lo Sviluppo SGR approved four new operations for a total of 12 million euro that could be concluded during the second half of the year.

Concerning the activity of foreign-law funds, the subsidiary Sanpaolo IMI Capital Partners, headquartered in Guernsey, was liquidated while the Milan branch of the London subsidiary Sanpaolo IMI Management Ltd, the management company of the SIPEF I fund, became fully operational.

Major initiatives were taken in the management of the merchant banking portfolio aimed at finalizing the process of gradual disposal.

At the end of June, the Dutch subsidiary LDV Holding ceded the 20% share in a leading fashion group, exercising the sell option for majority shareholders.

Also at the end of June, Sanpaolo IMI Private Equity ceded to another private equity operator its 27% share in Carpine S.p.A., a holding company of the Argenta group that operates in the field of automated drink dispensers.

## Private and Retail Banking

The Private and Retail Banking business line operates to serve customers made up of families, private clients and small businesses and is supported by direct channels such as Internet, ‘phone and mobile banking. It also comprises Neos Banca, the company specialized in consumer credit, and Farbanca.

Private and Retail Banking’s net operating income increased by 3.9% compared to the same period in the previous year, benefiting in particular from the growth in net interest income and net commissions and from the reduction in net adjustments to loans.

Net profit amounted to 424 million euro, an increase of 17.1% over the first half of 2004: the result not only of the good performance of revenues but also the reduction in personnel costs. The latter make up a significant part of the costs of the line of business which employs 25,144 staff, corresponding to 58% of the Group’s personnel.

Private and Retail Banking intermediary funds, constituting around half those of the Group, registered a 3.3% growth since the beginning of the year thanks to the expansion of both customer financial assets (+3.1%) and loans to customers (+4.6%). The increase in financial assets is attributable to indirect deposits and, in particular, asset management (+6.5%), where life policies and fund-based portfolio management were especially lively with a growth rate of over 10% since the beginning of the year.

Private and Retail Banking absorbed 19% of the Group’s capital, a slight decrease compared with the level recorded in the first half of 2004 despite the increase in transactions, due to loans to customers having no negative influence on asset quality and the fall in operational risks linked to cost structures. Annualized profitability, which rose to 35.9% from the 30.7% in the same period of the previous year, benefited from the increase in net profit.

Private and Retail Banking operates through 2,973 branches as well as 202 other specialized operating points in the Group’s commercial banks. In particular, the regions of Central Northern Italy and the Islands are covered by 1,455 Sanpaolo operating points, those of the South by 722 Sanpaolo Banco di Napoli operating points, and those of the North East and the Adriatic area by 998 operating points of Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Cassa di Risparmio di Venezia, Friulcassa and Banca Popolare dell’Adriatico. To these must be added the 26 branches of Neos Banca and Farbanca.

In the context of the IT and organizational integration of the banking networks, concluded during 2004, the territorial management strategies already in act at Sanpaolo and Sanpaolo Banco di Napoli have been standardized so as to exploit the advantages deriving from close relations with customers, guaranteeing, at the same time, unity of commercial policy; the present organizational structure covers some 50 Markets, with the responsibility to coordinate the branch transactions and improve the effectiveness of initiatives aimed at the customers on the basis of the specific needs of the reference territory.

Integration of the networks has led to the extension of the Group’s distribution model, tailored to each customer segment, to all the banks. The retail branches are divided into modules providing services from the various types of customers: personal, family and small business, dedicated respectively to customers with significant financial funds, to households and to customers comprising professionals, artisans, farmers and smaller companies. The larger retail branches also operate modules specialized in serving private customers, and these join the operating points specifically dedicated to this type of customer.

The initiatives undertaken in the first half of 2005 were aimed at strengthening the market position through further specialization and personalization of the customer offer.

Particular importance has been given to the management of customers’ assets: in line with market needs, offer policies have been oriented towards providing support to customers in maximizing their short- and medium-/long-term financial plans, by offering asset management and welfare products, satisfying, at the same time, the increasing demand for personal and property protection by offering insurance products.

In order to allow customer managers to provide a more efficient service aimed at optimizing the risk/return profile of the customers’ portfolio, but still meeting their specific needs and propensity to take risks, the operating instruments recently made available have been further refined and distributed to the entire commercial network; in particular, risk calculation was enhanced to include “concentration risks” and decision-making functions have been introduced. The initiatives taken are in line with the requirements of the

*Private and Retail Banking*

| | First half 2005 | First half 2004 pro forma | Change first half 2005 / First half 2004 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 1,078 | 1,059 | +1.8 |
| Net commissions | 971 | 956 | +1.6 |
| Income from credit disposals, assets held to maturity and repurchase of financial liabilities | - | - | - |
| Dividends and income from other financial assets and liabilities | 17 | 15 | +13.3 |
| Profits (losses) on equity shareholdings | - | - | - |
| Income from insurance business | - | - | - |
| Total operating income | 2,066 | 2,030 | +1.8 |
| Net adjustments to loans | -88 | -127 | -30.7 |
| Net adjustments to other financial assets | - | - | - |
| Net operating income | 1,978 | 1,903 | +3.9 |
| Personnel costs | -734 | -758 | -3.2 |
| Other administrative costs | -484 | -492 | -1.6 |
| Net adjustments to tangible and intagible assets | -4 | -4 | - |
| *Operating costs* | *-1,222* | *-1,254* | *-2.6* |
| Other net income (expenses) | 7 | 8 | -12.5 |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | - | - |
| Net provisions for risks and charges | -15 | -14 | +7.1 |
| Pre-tax operating profit | 748 | 643 | +16.3 |
| Taxes for the period | -323 | -281 | +14.9 |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | -1 | - | n.s. |
| Net profit | 424 | 362 | +17.1 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 2,363 | 2,362 | +0.0 |
| **RATIOS** (%) | | | |
| Annualized profitability | 35.9 | 30.7 | |
| Cost / Income ratio | 59.1 | 61.8 | |
| | 30/6/2005 | 31/12/2004 pro forma | Change 30/6/05-31/12/04 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Intermediary funds | 260,335 | 251,902 | +3.3 |
| Customer financial assets | 216,611 | 210,110 | +3.1 |
| - direct deposits | 56,727 | 57,369 | -1.1 |
| - asset management | 99,519 | 93,412 | +6.5 |
| *- mutual funds and fund-based portfolio management* | *65,630* | *62,936* | *+4.3* |
| *- portfolio management* | *5,083* | *5,296* | *-4.0* |
| *- life technical reserves and financial liabilities* | *28,806* | *25,180* | *+14.4* |
| - asset administration | 60,365 | 59,329 | +1.7 |
| Net asset management flows | 3,380 | -1,054 | |
| Net loans to customers excluding NPLs | 43,724 | 41,792 | +4.6 |
| Total interest-earning assets | 43,849 | 41,895 | +4.7 |
| Total interest-bearing liabilities | 60,823 | 61,347 | -0.9 |
| **OPERATING STRUCTURE** | | | |
| Employees | 25,144 | 24,997 | +0.6 |
| Domestic branches | 2,999 | 2,991 | +0.3 |

Investment Policy, presented in 2003, which establishes the guidelines to be followed by branches in assisting customers in relation to their investments.

A further boost was given to development initiatives for personal and family customers to improve cross selling, especially in respect of customers holding accounts with numerous banks, and to expand the customer base by increasing the rate of retention and acquiring new customers. In this context, the Progetto Giovani is particularly significant. Started in mid-2004, it aims to strengthen the Bank's relationship with customers under the age of 30; by the end of June, the number of young people who had signed up for the program totaled 120,000, a third of which were new customers.

Particular attention has been paid to private customers, made up, after the integration of the networks, of some 36,000 customers with financial assets amounting to 42 billion euro, of which almost half is represented by asset management. Over 350 customer managers, located at 132 operating points nationwide, are available to assist private customers selected in the basis of an access threshold of 1 million euro. The activities under way are aimed at further personalization of the offer range, with regard to both financial products and advisory services in areas other than finance, also in the light of the experience gained in the three years following the launch of the Sanpaolo private structure.

Operations carried out with small entrepreneurs with appropriate creditworthiness were further increased, in line with the growth forecast of the Small Business Project, which has set ambitious objectives in terms of increasing market shares and broadening the customer base. In particular, in the first half of 2005:

- new management tools were released to allow operators to get to know their customers better and improve risk management; as had already been done for personal and family customers, a specific "Customer Commercial File Card" was drawn up for the small business sector and new instruments to simulate the statement of income were developed;
- customer managers received intense training, also in relation to network implementation of credit portfolio ratings, in accordance with the Basel 2 Retail Project;
- the range of products for small entrepreneurs was extended, especially with regard to the agricultural sector, also through the introduction of new, more flexible, forms of financing;
- development initiatives with the loan consortia of Northern Italy and collaboration projects with the main aggregation of categories nationwide were started.

Particular attention was paid to certain areas such as consumer credit, where Private and Retail Banking operates both directly by granting personal loans through the branch network, and indirectly through the subsidiary Neos Banca. After the company became a subsidiary of the SANPAOLO IMI Group, it has carried out major organizational and management changes aimed at strengthening its competitive ability, with the particular objective of gradually shifting the activity towards those business areas which are more interesting in terms of national growth, and reducing asset risk.

Moreover, in the period the spread of the multi-channel infrastructure continued: during the half year, the number of direct banking contracts with retail customers grew by 110 thousand units, reaching 910 thousand at the end of June (+13.8% compared to the end of 2004). The validity of the Group's choice of a multi-channel distribution model is confirmed by the fact that customers seem increasingly more inclined to use these channels either to obtain information or give instructions to the bank: in fact, the average monthly number of customers using these channels has increased by 14% compared to the beginning of the year.

In order to render the initiatives taken fully effective, constant attention has been paid to the training of staff with the goal of offering customers a highly professional service and developing the selling skills of the network employees; some 70,000 training days were provided during the half year, with an average of 3.3 days per person.

## Savings and Assurance

As is described in more detail in the chapter “Action points and initiatives in the half year”, the Savings and Assurance sector covers the activities of the financial planners of the Banca Fideuram group (which includes Sanpaolo Invest SIM) serving customers with a medium/high savings potential, as well as those of Assicurazioni Internazionali di

*Savings and Assurance*

| | First half 2005 | First half 2004 pro forma | Change first half 2005 / First half 2004 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 22 | 21 | +4.8 |
| Net commissions | 288 | 269 | +7.1 |
| Income from credit disposals, assets held to maturity and repurchase of financial liabilities | 2 | 2 | - |
| Dividends and income from other financial assets and liabilities | 29 | 11 | +163.6 |
| Profits (losses) on equity shareholdings | - | - | - |
| Income from insurance business | 171 | 153 | +11.8 |
| Total operating income | 512 | 456 | +12.3 |
| Net adjustments to loans | - | -1 | n.s. |
| Net adjustments to other financial assets | - | - | - |
| Net operating income | 512 | 455 | +12.5 |
| Personnel costs | -97 | -85 | +14.1 |
| Other administrative costs | -111 | -108 | +2.8 |
| Net adjustments to tangible and intagible assets | -16 | -18 | -11.1 |
| *Operating costs* | *-224* | *-211* | *+6.2* |
| Other net income (expenses) | 13 | 10 | +30.0 |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | - | - |
| Net provisions for risks and charges | -50 | -22 | +127.3 |
| Pre-tax operating profit | 251 | 232 | +8.2 |
| Taxes for the period | -59 | -59 | - |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | -28 | -24 | +16.7 |
| Net profit | 164 | 149 | +10.1 |
| **REVENUES FROM THE SECTOR** (€/mil) | 512 | 456 | +12.3 |
| **INCOME FROM THE SECTOR** (€/mil) | 251 | 232 | +8.2 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 1,324 | 1,229 | +7.7 |
| **RATIOS** (%) | | | |
| Annualized profitability | 24.8 | 24.2 | |
| Cost / Income ratio | 43.8 | 46.3 | |
| | 30/6/2005 | 31/12/2004 pro forma | Change 30/6/05-31/12/04 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Asset management | 77,773 | 73,028 | +6.5 |
| - mutual funds and fund-based portfolio management | 17,597 | 16,952 | +3.8 |
| - portfolio management | 16,146 | 15,956 | +1.2 |
| - life technical reserves and financial liabilities | 44,030 | 40,120 | +9.7 |
| Net asset management flows | 2,548 | 5,553 | |
| Asset administration | 11,425 | 10,901 | +4.8 |
| Total interest-earning assets | 5,701 | 5,063 | +12.6 |
| Total interest-bearing liabilities | 4,972 | 4,312 | +15.3 |
| **OPERATING STRUCTURE** | | | |
| Employees | 2,287 | 2,213 | +3.3 |
| Financial planners | 4,188 | 4,313 | -2.9 |
| Domestic branches | 91 | 89 | +2.2 |

Previdenza (A.I.P.), the company comprising the Group's insurance companies.

In the first half of 2005, the total operating income of the Sector grew by 12.3% compared to the same period in 2004. This trend was generated by the increase in revenues by both Banca Fideuram and A.I.P.; the latter are entirely included in the income from the insurance business. Net profit for the half year totaled 164 million euro, a rise of 10.1% compared to the first half of the previous year. The performance was affected by the increase in operating costs, in particular personnel costs in both companies, and the net provisions for risks and charges at Banca Fideuram.

With regard to the operating data for the Sector, there was a rise in asset management (+6.5%), mainly due to life technical reserves and financial liabilities (+9.7%), and asset administration (+4.8%).

The capital absorbed by the Sector in the first half of 2005, representing 11% of the Group's shareholders' equity, was 1,324 million euro, a growth of 7.7% over the same period in the previous year. This trend, together with an increase to the contribution to net profit, that represents 18% of the consolidated profit, generated an annualized profitability of 24.8%, more or less in line with the first half of 2004.

## Banca Fideuram

In the first half of 2005, Banca Fideuram's three-year industrial plan was approved confirming as its main objective the growth of volumes in the reference customer segments and the maintenance of the bank's profitability at the cur-

*Banca Fideuram*

| | First half 2005 | First half 2004 pro forma | Change first half 2005 / First half 2004 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 22 | 21 | +4.8 |
| Net commissions | 288 | 269 | +7.1 |
| Income from credit disposals, assets held to maturity and repurchase of financial liabilities | 2 | 2 | - |
| Dividends and income from other financial assets and liabilities | 29 | 11 | +163.6 |
| Profits (losses) on equity shareholdings | - | - | - |
| Income from insurance business | - | - | - |
| Total operating income | 341 | 303 | +12.5 |
| Net adjustments to loans | -1 | -1 | - |
| Net adjustments to other financial assets | - | - | - |
| Net operating income | 340 | 302 | +12.6 |
| Personnel costs | -82 | -74 | +10.8 |
| Other administrative costs | -77 | -80 | -3.8 |
| Net adjustments to tangible and intagible assets | -14 | -18 | -22.2 |
| *Operating costs* | *-173* | *-172* | *+0.6* |
| Other net income (expenses) | 1 | 1 | - |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | - | - |
| Net provisions for risks and charges | -50 | -22 | +127.3 |
| Pre-tax operating profit | 118 | 109 | +8.3 |
| Taxes for the period | -21 | -24 | -12.5 |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | -27 | -23 | +17.4 |
| Net profit | 70 | 62 | +12.9 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 453 | 430 | +5.3 |
| **RATIOS** (%) | | | |
| Annualized profitability | 30.9 | 28.8 | |
| Cost / Income ratio | 50.7 | 56.8 | |
| | 30/6/2005 | 31/12/2004 pro forma | Change 30/6/05-31/12/04 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Assets under management (1) | 61,664 | 59,469 | +3.7 |
| Assets under management (net inflow) (1) | 345 | -798 | |
| Asset management | 47,486 | 46,322 | +2.5 |
| - mutual funds and fund-based portfolio management | 17,597 | 16,952 | +3.8 |
| - portfolio management | 16,146 | 15,956 | +1.2 |
| - life technical reserves and financial liabilities | 13,743 | 13,414 | +2.5 |
| Net asset management flows | -262 | 434 | |
| Asset administration | 11,425 | 10,901 | +4.8 |
| Total interest-earning assets | 5,701 | 5,063 | +12.6 |
| Total interest-bearing liabilities | 4,972 | 4,312 | +15.3 |
| **OPERATING STRUCTURE** | | | |
| Employees | 1,867 | 1,844 | +1.2 |
| Financial planners | 4,188 | 4,313 | -2.9 |
| Domestic branches | 91 | 89 | +2.2 |

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

rent levels of excellence.

In line with the projects outlined in the plan, consisting in the definition of a new offer of products and the development of a new commercial approach, initiatives in the half year were concentrated on the start-up of a number of workshops involved in the launch of new products and the redefining of the advisory process.

Activities also continued during the period to increase the existing product range. In particular:

- in continuing to select the best investment opportunities in highly specialized market with a high risk factor, two Certificates were issued developed in co-operation with leading international investment houses;
- the Fideuram Multibrand offer was increased through the launch of 40 new sectors of Crédit Agricole Funds and the "Database Fideuram Multibrand" tool was made available to private bankers containing all the information needed to understand the sectors;
- the placement began of the Exchange Traded Funds (ETF), an innovative type of funds/SICAV whose portfolio faithfully copies that of a reference index.

Research and development activities were focused on participating in multi-client surveys carried out by international research companies to monitor the evolution of the Italian asset management market in general and private banking in particular.

In the context of extending the range of products of Sanpaolo Invest, placement began of a new line of GPF Sanpaolo Invest Profit, created by Fideuram Investimenti SGR and placed exclusively by the private bankers of Sanpaolo Invest. Furthermore, the mutual fund compartments of Sanpaolo Invest Funds were increased through the launch of SPI Euro Corporate Bond, SPI Bond Global Emerging Market and SPI Equity Pacific ex-Japan.

It should be remembered that, in order to give unity of comparison, figures for the first half of 2004, besides taking into account the adjustments following the introduction of IAS/IFRS, have been reported in the light of the demerger of the insurance business at the beginning of 2004.

Transaction in the half year benefited both from initiatives aimed at guiding the customer portfolio towards a mix of products with higher added value and from the recovery of financial markets. Assets under management grew by 3.7% since the beginning of the year, reaching 61.7 billion euro and, within these, the amount of managed funds generating recurring commissions increased. Total operating income amounted to 341 million euro, a rise of 12.5% compared to the same period in 2004, thanks to the increase in commission revenues and income from financial assets. The latter particularly benefited from the rise in profits from dealing activities in the securities of Fideuram Wargny, as well as from the added value deriving from the fair value evaluation of insurance policies drawn up by Banca Fideuram in favor of private bankers in the context of customer retention plans which are almost totally provided for in provisions for risks and charges. The positive trend of these aggregates has more than compensated for higher, non-recurring provisions, posted in a single solution as a presidium over risks connected to corporate bond dealing. The contribution to the net profit of the Group was equal to 70 million euro, a 12.9% increase compared to the 62 million euro for the same period in the previous year. Profitability in the half year, expressed in terms of annualized RoE, was 30.9% compared to 28.8% in the first half of 2004.

As an indicator of efficiency, the cost/income ratio improved by around 6 percentage points, coming down to 50.7%. This trend confirms the success of the commercial policy centered on the recovery of profitability and on the synergies arising from integration with Sanpaolo Invest, despite the first investments to support the new 2005-2007 industrial plan.

## A.I.P.

In the first half of 2005, A.I.P., that has been operative in its current company structure since 1 December 2004 after the incorporation of Sanpaolo Vita and Fideuram Vita, has pursued the goals set in the plan initiated in 2004 by the SANPAOLO IMI Group of strengthening its competitive position on the insurance market.

Actions were aimed at:

- broadening the range of offers in the investment and savings sector. During the period, three new index-linked products were launched through a diversification of duration and reference indices; customers have been offered a new investment opportunity in the context of the unit-linked Active Portfolio; and the rationalization, updating and integration of the product range guaranteeing capital and minimum return continued;
- developing individual offer of assurance and open pension funds, as well as the range of annuities aimed at meeting the needs of insurance coverage. In line with the decision to concentrate the offer of complementary insurance in A.I.P., preliminary activities were initiated for the transfer, on the one hand, of six pension funds currently held by Sanpaolo IMI Asset Management to the Company and, on the other, the rationalization and requalification of these funds to respond better to the needs emerging from new laws: the pension funds will be ceded to A.I.P. as soon as the authorization process has been completed and will be rationalized in two funds, finalized, respectively, to individual and collective subscription and both divided into five management lines. The offer will be further enhanced by the redesign of the individual pension plan "Tutela e Previdenza Sanpaolo" and by strengthening the range of products with temporary differed annuity;
- developing the offer in the personal and property protection compartment. During the half year, the automobile product dedicated to Sanpaolo customers who use the direct banking channel was commercialized, the offer of health policies was increased and a new product was introduced to protect companies against insolvency risks on short-term commercial loans;
- initiating actions aimed at rationalizing the A.I.P. companies with the aim of increasing efficiency through costs synergies and economies of scale, also strengthening the ability to renew the product and the offer range. Unification of the governance, administrative and control structures was completed and integration of the IT systems process and the "operative machine" was begun;
- strengthening of the presidium tools for risk and governance. First and foremost, the Company adopted rigorous criteria of Investment Policy. A project was also started aimed at making advanced risk management and financial management models and tools available to the Company, also in the light of the new supervisory regulations that will be introduced by Solvency 2;
- paying the highest attention to the needs for transparency and correctness in dealings with customers.

In order to give unity of comparison, figures for the first half of 2004 have been recalculated assuming that all the insurance companies of the Group were grouped under A.I.P. as of 1 January 2004.

In the first half of 2005, Assicurazioni Internazionali di Previdenza's consolidated net profit was 94 million euro, an increase of 8% compared with the same period in 2004.

The rise in net profit should be seen in the light of the increase in income from the insurance business which rose from 153 to 171 million euro, a growth of 11.8%. The trend of net profit was positively influenced by the growth of new business and the favorable development of financial management which, thanks also to a reduction in rates, was reflected in an increase in valuation reserves for financial assets available for sale, equal to 141 million at the end of the period, as against 94 million at the beginning of the year.

The rise in revenues was partly offset by the 30.8% growth in operating costs that rose from 39 to 51 million euro. The trend in costs should be seen in relation to the significant strengthening of the governance and operating structures of the Company and the higher expenses connected to the growth of volumes.

With regard to operations, at the end of June 2005 A.I.P.'s total assets were 47,033 million euro, a rise of 12% since the beginning of the year. At the end of the half year, the securities portfolio stood at 44,983 million euro, an increase of 12% since the beginning of the year: this is made up for 59% by securities valuated at fair value, mainly for unit- and index-linked products, and for 41% by available for sale securities, mainly for policies available for revaluation. A.I.P.'s policy portfolio consists of 21,788 million in life technical reserves, of which 4,775 million in death, mixed and annuity products, classified according to international accounting standards as insurance, and 17,013 million policies available for revaluation under separate management. There are also 21,650 million in financial unit- and index-linked policies classified as deposits.

During the half year, A.I.P. recorded deposits of 4.9 billion euro, including products classified as insurance and deposits of financial policies, compared to the 8.5 billion for all of 2004.

*A.I.P.*

| | First half 2005 | First half 2004 pro forma | Change first half 2005 / First half 2004 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | - | - | - |
| Net commissions | - | - | - |
| Income from credit disposals, assets held to maturity and repurchase of financial liabilities | - | - | - |
| Dividends and income from other financial assets and liabilities | - | - | - |
| Profits (losses) on equity shareholdings | - | - | - |
| Income from insurance business (1) | 171 | 153 | +11.8 |
| Total operating income | 171 | 153 | +11.8 |
| Net adjustments to loans | 1 | - | n.s. |
| Net adjustments to other financial assets | - | - | - |
| Net operating income | 172 | 153 | +12.4 |
| Personnel costs | -15 | -11 | +36.4 |
| Other administrative costs | -34 | -28 | +21.4 |
| Net adjustments to tangible and intagible assets | -2 | - | n.s. |
| *Operating costs* | *-51* | *-39* | *+30.8* |
| Other net income (expenses) | 12 | 9 | +33.3 |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | - | - |
| Net provisions for risks and charges | - | - | - |
| Pre-tax operating profit | 133 | 123 | +8.1 |
| Taxes for the period | -38 | -35 | +8.6 |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | -1 | -1 | - |
| Net profit | 94 | 87 | +8.0 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 871 | 799 | +9.0 |
| **RATIOS** (%) | | | |
| Annualized profitability | 21.6 | 21.8 | |
| Cost / Income ratio | 29.8 | 25.5 | |
| | 30/6/2005 | 31/12/2004 pro forma | Change 30/6/05-31/12/04 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Life technical reserves and financial liabilities | 43,438 | 39,205 | +10.8 |
| - life technical reserves | 21,788 | 19,945 | +9.2 |
| - life financial liabilities | 21,650 | 19,260 | +12.4 |
| Life deposits | 4,852 | 8,539 | |
| **OPERATING STRUCTURE** | | | |
| Employees | 420 | 369 | +13.8 |

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

## Asset Management and International Private Banking

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

*Asset Management and International Private Banking*

| | First half 2005 | First half 2004 pro forma | Change first half 2005 / First half 2004 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 11 | 6 | +83.3 |
| Net commissions | 127 | 119 | +6.7 |
| Income from credit disposals, assets held to maturity and repurchase of financial liabilities | - | - | - |
| Dividends and income from other financial assets and liabilities | -2 | 1 | n.s. |
| Profits (losses) on equity shareholdings | - | 1 | n.s. |
| Income from insurance business | - | - | - |
| Total operating income | 136 | 127 | +7.1 |
| Net adjustments to loans | - | -1 | n.s. |
| Net adjustments to other financial assets | - | - | - |
| Net operating income | 136 | 126 | +7.9 |
| Personnel costs | -29 | -30 | -3.3 |
| Other administrative costs | -23 | -29 | -20.7 |
| Net adjustments to tangible and intagible assets | -4 | -4 | - |
| *Operating costs* | *-56* | *-63* | *-11.1* |
| Other net income (expenses) | 4 | 5 | -20.0 |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | - | - |
| Net provisions for risks and charges | - | -1 | n.s. |
| Pre-tax operating profit | 84 | 67 | +25.4 |
| Taxes for the period | -15 | -13 | +15.4 |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | - | - | - |
| Net profit | 69 | 54 | +27.8 |
| **REVENUES FROM THE SECTOR** (€/mil) | 136 | 127 | +7.1 |
| **INCOME FROM THE SECTOR** (€/mil) | 84 | 67 | +25.4 |
| **AVERAGE ALLOCATED CAPITAL** (€/mil) | 102 | 94 | +8.5 |
| **RATIOS** (%) | | | |
| Annualized profitability | 135.3 | 114.9 | |
| Cost / Income ratio | 41.2 | 49.6 | |
| | 30/6/2005 | 31/12/2004 pro forma | Change 30/6/05-31/12/04 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Assets under management (1) | 112,588 | 104,243 | +8.0 |
| Asset management | 74,788 | 72,390 | +3.3 |
| - mutual funds and fund-based portfolio management | 70,805 | 69,358 | +2.1 |
| - portfolio management | 3,983 | 3,032 | +31.4 |
| Total interest-earning assets | 5,114 | 4,549 | +12.4 |
| Total interest-bearing liabilities | 5,504 | 5,554 | -0.9 |
| **OPERATING STRUCTURE** | | | |
| Employees | 596 | 613 | -2.8 |

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

Total operating income for the Sector during the half year was 136 million euro, an increase of 7.1% thanks to the growth in net interest income (+83.3%), mainly attributable to Sanpaolo Bank (Luxembourg), and commission revenues (+6.7%). The contribution to the consolidated net profit of the Group was 69 million euro, a positive performance of 27.8% with respect to the 54 million of the first half of 2004, reformulated pro forma in consideration of the demerger of the insurance companies. This was obtained through the good performance of revenues and the fall in operating costs, especially other administrative costs, attributable to Sanpaolo IMI Asset Management.

Assets under management in the Sector reached 112.6 billion euro at the end of June, a rise of 8% since the beginning of the year. Asset management increased by 3.3% due mainly to the trend in fund-based portfolio management and portfolio management.

Asset Management and International Private Banking contributed nearly 8% of the consolidated net profit for the first half of 2005 and absorbed less than 1% of capital. Annualized profitability, totaling 135.3%, grew compared to the same period in the previous year thanks to the increase in the contribution to the Group's net profit which confirmed the distinctive high values of the line of business. The profitability is attributable to the limited absorption of capital with respect to the large volumes of assets managed, placed in the Group's banking networks nationwide that generate commission revenues high enough to compensate the distribution networks and amply cover the cost structure of the Sector. The latter aspect can also be seen in the cost/income ratio, equal to 41.2%, a fall compared to the first half of 2004.

### Sanpaolo IMI Asset Management

Activities continued in the first half of 2005 to rationalize the Sanpaolo IMI Asset Management offer range following the corporate reorganization of the previous year, in the context of maximizing active management of the portfolios. In particular, the "Obiettivo" hedge funds were liquidated, focusing the commercial offer of alternative products on "Brera" funds. Moreover, in order to increase product penetration on the Group's banking networks, conversion continued of the portfolio management of the banks of the North East, Emilia and the Adriatic area to Sanpaolo IMI Asset Management products.

After the close of the half year, on 26 July, the merger by incorporation of the totally controlled company Sanpaolo IMI Institutional Asset Management, the SGR specialized in management and advisory services for institutional customers, into Sanpaolo IMI Asset Management was decided. The operation, which may be completed by the end of the year, will create a single presidium of business processes and therefore greater operational efficiency and stronger offer abilities thanks to the synergies of purpose obtained through the integration of management, commercial and product development structures, as well as cost synergies.

## Central Functions

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

The income results therefore reflect the transversal nature of these Functions, which sustain costs using a centralized system and on behalf of other Group companies, only partially allocating them to the operating units.

In the first half of 2005, Central Functions reported a loss of 76 million euro, mainly due to the share of costs not allocated to operating functions and to the net adjustments to loans and other financial assets. The higher loss in the first half of 2004, equal to 97 million euro, is attributable to the write-back, among the net adjustments to other financial assets, of the permanent losses on the shareholding investments in Hutchison 3G Italia and CDC Ixis, and the higher operating costs, especially personnel costs, only partly compensated by the recording in the profits on discontinued operations of the capital gain of 55 million euro from the ceding of the last share of Fincomsumo in the first half of 2004.

## Secondary information

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

| | Italy | Europe | Rest of the world | Group total |
|---|---|---|---|---|
| **TOTAL OPERATING INCOME** (€/mil) | | | | |
| First half 2005 | 3,559 | 428 | 34 | 4,021 |
| First half 2004 | 3,467 | 379 | 26 | 3,872 |
| Change first half 2005 / First half 2004 (%) | +2.7 | +12.9 | +30.8 | +3.8 |
| **TOTAL INTEREST-EARNING ASSETS** (€/mil) | | | | |
| 30/6/2005 | 193,981 | 10,147 | 7,349 | 211,477 |
| 31/12/2004 | 182,718 | 8,595 | 5,418 | 196,731 |
| Change 30/6/2005 - 31/12/2004 (%) | +6.2 | +18.1 | +35.6 | +7.5 |

# Developments in the second half of the year

## Economic background

Trend indicators for July and August in the United States showed signs of a recovery in real terms, fanning hopes for growth above potential. The relative weakness of the European economy was confirmed, although some countries, Germany in particular, showed some tepid signs of possible recovery. After a serious fall in the first quarter, Italian GDP started to grow, but overall industrial production was static. Indicators of company confidence seemed to be recovering in August.

However, in recent weeks observers have expressed increasing fears about the negative influence on the international, and especially European, cycle of the sharp rise in oil prices. In August, when supply was at its limits, the catastrophic impact of hurricane Katrina in the United States forced oil prices up to 70 dollars a barrel, not far off the real-term highs during the second oil crisis of the 1970s.

Although there has been a fall after these highs, thanks also to the partial use of strategic reserves by the principal industrialized countries, oil prices have continued to be conditioned by factors of supply and demand which are heavily affected by the political tension in the Gulf area. Worries over prospects for growth in mature economies have been further fueled by the risks of a rise in property prices in various countries and the performance of the dollar.

In August in the United States, the Federal Reserve (Fed), taking into account the lively performance of indicators, raised the policy rate by a further 25 basis points, bringing it to 3.5%. In the eurozone, the controlled performance of prices in a weak scenario led the European Central Bank (ECB) to leave the cost of money unchanged. All the same, the ECB expressed renewed fears of a tangible expansion of liquidity in the area, an increase in real-estate prices in some countries and a rise in public accounts.

Market operators expect policy rates to continue rising in the United States to the end of the year, but no increases are forecast for the eurozone.

The main international stock indices for the two-month period see-sawed, consolidating gains in July thanks to the favorable performance of company profits, but losing ground in August due to persistent rises in the price of oil. Although the bases of the main stock exchanges – the ratio between share prices and earnings and the moderate interest rates – remain positive, share prospects are threatened by a downturn in the real cycle.

In July, the Italian loans sector confirmed the lively performance of asset and liability aggregates. Overall inflow benefited from a solid increase in deposits and bonds, while loans were affected by the favorable performance of private sector financing, especially mortgages and family consumer credit.

In July and August 2005, asset management recorded a consistent flow of capital into mutual funds. The sector collected 6.6 billion euro mainly placed in bond funds.

## Group performance and prospects

In July and August, Group transactions continued the growth begun in the first half of the year.

Customer financial assets, excluding deposits at Banca IMI that were more volatile, showed further growth, thanks to assets managed for private and retail customers. In relation to the latter element, placement of life insurance policies during the summer months brought inflow to over 6 billion euro since the beginning of the year. Sale of structured bonds in funds and fund-based portfolio management showed a rise; as a result, as of August net inflow from mutual funds returned to positive values.

With regard to lending activities, in July and August, medium-/long-term loans to customers increased further and reached higher levels than at the end of June, consolidating the positive trend recorded in the second quarter of the year.

Income margins confirmed the trends of the first half. Financial revenues were sustained by further growth in volumes and by the defense of spread, commission revenues by the placement of asset management products and investment banking.

This trend in revenues and the reduction in operating costs that continued in the third quarter consolidated expectations for an improvement in results for the current year, excepting extraordinary and unforeseen events.

Turin, 28 September 2005

The Board of Directors

# Consolidated half year financial statements

CONSOLIDATED BALANCE SHEET

CONSOLIDATED STATEMENT OF INCOME

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS’ EQUITY

STATEMENT OF CONSOLIDATED CASH FLOWS

CONSOLIDATED EXPLANATORY NOTES

# Consolidated balance sheet

(€/mil)

| Part / Section of the Notes | | ASSETS | 30/6/2005 | 31/12/2004 (*) | 1/1/2005 (**) |
|---|---|---|---|---|---|
| B / 2 | 10. | Cash and liquid balances | 1,016 | 1,365 | 1,364 |
| B / 2 ; B / 3 | 20. | Financial assets held for trading | 36,559 | 65,778 | 28,257 |
| B / 2 ; B / 3 | 30. | Financial assets designated as at fair value | 26,058 | - | 23,651 |
| B / 2 ; B / 3 | 40. | Available-for-sale investments | 28,573 | 2,831 | 26,322 |
| B / 2 ; B / 3 | 50. | Held-to-maturity investments | 1,660 | 3,197 | 1,818 |
| B / 1 ; B / 3 | 60. | Loans to banks | 26,165 | 24,238 | 24,908 |
| B / 1 ; B / 3 | 70. | Loans to customers | 132,443 | 123,204 | 126,280 |
| B / 3 | 80. | Hedging derivatives | 855 | - | 1,569 |
| | 90. | Value adjustment of financial assets covered by general hedges | - | - | - |
| B / 4 | 100. | Investments | 796 | 839 | 839 |
| | 110. | Technical reserves ceded to third party reinsurers | 23 | 25 | 25 |
| B / 5 | 120. | Tangible assets | 2,248 | 2,328 | 2,328 |
| B / 5 | 130. | Intangible assets | 1,021 | 1,055 | 1,055 |
| | | *of which:* | | | |
| | | *- goodwill* | *762* | *766* | *766* |
| | 140. | Tax assets | 3,299 | 3,304 | 3,789 |
| | | *a) current* | *1,470* | *1,798* | *1,798* |
| | | *b) anticipated* | *1,829* | *1,506* | *1,991* |
| | 150. | Non-current assets and groups of assets to be disposed of | - | - | - |
| | 160. | Other assets | 6,910 | 24,596 | 6,186 |
| | | Total assets | 267,626 | 252,760 | 248,391 |

*(*) IAS compliant balance (cf 'mix model') restated according to IFRS 1 without applying IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts), the relating transition date being set for 1 January 2005. Details about the restatement of the figures are provided in the Appendix "SANPAOLO IMI Group transition to international accounting standards".*

*(**) IAS compliant balance (cf 'full model') including the impact of transition to IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts) and showing, for the sake of more clarity, also the balances as of 31 December 2004. Details about the restatement of the figures are provided in the Appendix "SANPAOLO IMI Group transition to international accounting standards".*

(€/mil)

| Part / Section of the Notes | | LIABILITIES | 30/6/2005 | 31/12/2004 (*) | 1/1/2005 (**) |
|---|---|---|---|---|---|
| B / 6 | 10. | Due to banks | 39,963 | 28,277 | 28,293 |
| B / 6 | 20. | Due to customers | 92,436 | 88,817 | 88,735 |
| B / 6 | 30. | Securities issued | 51,496 | 54,941 | 53,061 |
| B / 6 | 40. | Financial dealing liabilities | 11,685 | - | 11,270 |
| B / 6 | 50. | Financial liabilities designated as at fair value | 21,672 | - | 19,255 |
| | 60. | Hedging derivatives | 874 | - | 1,941 |
| | 70. | Value adjustment to financial liabilities covered by general hedges | 34 | - | 18 |
| | 80. | Tax liabilities | 1,261 | 783 | 1,106 |
| | | *a) current* | *314* | *304* | *304* |
| | | *b) deferred* | *947* | *479* | *802* |
| | 90. | Liabilities associated with discontinued assets | - | - | - |
| | 100. | Other liabilities | 11,378 | 25,887 | 9,790 |
| | 110. | Provisions for employee termination indemnities | 882 | 882 | 882 |
| B / 7 | 120. | Provision for risks and charges: | 1,745 | 1,734 | 1,818 |
| | | *a) pension and similar commitments* | *218* | *209* | *209* |
| | | *b) other provisions* | *1,527* | *1,525* | *1,609* |
| | 130. | Technical reserves | 21,709 | 38,849 | 19,983 |
| B / 8 | 140. | Valuation reserves | 1,225 | 343 | 1,034 |
| | 150. | Redeemable shares | - | - | - |
| B / 8 | 160. | Capital instruments | - | - | - |
| B / 8 | 170. | Reserves | 4,231 | 4,575 | 3,672 |
| B / 8 | 180. | Share premium reserves | 761 | 725 | 725 |
| B / 8 | 190. | Capital | 5,236 | 5,218 | 5,218 |
| B / 8 | 200. | Own shares | -52 | - | -61 |
| B / 8 | 210. | Minority interest | 196 | 282 | 204 |
| B / 8 | 220. | Profit (Loss) for the period | 894 | 1,447 | 1,447 |
| | Total liabilities | | 267,626 | 252,760 | 248,391 |

(*) *IAS compliant balance (cf 'mix model') restated according to IFRS 1 without applying IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts), the relating transition date being set for 1 January 2005. Details about the restatement of the figures are provided in the Appendix "SANPAOLO IMI Group transition to international accounting standards".*

(**) *IAS compliant balance (cf 'full model') including the impact of transition to IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts) and showing, for the sake of more clarity, also the balances as of 31 December 2004. Details about the restatement of the figures are provided in the Appendix "SANPAOLO IMI Group transition to international accounting standards".*

# Consolidated statement of income

(€/mil)

| Part / Section of the Notes | | | First half 2005 | First half 2004 (*) |
|---|---|---|---|---|
| C / 1 | 10. | Interest income and similar revenues | 3,985 | 3,840 |
| C / 1 | 20. | Interest expense and similar charges | -1,768 | -1,753 |
| | 30. | **Net interest income** | **2,217** | **2,087** |
| C / 2 | 40. | Commissions receivable | 2,024 | 1,975 |
| C / 2 | 50. | Commissions payable | -447 | -404 |
| | 60. | **Net commissions** | **1,577** | **1,571** |
| C / 7 | 70. | Dividends and other revenues | 306 | 151 |
| C / 3 | 80. | Net dealing income | -160 | 607 |
| C / 3 | 90. | Net result of hedging transactions | -6 | - |
| C / 4 | 100. | Profits (Losses) on disposal or repurchase of: | 96 | 3 |
| | | *a) loans* | *24* | *-* |
| | | *b) available for sale investments* | *79* | *3* |
| | | *c) held to maturity investments* | *-* | *-* |
| | | *d) financial liabilities* | *-7* | *-* |
| C / 3 | 110. | Net result of financial assets designated as at fair value | 1,201 | 13 |
| C / 3 | 120. | Net result of financial liabilities designated as at fair value | -923 | - |
| | 130. | **Net interest and other banking income** | **4,308** | **4,432** |
| C / 6 | 140. | Net adjustments for impairment of: | -232 | -292 |
| | | *a) loans* | *-229* | *-272* |
| | | *b) available for sale investments* | *-3* | *-19* |
| | | *c) held to maturity investments* | *-* | *-1* |
| | | *d) other financial transactions* | *-* | *-* |
| | 150. | **Net result of financial management activities** | **4,076** | **4,140** |
| | 160. | Net premiums | 2,248 | 3,890 |
| | 170. | Balance of other income/charges arising on insurance management activities | -2,670 | -4,490 |
| | 180. | **Net result of financial management and insurance management activities** | **3,654** | **3,540** |
| C / 5 | 190. | Administrative costs: | -2,120 | -2,175 |
| | | *a) personnel* | *-1,379* | *-1,411* |
| | | *b) other* | *-741* | *-764* |
| C / 6 | 200. | Net accruals to provision for risks and charges | -48 | -50 |
| C / 6 | 210. | Net adjustments to tangible assets | -113 | -113 |
| C / 6 | 220. | Net adjustments to intangible assets | -89 | -97 |
| C / 7 | 230. | Other operating income/charges | 43 | 25 |
| | 240. | **Operating costs** | **-2,327** | **-2,410** |
| | 250. | Income (losses) on investments | 75 | 93 |
| | 260. | Net fair value adjustment to tangible and intangible assets | - | - |
| | 270. | Goodwill adjustments | - | - |
| C / 7 | 280. | Profit (Loss) on disposal of investments | 13 | - |
| | 290. | **Operating profit (Loss) before taxation** | **1,415** | **1,223** |
| | 300. | Taxes for the period | -494 | -447 |
| | 310. | Operating profit (Loss) after taxation | 921 | 776 |
| | 320. | Profits (Losses) on discontinued operations | - | - |
| B / 8 | 330. | **Profit (Loss) for the period** | **921** | **776** |
| | 340. | Profit (Loss) attributable to minority interest | -27 | -41 |
| | 350. | **Parent Bank net profit (loss)** | **894** | **735** |
| | | Net income per share (€) | 0.48 | 0.40 |
| | | Net diluted income per share (€) | 0.48 | 0.40 |

(*) *IAS compliant balance (cf 'mix model') restated according to IFRS 1 without applying IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts), the relating transition date being set for 1 January 2005. Details about the restatement of the figures are provided in the Appendix "SANPAOLO IMI Group transition to international accounting standards".*

# Statement of changes in consolidated shareholders' equity

(€/mil)

| | Capital | Share Premium account | Reserves | Valuation reserves | Profit (Loss) for the period | Group shareholders' equity | Minority interest | Consolidated shareholders' equity |
|---|---|---|---|---|---|---|---|---|
| Shareholders' equity as of 31 December 2003 according to local accounting principles | 5,144 | 708 | 4,099 | 72 | 972 | 10,995 | 271 | 11,266 |
| Adjustment to opening balances as of 1 January 2004 for FTA of IAS, excluding IAS 32 and 39 and IFRS 4 | - | - | 166 | 274 | - | 440 | 105 | 545 |
| IAS/IFRS shareholders' equity as of 1 January 2004, excluding IAS 32 and 39 and IFRS 4 | 5,144 | 708 | 4,265 | 346 | 972 | 11,435 | 376 | 11,811 |
| Allocation of 2003 net income: | | | | | | | | |
| *- to reserve* | - | - | *257* | - | *(257)* | - | - | - |
| *- to dividend distribution* | - | - | - | - | *(715)* | *(715)* | *(42)* | *(757)* |
| Net income - first half of 2004 | - | - | - | - | 735 | 735 | 41 | 776 |
| Other adjustments | - | - | 3 | - | - | 3 | 7 | 10 |
| IAS/IFRS shareholders' equity as of 30 June 2004, excluding IAS 32 and 39 and IFRS 4 | 5,144 | 708 | 4,525 | 346 | 735 | 11,458 | 382 | 11,840 |
| Spin off to SANPAOLO IMI of the stake held by Banca Fideuram in Fideuram Vita | 74 | 17 | 26 | - | - | 117 | (117) | - |
| Other adjustments | - | - | 24 | (3) | - | 21 | 3 | 24 |
| Net profit - second half of 2004 | - | - | - | - | 712 | 712 | 14 | 726 |
| IAS/IFRS shareholders' equity as of 31 December 2004, excluding IAS 32 and 39 and IFRS 4 | 5,218 | 725 | 4,575 | 343 | 1,447 | 12,308 | 282 | 12,590 |
| Adjustment to opening balances as of 1 January 2005 for FTA of IAS, following the application of IAS 32 and 39 and IFRS 4 | - | - | (964) | 691 | - | (273) | (78) | (351) |
| IAS/IFRS shareholders' equity as of 1 January 2005, including IAS 32 and 39 and IFRS 4 | 5,218 | 725 | 3,611 | 1,034 | 1,447 | 12,035 | 204 | 12,239 |
| Allocation of 2004 net income: | | | | | | | | |
| *- to reserve* | - | - | *573* | - | *(573)* | - | - | - |
| *- to dividend distribution* | - | - | - | - | *(874)* | *(874)* | *(41)* | *(915)* |
| Stock option rights exercised | 18 | 36 | (4) | - | - | 50 | - | 50 |
| Net change in valuation reserves | - | - | - | 191 | - | 191 | - | 191 |
| *- change in other reserves* | - | - | *(8)* | - | - | *(8)* | *6* | *(2)* |
| *- net change in own shares* | - | - | *7* | - | - | *7* | - | *7* |
| Profit for first half of 2005 | - | - | - | - | 894 | 894 | 27 | 921 |
| IAS/IFRS shareholders' equity as of 30 June 2005 | 5,236 | 761 | 4,179 | 1,225 | 894 | 12,295 | 196 | 12,491 |

# Statement of consolidated cash flows

(€/mil)

| | 30/6/2005 (*) | 30/6/2004 (**) |
|---|---|---|
| Operating activities (A) | | |
| 1. Cash inflows from operating activities | 1,212 | 1,232 |
| 2. Increase in financial assets included in operating activities | -21,094 | -14,472 |
| 3. Increase in financial liabilities included in operating activities | 20,002 | 13,446 |
| Cash inflows from operating activities (A=1+2+3) | 120 | 206 |
| Cash inflows from investing activities (B) | 201 | 96 |
| Cash outflows from financing activities (C) | -669 | -728 |
| Total cash flows for the period (A+B+C) | -348 | -426 |
| Reconciliation | | |
| Cash and liquid balances at the beginning of the period | 1,364 | 1,480 |
| Cash and liquid balances at the end of the period | 1,016 | 1,054 |
| Net cash inflows/outflows for the period | -348 | -426 |

*(*) The statement of consolidated cash flows as of 30 June 2005 reflects the cash inflows from operating activities and the changes in the value of assets and liabilities from 1 January 2005 to the end of the six-month period.*

*(**) Data shown according to the IAS/IFRS, except for IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).*

# Consolidated Explanatory Notes

## Part A – Accounting policies

- Section 1 – Form and content of the consolidated half year report
- Section 2 – Basis of preparation
- Section 3 – Scope of consolidation
- Section 4 – Loans
- Section 5 – Other financial instruments included under assets
- Section 6 – Hedging transactions
- Section 7 – Equity investments
- Section 8 – Tangible and intangible assets
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- Section 11 – Other financial statements items and other information

## Part B – Information on the balance sheet and off-balance sheet transactions

- Section 1 – Loans
- Section 2 – Other financial instruments included under assets
- Section 3 – Quality of loans and other financial instruments included under assets
- Section 4 – Scope of consolidation and equity investments
- Section 5 – Other assets
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- Section 9 – Off-balance sheet transactions

## Part C – Information on the statement of income

- Section 1 – Interest
- Section 2 – Commissions
- Section 3 – Net dealing, hedging and fair value option results
- Section 4 – Gains (losses) on disposals
- Section 5 – Administrative costs
- Section 6 – Adjustments and provisions
- Section 7 – Other statement of income captions

## Part D – Regulatory capital structure

## Part E – Transactions with related parties

# Part A – Accounting Policies

## SECTION 1 - FORM AND CONTENT OF THE CONSOLIDATED HALF YEAR REPORT

The half year report of the SANPAOLO IMI Group, drawn up according to the provisions of Art. 81 of the Issuers Regulations as per Consob Resolution no. 11971 of 14 May 1999 and subsequent amendments and integrations, represents the first accounting document prepared in compliance with *International Accounting Standards* (IAS) and *International Financial Reporting Standards* (IFRS), as approved by the European Commission at 30 June 2005 based on the procedure set out by EC Regulation no. 1606/2002. The methods and effects resulting from the changeover to IAS/IFRS are stated in the specific appendix to this Report which deals expressly with the transition of the consolidated accounts to the new accounting principles.

In particular, the half year report of the SANPAOLO IMI Group was prepared in accordance with the accounting principle dealing with interim financial reports (IAS 34) and is made up of the Report on Group Operations, the Consolidated half year financial statements (which in turn comprises the balance sheet and statement of income, the statement of changes in consolidated net shareholders' equity, the statement of consolidated cash flows and these Notes) and of the Appendix on the transition to the international accounting principles.

Within the Report on Operations, the results of the six months are shown in the reclassified balance sheet and statement of income. In particular, in the reclassified statement of income, the contribution by the Group's insurance companies to the "Net interest and other banking income" is conventionally highlighted under the specific caption "Insurance business results" rather than being treated on a *line by line* basis as stated in the "official" financial statements schedule. As regards the statement of income, the reclassified schedules show actual data and comparatives as of 30 June 2004 (re-worked as pro forma – cf hereinafter) and, as regards the balance sheet the schedules show the actual data and the comparatives as of 1 January 2005 that *fully comply* with the IAS.

In the "official" financial statement schedules, the results of the six-month period are shown, for comparative purposes, beside the 2004 data as provided for by IAS 34. In particular, the balance sheet is compared with the data as of 31 December 2004 whereas the statement of income is compared with those of the corresponding period of the previous financial year (first half of 2004). In this respect, referring however for further details to what is stated in the specific appendix on the transition to the international accounting standards, we highlight that the SANPAOLO IMI Group claimed, as allowed by IFRS 1, to postpone to 1 January 2005 the date for the first application of IAS 32 and 39 as regards financial instruments and IFRS 4 as regards insurance contracts. As a result, the accounting results as of 30 June 2005, only with regard to the items affected by the aforementioned accounting standards, are not comparable with those of the previous financial year owing to the use of inconsistent bases. However, in order to enable a consistent comparison for the purpose of the comments included in the Report on Operations, a pro forma statement of income for the first six months of 2004 has been restated, in full compliance with all IAS, assuming that IAS 32 and 39 as well as IFRS 4 had been applied also to the statement of income of the prior year. The attached restatement, which is unaudited, was carried out using a reclassified statement of income schedule recommended in the Report on Operations and using the data that were available; failing these, the exercise was carried out using reasonable estimates. The restatement helps to provide a reliable representation of how the business evolved from one period to the next.

As this half year report is the first opportunity to apply the international accounting standards (IAS/IFRS), the Appendix dealing with the transition to the standards contains all the required reconciliations of shareholders' equity as of 1 January 2004, 30 June 2004, 31 December 2004 and 1 January 2005 as well as those of the economic results of the first six months of 2004 and the 2004 financial year. The same Appendix contains also the reconciliations of each caption of the statement of income for the first six months of 2004 and of the balance sheet as of 31 December 2004 and 1 January 2005 in order to highlight the effects of the transition on each caption compared in the financial statements schedules.

The values shown in the aforementioned IFRS reconciliation statements will be used to prepare the comparatives for the first financial statements as of 31 December 2005 drawn up according to IAS/IFRS. However, these values might change if new international accounting principles are introduced or new interpretation or application rules are enforced.

The half year report of the SANPAOLO IMI Group is subjected to a limited audit by PricewaterhouseCoopers S.p.A., in accordance with Consob Recommendations no. 97001574 of 20 February 1997, no. 10867 of 31 July 1997 and no. 5025723 of 15 April 2005 and with the shareholders' resolution of 29 April 2004 which appointed them as auditors for the 2004/2006 three-year period. The financial statements as of 30 June 2004 – excluding the set of accounts restated by applying also IAS 32 and 39 as well as IFRS 4 – have been subjected to a limited audit.

Furthermore, also the reconciliations, required by IFRS 1 as regards the transition to the international accounting standards, relating to the shareholders' equity as of 1 January 2004, 31 December 2004 and 1 January 2005 as well as to the economic result for the 2004 financial year were subjected to a full audit by PricewaterhouseCoopers S.p.A., in compliance with Consob regulations set out in the above-mentioned Recommendation of 15 April 2005.

It is worth noting that the consolidated half year report includes also, pursuant to Art. 81 of the Issuers Regulations, information about the results of the Parent Bank for the six-month period, prepared according to the IAS/IFRS and included in the related section of this document.

Lastly, it is worth stressing that the information concerning the results achieved by the Group in the six-month period analyzed by Business Sector is shown in the Report on Operations together with the related comments.

## SECTION 2 - BASIS OF PREPARATION

The Group's accounting results have been obtained by applying the international accounting standards (IAS/IFRS) issued by the International Accounting Standard Board (IASB) and endorsed by the European Commission up to 30 June 2005 pursuant to European Regulation no. 1606 of 19 July 2002. Furthermore, in order to achieve a better interpretation and application of the new accounting principles, additional documents not adopted by the European Commission have also been examined:
- *Framework for the Preparation and Presentation of Financial Statements issued by the International Accounting Standards Board* (IASB);
- *Implementation Guidance, Basis for Conclusions* and any other documents drawn up by the IASB or the IFRIC to provide further guidance on the accounting principles issued.

Lastly, still on the subject of interpretation, other documents which have been taken into account are those dealing with the application of IAS/IFRS in Italy issued by the Italian Accounting Standards Authority and the Italian Bankers' Association (ABI).

## SECTION 3 - SCOPE OF CONSOLIDATION

The scope of consolidation on a line by line basis includes banking, financial and instrumental subsidiaries that are part of the SANPAOLO IMI Banking Group as recorded in the appropriate register in compliance with Art. 64 of D. Lgs. 385 dated 1 September 1993, the remaining subsidiaries that carry out activities different from those referred to above, and the entities or companies in respect of which the Group is exposed to the majority of the risks and obtains the majority of benefits. The scope of the line by line consolidation excludes some minor entities whose balance sheets and results of operations are not significant to the consolidated financial statements.

Joint control equity investments are consolidated using the proportional method whereas companies where the Group exercises "significant influence" are carried at equity. A company is considered as subject to joint control where agreements exist to the effect that any administrative, financial and management decisions require both the Group's consent and that of the other participants sharing the control over the company.

The financial statements used for the line by line and the proportional consolidation process are those prepared as of 30 June 2005, as approved by the boards of the subsidiaries concerned and adjusted, where necessary, for consistency with Group accounting policies. The valuation of investments using the equity method has been made on the basis of the latest reports or financial statements available.

The scope of the line by line and proportional consolidation of the Group as of 30 June 2005 has not changed significantly compared to the one as of 31 December 2004 which was on a IAS compliant basis. Details of the scope of the line by line and proportional consolidation as well as of the companies valued using the equity method can be found in Part B - Section 4 of these Notes to the consolidated financial statements.

## SECTION 4 - LOANS

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, increased by any direct transaction costs/income, if material and determinable.

At a later stage, loans are valued at the amortized cost using the effective interest rate criterion. 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 verified to establish if, owing to any losses in value, they may have to be stated at their estimated realizable value; the verification process takes into account the solvency of borrowers in difficulty and any debt-servicing problems faced by specific product sectors or countries where the borrowers reside, as well as any guarantees received and negative market trends involving homogeneous loan categories.

As regards the classification of impaired exposures under the various risk categories (non-performing, problem, restructured and expired exposures), reference was made to the provisions issued by the Bank of Italy on the subject, as integrated by internal regulations which prescribe automatic rules for the transfer of loans to the various risk categories. The classification is carried out by the operating structures with the assistance of the departments responsible for the control and recovery of loans.

Any adjustments to the value of loans shown in the financial statements are calculated taking into account the extent to which loans have deteriorated, whether they are valued on a case-by-case or aggregate basis, as detailed further on.

The following are valued on a case-by-case 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 estimated realizable value of impaired exposures that are valued on a case-by-case 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, shall be 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 by reference to the expected collection proceeds (future financial flows), their timing and the applicable discount rate.

As regards impaired exposures, the amounts of the expected collection proceeds shown in the collection schedules and their timing are determined on analytical assumptions made by the departments in charge of loan valuation and, where such assumptions are not available, on lump-sum estimates based on statistics of internal historical data and sector studies.

The discount rate used for the expected collection proceeds shown in the collection schedules of impaired exposures were the original rates used for medium- to long-term loans and the weighted average of the rates charged on short-term loan exposures.

The following loans are valued on an aggregate basis:
- expired exposures: exposures to subjects that are not classified under the previous risk categories which, at the end of the period, show outstanding loans or loans that are more than 180 days overdue. The valuation is made on a historical statistical basis;
- exposures subject to country risk: unsecured loans to borrowers residing in countries with debt-servicing difficulties. These loans are usually valued on a lump-sum basis, taking each country separately, by applying write-down percentages that are not lower than those specified by the banking association. These loans do not include expired exposures and those referred to above that are valued on a case-by-case basis;
- performing loans: loans to borrowers who, at the balance sheet date, have not yet shown any specific insolvency risks. General adjustments to performing loans are calculated by applying a model developed on the basis of Risk Management methodologies used by the Group's banks 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 valuation is made.

The model used to calculate the general valuation of performing loans involves the following stages:
- allocation of the loan portfolio based on:
  a. customer segments;
  b. business sectors;
  c. geographical location;
- calculation of the loss rate 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 under doubtful loans;
- 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 made by the current situation of the economic cycle on the various industrial sectors.

Write-downs, 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 write-downs, however, may be reinstated by means of write-backs recorded in a caption included under the statement of income where all net value adjustments on loans are recorded, in the event that the reason for such write-downs ceases to apply or the amount recovered on the loans is higher than that of the original write-down booked in the records.

Considering the methodology used to calculate the write-downs of impaired exposures, the mere passage of time, and the fact that the expected collection dates are, as a result, brought forward, implies an automatic reduction of the implicit financial charges previously deducted from the value of the loans. This effect is recorded in the financial statements under interest income.

If the loans are disposed, they are removed from the financial statements and any income (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 assignee, the Group still maintains control over the financial flows arising from the loans as well as the risks and rewards connected with it, the loan is still shown in the financial statements, a liability being recorded to reflect the proceeds received from the assignee.

## SECTION 5 - OTHER FINANCIAL INSTRUMENTS INCLUDED UNDER ASSETS

### 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.

### Held-for-trading investments

The 'Held-for-trading investments' 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.

Held-for-trading investments are initially recorded in the balance sheet at their fair value, which generally corresponds to the amount paid. Any direct transition costs/income are recorded in the statement of income.

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

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

The fair value of financial instruments quoted on active markets is represented by the related market quotation. 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 valuation models that are mainly based on objective financial variables as well as the prices recorded on recent transactions and market prices of similar financial instruments.

Derivatives are treated as assets if the fair value is positive and as liabilities if the fair value is negative. The Group 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.

Held-for-trading investments include also derivatives that are embedded in another complex financial instrument which must be separated from its host contract if:
- 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;
- a separate instrument with the same terms and conditions of the embedded derivative would meet the definition of derivative;
- the instrument that includes the embedded derivative is not valued at fair value, its value adjustment being recorded in the statement of income.

### Financial assets valued at fair value

According to the IAS/IFRS accounting standards approved by the European Commission, any financial asset that is so defined at the time of acquisition, regardless of the reason why it is held, can be classified under the category of financial assets valued at fair value through profit or loss.

Also in line with IASB recommendations, the Group has classified under that category mainly debt securities with embedded derivatives and debt securities that were not included under financial assets that are held for trading and that are hedged against.

## Held-to-maturity investments

The investments classified in this category are represented by non-derivative financial instruments, with fixed or determinable payments and fixed maturity that the Group intends to, and can, hold until maturity.

Held-to-maturity investments are valued 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 using the original effective interest rate.

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.

## Available-for-sale investments

These are assets different from loans and receivables, held-to-maturity investments and financial assets held for trading, including debt securities and equities that do not fall under the subsidiary, affiliated or joint control category.

Available-for-sale investments are initially recognized in the balance sheet at fair value, which generally corresponds to the amount paid to acquire them, increased by any transaction costs, where material and determinable, that are directly attributable to their acquisition.

They are subsequently valued at fair value, any gains or losses arising from changes in fair value being included as a specific reserve under equity.

Certain unquoted 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.

The results of the valuations 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 Group assesses whether an event has given rise to an impairment loss and determines its amount by making reference to its past experience on asset valuation 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 assess 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;
- collective 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 indicate 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 its cost can be considered as objective evidence of a reduction in value.

Impairment losses on equities cannot give rise to write-backs in the statement of income if the reason for the write-down ceases to exist. Such write-backs therefore shall only be 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 like the effects of exchange differences.

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

## SECTION 6 - HEDGING TRANSACTIONS

According to the financial policies adopted, the Group 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.

Group companies use of 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, that is portfolios of financial assets and liabilities, including core deposits, as permitted by IAS 39 approved by the European Commission;
- hedging of the variability of financial flows of assets/liabilities recorded in the financial statements or of highly probable forecast transactions;
- net investment hedges in foreign operations.

For the purpose of applying hedge accounting, governed by the related accounting principles, the Group formally documents the relationship between the hedging instruments and the hedged items as well as its risk management objectives, its strategy for undertaking the various hedging transactions and the methods used to verify hedge effectiveness. In line with the IAS discipline, hedge effectiveness is assessed both at hedge inception and on an ongoing basis. Generally a hedge is considered to be highly effective if, both at inception and during its life, the changes in the fair value or in the cash flows of the hedged item are almost completely offset by the changes in the fair value or in the cash flows of the hedging derivative, that is to say that the actual results fall within an interval ranging between 80% and 125%.

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

### Fair value hedge accounting

In case 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) 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.

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 case of interest-bearing financial instruments, or as a lump in all other cases.

### Cash flow hedge

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognized directly in shareholder's equity, under defaults in the cash flow hedge, with no impact on the statement of income. When the cash flows, that have been hedged against, eventually occur and are recorded in the statement of income, the above-mentioned 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 "Net dealing income".

### Net investment hedge in foreign operations

Net investment hedges in foreign operations are accounted for as follows:
- the effective portion of the gain or loss on the hedging instrument is recognized directly in equity, no entries being made in the statement of income;
- the amount recognized in equity is transferred to the statement of income upon disposal of the foreign operation.

## SECTION 7 - EQUITY INVESTMENTS

Equity investments which are neither consolidated on a line by line or proportional basis and shareholdings which are subject to significant influence by the Group are accounted for using the equity method. A company is considered as being subject to significant influence if the Group is actively involved in formulating the administrative, financial and operating policies of the company as a result of legal relationships and prevailing situations. Significant influence is assumed to exist when the Group holds at least 20% or more of the company's voting rights.

The remaining minority investments are classified in the categories provided for by IAS 39. In particular, investments not held for dealing purposes are generally included under 'available for sale financial assets.

## SECTION 8 - TANGIBLE AND INTANGIBLE ASSETS

### Tangible assets

Tangible assets include:
- land

- buildings
- fixtures and fittings
- electrical equipment
- other.

"Functional assets" are represented by assets either owned by the Group 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.

"Fixtures and fittings" are represented by assets either owned by the Group 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. Subsequently they are carried at cost less accumulated depreciation and provisions for impairment, if any.

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.

Depreciation is provided on the annual depreciable amount of tangible assets on a straight-line basis over their estimated useful lives. The useful life of tangible assets that are subject to depreciation is kept regularly under review to take account of any change in circumstances and if any initial estimates are changed then the related depreciation rate is adjusted too.

In particular, as regards property, the parts relating to land and buildings represent separate assets for accounting purposes and are recorded separately at the time 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 operating assets, as their useful life cannot be estimated and generally the related value does not depreciate due to the passage of time.

## 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 lines and represents the excess of the purchase amount paid over the net fair value of the Group's share of the assets acquired and the liabilities assumed on the date of the acquisition. Goodwill relating to investments accounted for using the equity method is included in the amount of the investments. 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. At consolidated level, to test for impairment, goodwill is allocated to groups of cash-generating units that represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. This is done also taking into account the organization structure of the Group and its Business Sectors.

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 statements 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.

## SECTION 9 - FINANCIAL INSTRUMENTS INCLUDED UNDER FINANCIAL LIABILITIES

### Debts and securities issued

Loans to banks and loans to customers include all technical forms of funding granted to the aforesaid counterparts including operating debts and finance lease liabilities.

Securities issued, both quoted and unquoted, including also investment certificates and certificates of deposits, are shown in the financial statements net of any repurchased portion.

Debts and securities issued are shown in the financial statements at fair value amended, where necessary, for any charges and income that are directly attributable to these liabilities. Fair value usually coincides with the proceeds received or the issue price of the securities.

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.

Deposits valued at amortized cost include sums collected by the Group’s insurance companies in respect of policies issued that are mainly financial products for investments where the risk is not entirely borne by the underwriter.

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.

### Financial dealing liabilities

Financial dealing liabilities include the negative results of the valuations of dealing derivatives.

### Investment contract liabilities

Investment contract liabilities, reported in the financial statements in caption 50. “Financial liabilities recorded as at fair value”, include amounts collected by the Group's insurance companies for policies issued that are mainly financial products for investments where the risk is entirely carried by the underwriter.

These contracts are evaluated according to the criteria set out in EC Directive 91/674 for insurance companies. More precisely, on the basis of the interpretations of the European Community in the context of the partial validation of IAS 39, the

SANPAOLO IMI Group has adopted the faculty of valuating such contracts, also for IAS/IFRS purposes, at their current value, as set out in D.Lgs. 173/97. Current value of the liabilities is calculated referring to asset values, share indices and other reference values. The impacts are reported in the relevant captions of the statement of income.

## SECTION 10 - INSURANCE PRODUCTS

### Financial products not included under separate management

Financial products that are not included under separate management, and which therefore do not contain discretionary participation features, are mostly represented by index-linked policies and some of the unit-linked ones, as well as those specific asset policies that are not included under separate management. These products are accounted for according to the principles set out in IAS 39, as summarized below:

- the products are shown in the financial statements as financial liabilities and are measured at fair value, on the basis of the option provided or at amortized cost. In particular, the portion of index- and unit-linked policies that are considered investment contracts are measured at fair value, whereas the specific asset products not included under separate management are valued at amortized cost;
- the statement of income does not reflect the premiums, payments and change in reserve concerning these products, but only the income items represented by the charges and commissions payable, and the cost items represented by the provisions and other charges. More specifically, the international accounting standards, contained in IAS 39 and 18, provide that income and costs relating to the products in question be identified and classified under two headings: (i) origination, to be recorded in the statement of income at the time the product is issued and (ii) investment and management services, to be amortized over the life of the product which depends on how the service is provided. In addition, as regards specific asset products not included under separate management, income and cost items are included in the calculation of the amount to be amortized;
- the insurance component included in the index- and unit-linked products, where it can be unbundled, is independently valued (“unbundling”).

### Financial products included under separate management

Financial products included under separate management, which therefore contain discretionary participation features, include the majority of life policies and mixed first branch policies, as well as fifth branch capitalization policies. These are accounted for according to the principles set out in IFRS 4, that is in brief:

- the products are shown in the financial statements according to principles that are very similar to the principles that are locally in force on the subject, any premiums, payments and changes in technical reserves being recorded in the statement of income;
- the products are valued by applying the so-called shadow accounting, whereby the differences between the book value and the market value of securities classified as available for sale investments are allocated to technical reserves as regards the insured’s portion and to equity as regards the insurance companies’ portion. If, instead, the securities are designated and recorded at fair value, through profit or loss, the difference between the book value and the market value is recorded in the statement of income giving rise to a change in technical reserves equal to the amount of the insured’s portion.

### Insurance products

Insurance products include, among other things, temporary first branch death policies and income and mixed policies with guaranteed fixed conversion rates at the time of issue, as well as unit-linked policies qualified as insurance instruments. As regards these products, IFRS 4 confirms the applicability of national accounting principles governing the insurance business which, in brief, provide that:

- gross premiums be recorded in the statement of income under income; they include all amounts matured during the financial year as a result of insurance contracts signed, net of cancellations; likewise, all premiums ceded to reinsurers are recorded under current year costs;
- if gross premiums are collected and recorded under income, the corresponding commitment towards the insured is accrued in technical reserves, such amount being calculated on a contract-by-contract basis using the prospective method taking into account demographic/financial assumptions currently used by the market.

## SECTION 11 - OTHER FINANCIAL STATEMENTS ITEMS AND OTHER INFORMATION

### Long-term discontinued assets

Assets held for sale are valued at the lower of book and fair value, net of selling costs; if these assets have been subject to depreciation, then the latter is no longer charged. These assets, being discontinued items, and any income/loss effect are stated separately in the balance sheet and in the statement of income. Individual discontinued assets, cash-generating units, either groups or single parts, are classified as being held for sale only when the sale is considered as highly probable.

### Tax assets and liabilities

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 income for the period.

Tax assets and liabilities include the tax balances of the single Group companies due to the relevant Italian and foreign tax authorities. 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 suffered or tax credits of previous financial years that any company within the Group can claim against taxes payable in future financial years.

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

Deferred taxation is computed under the so-called *liability method*, taking into account the tax effect of temporary differences between the book value of assets and liabilities and their value for taxation purposes which will give rise to taxable income or deductible amounts in future years. To this end, “taxable temporary differences” are differences which will give rise to taxable income in future years while “deductible temporary differences” are those which will give rise to deductible amounts in future years.

Deferred tax liabilities are calculated by applying, with regard to each consolidated company, the tax rates currently in force to taxable temporary differences that are likely to generate a tax burden and to the deductible temporary differences if these are likely to be recovered. Deferred tax assets and liabilities relating to the same tax and expiring in the same period are offset against each other.

In the financial years where deductible temporary differences are greater than taxable temporary differences, the related anticipated taxes are included under balance sheet assets among “Deferred tax assets”. On the other hand, in the years where taxable temporary differences are greater than deductible temporary differences, the related deferred taxes are included under balance sheet liabilities among deferred tax liabilities.

If Deferred tax assets and liabilities relate to items pertaining to the statement of income, the contra item will be represented by income tax.

Where anticipated and deferred taxation relate to transactions that have been recorded in the shareholders' equity without affecting the statement of income (such as for example the adjustments relating to the first application of the IAS, the valuations of available for sale investments or of cash flow hedge contracts), the contra entry is made in shareholders' equity, under specific reserves where so provided (e.g. valuation reserves).

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 Art. 21 of D. Lgs. 213/98", that qualify for deferred taxation, is charged directly against this reserve.

No provision is made for the Parent Bank's reserves subject to taxation only in the event of distribution. This is because such reserves are allocated to accounts that are not available for distribution and because the events which would give rise to such taxation are not expected to occur.

Deferred taxation on shareholders' equity items of consolidated companies is not recorded in the financial statements if it is unlikely that any tax liability will actually arise, also bearing in mind the permanent nature of the investment.

## Termination indemnities

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

Defined benefit plans included in the financial statements require to be calculated using actuarial techniques which provide an estimate of the sums matured by employees in exchange for services rendered in the current year and in previous years which are then discounted to obtain the present value of the Group's commitments.

The present value of the Group's commitments is calculated by an external expert using the Projected Unit Credit Method. This method, which falls within the domain of general techniques relating to the so-called "accrued benefits", takes into account each period of service by the employee with the company as an additional unit of benefit entitlement: therefore, the total actuarial liability must be quantified taking into account only the employee's number of years of service with the company at the valuation date, and the overall liability is usually recalculated based on the relationship between the number of years of service accrued at the valuation date and the total number of years of service matured at the time the benefit will be paid. Furthermore, the above method takes into account also any future pay increases, owing to whatever reason (inflation, seniority and promotion, contract renewal) up to the time the work contract terminates.

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 Group'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.

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 with expiry equal to the average remaining life of the liability.

Any actuarial gains or losses, defined as the difference between the value shown in the financial statements and the present value of the Bank's commitments at the end of the period, are recorded on the basis of the "corridor" method that is only when they exceed 10% of the present value of the Bank's commitments at the end of the period. In such case, the amount exceeding the 10% is charged to the statement of income in line with the employees' average remaining working life from the beginning of the following financial year.

### Provisions for risks and charges

Provisions for risks and charges represent reserves provided to cover known or likely liabilities the extent or timing of which is uncertain at year end and which are shown in the financial statements for the following reasons:
- 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.

Sub-caption "Pensions and similar commitments" includes provisions booked according to IAS 19 "Employee benefits" to balance the technical deficit of the supplementary defined benefit retirement plan.

Actuarial calculations are carried out in this case too, as provided by the reference accounting principle, by an external actuary based on the "Projected Unit Credit Method".

More specifically, the Group's commitment is calculated as the algebraic sum of the following values:
- the present average value of pension benefits calculated considering, for the employees in service, only the years of service already rendered and assumptions that take into account future pay increases;
- less the current value of the assets of the pension fund;
- (less or plus) any actuarial gain or loss not included in the financial statements, according to the "corridor" method.

As mentioned earlier, the "corridor" method requires that any actuarial gains/losses, defined as the difference between the value of the balance sheet liability and the present value of the Bank's commitments at the end of the period, are recorded in the financial statements only when they exceed the greater of 10% of the average present value of pension benefits and 10% of the current value of the pension fund assets. The amount exceeding the 10% is charged to the statement of income in line with the average remaining working life of employees in service and the average remaining working life of retired employees from the beginning of the following financial year.

The discount rate used for the valuations is established based on the market rate of zero coupon bonds, 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.

The "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 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 financial year end, including accruals for incentive voluntary redundancy payments, other welfare and social contributions as well as contractual indemnities due to Private Bankers of the Group.

Where the liability is expected to crystallize after a significant period of time, the Group 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 money 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. Such increase is accounted for as interest payable.

"Other funds" include provisions to set up the reserve necessary to pay out seniority bonuses to employees that become payable upon reaching 25 and 35 years of service. These provisions have also been accrued on the basis of an independent actuary by adopting the methods recommended by IAS 19 dealt with earlier. Considering the characteristics of the Group's commitment, the 'corridor' method is not applicable, therefore any actuarial gain or loss is recorded in the financial statements regardless of their amount.

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 write-downs owing to the deterioration of guarantees given, the derivative contracts assimilated to the former according to international accounting standards and the irrevocable commitments to grant finance. These write-downs are included under 'Other liabilities'.

## Valuation reserves

Valuation reserves include reserves arising from the valuation of available for sale investments, net of "shadow accounting" of insurance liabilities, net derivative contracts used as cash flow hedges and the revaluation reserves set up pursuant to special laws in past financial years that have not been allocated to other items making up Group shareholders' equity. Furthermore, the caption includes also revaluations of tangible assets made when the IAS/IFRS were first applied.

## Own shares

Own shares purchased are shown in the financial statements at cost under a specific caption, with a minus sign, as part of the Group shareholders' equity and as a result they are not valued.

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.

## Currency transactions

Foreign currency transactions are recorded in euro, applying the exchange rate ruling at the date of the transaction.

Monetary items are translated at the exchange rate ruling 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 ruling 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 ruling at the previous year-end 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 the 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, in the financial statements, the related changes in fair value.

## 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

As regards the stock option plans in favor of employees and private bankers of the Group resolved starting from November 2002 and December 2002 respectively, the Group applies the accounting treatment set out in IFRS 2 which deals with share-based payments.

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 is included in the statement of income under a specific caption, being allocated over the period that the rights assigned mature, the other side of the entry being in a caption included under shareholders' equity which is not available for distribution.

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.

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 is included in the financial statements using the fair value of the sale proceeds received, as long as the following conditions are met:
- the Group 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 Group.

Commissions receivable and other income for services rendered are included in the financial statements in the period in which the services are actually provided.

In particular, revenue arising from the sale of insurance policies where the risk is borne by the insured are included on the basis of the duration of the contract. The costs relating to the purchase of these contracts are accounted for in the statement of income in the same period as the related revenue is recorded.

Other income is recorded in the financial statements according to the accruals concept. In particular:
- interest, including similar revenue and charges, is accounted for on the basis of the accrual 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, prices applied to recent transactions in the same market where the instrument is traded can be verified. Failing these conditions, the estimated difference is recorded in the statement of income on a straight-line basis over the duration of the transactions.

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 B - Information on the balance sheet and off-balance sheet transactions

## SECTION 1 - LOANS

*Analysis of caption 60 "Due from banks"*

| | 30/6/05 (€/mil) |
|---|---|
| A. Deposits with central banks | |
| 1. Deposits | 26 |
| 2. Compulsory reserve | 159 |
| 3. Repurchase agreements | - |
| 4. Other | 92 |
| B. Loans to banks | |
| 1. Current accounts | 1,349 |
| 2. Deposits | 7,979 |
| 3. Repurchase agreements | 13,295 |
| 4. Loans | 2,558 |
| *of which:*<br>*– finance leases* | - |
| Total | 25,458 |
| Accruals | 113 |
| Changes due to fair value hedge | - |
| Total | 25,571 |
| Securities | 594 |
| Non-performing assets | - |
| Total | 26,165 |

*Analysis of caption 70 "Loans to customers"*

| | 30/6/05 (€/mil) |
|---|---|
| 1. Current accounts and deposits | 17,660 |
| 2. Repurchase agreements | 2,818 |
| 3. Mortgage loans | 70,156 |
| 4. Personal loans | 4,318 |
| 5. Finance leases | 6,011 |
| 6. Loans repurchased by third parties | 1,203 |
| 7. Other | 27,637 |
| Total | 129,803 |
| Accruals | 456 |
| Changes due to fair value hedge | 957 |
| Total | 131,216 |
| Securities | 118 |
| Non-performing assets | 1,109 |
| Total | 132,443 |

Loans to customers include 754 million euro of loans to Società per la gestione di attività S.p.A. (Sga), of which 742 million euro (814 million euro as of 31 December 2004) granted under Law 588/96. Furthermore, in accordance with the international accounting standards, loans to customers include also loans for performing leasing contracts assigned in the last quarter of 2004, by Sanpaolo Leasint within the context of the Split2 securitization transaction (1,675 million euro as of 30 June 2005), the latter lacking the requisites to allow the derecognition of the above-mentioned loans.

Details about credit quality and the degree of risk of the loan portfolio can be found in Part B - Section 3 – *Quality of loans and financial instruments included under assets* of these Notes.

## SECTION 2 - OTHER FINANCIAL INSTRUMENTS INCLUDED UNDER ASSETS

*Analysis of caption 10 "Cash and deposits"*

| | 30/6/05 (€/mil) |
|---|---|
| a) Cash | 851 |
| b) Sight deposits at central banks | 165 |
| Total | 1,016 |

*Analysis of caption 20 "Financial assets held for trading"*

| | 30/6/05 (€/mil) |
|---|---|
| A. Cash assets | |
| 1. Debt securities | 19,482 |
| 2. Equity shares | 3,470 |
| 3. O.I.C.R. shares | 2,436 |
| 4. Loans | - |
| *of which:* *– fair value changes* | - |
| 5. Non-performing assets | 2 |
| Total | 25,390 |
| B. Derivative instruments | 11,169 |
| Total | 36,559 |

Equities include listed and unlisted instruments amounting to 3,466 million euro and 4 million euro respectively.

*Analysis of caption 30 "Financial assets designated as at fair value"*

| | 30/6/05 (€/mil) |
|---|---|
| 1. Debt securities | 22,669 |
| 2. Equity shares | 3,149 |
| 3. O.I.C.R. shares | 240 |
| 4. Loans | - |
| *of which:* *– fair value changes* | - |
| 5. Non-performing assets | - |
| Total | 26,058 |

Equities include listed and unlisted instruments amounting to 3,144 million euro and 5 million euro respectively.

Assets valued at fair value include assets in which monies collected through insurance policies where the total risk is retained by the insured (so called Class D) were invested. The amount of assets recorded at fair value which relate to the insurance business is equal to 25,125 million euro.

*Analysis of caption 40 "Available-for-sale investments"*

| | 30/6/05 (€/mil) |
|---|---|
| 1. Debt securities | 24,821 |
| 2. Equity shares | 3,342 |
| 3. O.I.C.R. shares | 400 |
| 4. Loans | 10 |
| *of which:* *– fair value changes* | - |
| 5. Non-performing assets | - |
| Total | 28,573 |

Equities include listed and unlisted instruments amounting to 1,747 million euro and 1,595 million euro respectively.

Financial assets available for sale include the interest held by the Group in Santander Central Hispano equal to 1,312 million euro.

*Analysis of caption 50 "Held-to-maturity investments"*

| | 30/6/05 (€/mil) |
|---|---|
| 1. Debt securities | 1,660 |
| 2. Loans | - |
| 3. Non-performing assets | - |
| Total | 1,660 |

Financial assets held until expiry which relate to the Parent Bank amount to 1,441 million euro. Most of the contribution by other companies comes from Banka Koper D.D. (198 million euro).

# SECTION 3 - QUALITY OF LOANS AND OTHER FINANCIAL INSTRUMENTS INCLUDED UNDER ASSETS

*Financial assets analyzed by portfolio and credit quality*

*(€/mil)*

| Portfolios/Quality | Non-performing | Problem | Restructured loans | Loans more than 180 days overdue | Country risk | Performing loans | Total |
|---|---|---|---|---|---|---|---|
| 1. Financial assets held for trading | 2 | - | - | - | - | 36,557 | 36,559 |
| 2. Available-for-sale investments | - | - | - | - | - | 28,573 | 28,573 |
| 3. Held-to-maturity investments | - | - | - | - | - | 1,660 | 1,660 |
| 4. Loans to banks | - | - | - | - | 46 | 26,119 | 26,165 |
| 5. Loans to customers | 1,109 | 1,037 | 122 | 1,010 | 29 | 129,136 | 132,443 |
| 6. Financial assets designated as at fair value | - | - | - | - | - | 26,058 | 26,058 |
| 7. Discontinued financial assets | - | - | - | - | - | - | - |
| 8. Hedging derivatives | - | - | - | - | - | 855 | 855 |
| Total | 1,111 | 1,037 | 122 | 1,010 | 75 | 248,958 | 252,313 |
| *– loans to banks and customers* | *1,109* | *1,037* | *122* | *1,010* | *75* | *154,553* | *157,906* |
| *– debt securities issued by banks and customers* | *2* | - | - | - | - | *69,344* | *69,346* |
| *– derivatives* | - | - | - | - | - | *12,024* | *12,024* |
| *– other equities and O.I.C.R. shares* | - | - | - | - | - | *13,037* | *13,037* |

The “Country risk” column includes all unsecured exposures to risk countries that do not fall within the other column headings.

*Loans to customers: gross and net values*

*(€/mil)*

| Type of loan/Amount | Gross exposure | Specific value adjustments | Portfolio value adjustments | Net exposure |
|---|---|---|---|---|
| A. Impaired exposures | | | | |
| 1) Non-performing loans | 4,533 | 3,422 | - | 1,111 |
| – loans to customers | 4,531 | 3,422 | - | 1,109 |
| – debt securities issued by customers | 2 | - | - | 2 |
| 2) Problem loans | 1,543 | 506 | - | 1,037 |
| – loans to customers | 1,543 | 506 | - | 1,037 |
| – debt securities issued by customers | - | - | - | - |
| 3) Restructured loans | 150 | 28 | - | 122 |
| – loans to customers | 150 | 28 | - | 122 |
| – debt securities issued by customers | - | - | - | - |
| 4) Loans more than 180 days overdue | 1,143 | 35 | 98 | 1,010 |
| – loans to customers | 1,143 | 35 | 98 | 1,010 |
| – debt securities issued by customers | - | - | - | - |
| 5) Country risk | 39 | 10 | - | 29 |
| – loans to customers | 39 | 10 | - | 29 |
| – debt securities issued by customers | - | - | - | - |
| Total impaired exposures | 7,408 | 4,001 | 98 | 3,309 |
| B. Performing loans | | | | |
| – loans to customers | 130,032 | == | 1,014 | 129,018 |
| – debt securities issued by customers | 54,444 | == | - | 54,444 |
| Total performing loans | 184,476 | - | 1,014 | 183,462 |
| Total | 191,884 | 4,001 | 1,112 | 186,771 |

Total adjustments as of 30 June 2005 include 174 million euro relating to the adoption of a policy for discounting doubtful loans. More specifically, writedowns for discounting purposes total 146 million euro on non-performing loans, 24 million euro on problem loans and 4 million euro on restructured.

*Coverage of loans to customers*

| Categories | 30/6/05 (%) |
|---|---|
| Non-performing loans | 75.5 |
| Problem and restructured loans | 31.5 |
| Loans more than 180 days overdue | 11.6 |
| Unguaranteed loans to risk countries | 25.6 |
| Performing loans | 0.8 |

*Loans to banks: gross and net amounts*

*(€/mil)*

| Type of loan/Amount | Gross exposure | Specific value adjustments | Portfolio value adjustments | Net exposure |
|---|---|---|---|---|
| A. Impaired exposures | | | | |
| 1) Non-performing loans | 3 | 3 | - | - |
| – loans to banks | 3 | 3 | - | - |
| – debt securities issued by banks | - | - | - | - |
| 2) Problem loans | 1 | 1 | - | - |
| – loans to banks | 1 | 1 | - | - |
| – debt securities issued by banks | - | - | - | - |
| 3) Restructured loans | - | - | - | - |
| – loans to banks | - | - | - | - |
| – debt securities issued by banks | - | - | - | - |
| 4) Loans more than 180 days overdue | - | - | - | - |
| – loans to banks | - | - | - | - |
| – debt securities issued by banks | - | - | - | - |
| 5) Country risk | 56 | 10 | - | 46 |
| – loans to banks | 56 | 10 | - | 46 |
| – debt securities issued by banks | - | - | - | - |
| Total impaired exposures | 60 | 14 | - | 46 |
| B. Performing loans | | | | |
| – loans to banks | 25,551 | == | 16 | 25,535 |
| – debt securities issued by banks | 14,900 | == | - | 14,900 |
| Total performing loans | 40,451 | - | 16 | 40,435 |
| Total | 40,511 | 14 | 16 | 40,481 |

In the first half of the year the Group sold loans to customers for a consideration of 62 million euro, of which 58 million related to non-performing loans and 4 million euro to problem loans. These loans are carried in the financial statements for a total gross value of 230 million euro (of which 226 million euro for non-performing loans, 4 million euro for problem loans) and for a total net value of 41 million euro (of which 37 million euro for non-performing loans and 4 million euro for problem loans). The above-mentioned transactions include indeed the effects of the non-recourse sale of non-performing loans of amounts lower than 50,000 euro completed in the second quarter of the year against a claimed loan of 278 million euro.

## SECTION 4 - SCOPE OF CONSOLIDATION AND EQUITY INVESTMENTS

We provide below the list of the companies included in the scope of consolidation by applying the line by line and proportional method.

| | Company name | Registered office | Type of relation-ship (1) | Ownership | | Voting rights at Ordinary Shareholders' Meeting (%) (2) | Consolida-ted book value (€/mil) | Re-marks |
|---|---|---|---|---|---|---|---|---|
| | | | | Held by | % | | | |
| | **Entities included in the consolidation using the line by line method** | | | | | | | |
| | **SANPAOLO IMI S.p.A.** (Parent Bank) | Turin | | - | - | - | - | |
| 1 | Alcedo S.r.l. | Padua | 1 | Sanpaolo IMI Private Equity | 100.00 | 100.00 | XXX | |
| 2 | Assicurazioni Internazionali di Previdenza S.p.A. | Turin | 1 | Sanpaolo IMI | 99.96 | 99.96 | XXX | |
| 3 | Banca Comerciala Sanpaolo IMI Bank Romania S.A. | Romania | 1 | Sanpaolo IMI Internazionale | 98.65 | 98.65 | XXX | (A) |
| 4 | Banca Fideuram S.p.A. | Rome | 1 | Sanpaolo IMI | 73.37 | 73.43 | XXX | |
| 5 | Banca d'Intermediazione Mobiliare IMI S.p.A. (Banca IMI) | Milan | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 6 | Banca IMI Securities Corp. | United States | 1 | IMI Capital Market USA | 100.00 | 100.00 | XXX | |
| 7 | Banca OPI S.p.A. | Rome | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 8 | Banca Popolare dell'Adriatico S.p.A. | Teramo | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 9 | Banka Koper d.d. | Slovenia | 2 | Sanpaolo IMI | 63.89 | 32.99 | XXX | (B) |
| 10 | Banque Privée Fideuram Wargny S.A. | France | 1 | Financiere Fideuram | 99.91 | 99.91 | XXX | |
| 11 | Cassa di Risparmio di Padova e Rovigo S.p.A. | Padua | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 12 | Cassa di Risparmio di Venezia S.p.A. | Venice | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 13 | Cassa di Risparmio in Bologna S.p.A. | Bologna | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 14 | Egida Compagnia di Assicurazioni e Riassicurazioni S.p.A. | Turin | 1 | A.I.P. | 50.00 | 50.00 | XXX | (C) |
| 15 | Europool Befektetesi Alapkezelo Rt. | Hungary | 1 | Inter-Europa Bank | 54.00 | 54.00 | XXX | |
| | (subsequently IE Befektetesi Alapkezelo Rt.) | | | Inter-Europa Consulting | 46.00 | 46.00 | XXX | |
| | | | | | 100.00 | 100.00 | | |
| 16 | Farbanca S.p.A. | Bologna | 1 | Sanpaolo IMI | 22.69 | 22.69 | XXX | |
| 17 | Fideuram Asset Management (Ireland) Ltd | Ireland | 1 | Banca Fideuram | 100.00 | 100.00 | XXX | |
| 18 | Fideuram Assicurazioni S.p.A. | Rome | 1 | A.I.P. | 100.00 | 100.00 | XXX | |
| 19 | Fideuram Bank S.A. | Luxembourg | 1 | Banca Fideuram | 99.99 | 99.99 | XXX | |
| | | | | A.I.P. | 0.01 | 0.01 | XXX | |
| | | | | | 100.00 | 100.00 | | |
| 20 | Fideuram Bank (Suisse) A.G. | Switzerland | 1 | Fideuram Bank | 99.95 | 99.95 | XXX | |
| 21 | Fideuram Fiduciaria S.p.A. | Rome | 1 | Banca Fideuram | 100.00 | 100.00 | XXX | |
| 22 | Fideuram Fund Bond Global Emerging Markets | Luxembourg | 2 | A.I.P. | 57.65 | - | XXX | (D) |
| 23 | Fideuram Fund Bond Global High Yield | Luxembourg | 2 | A.I.P. | 54.10 | - | XXX | (D) |
| 24 | Fideuram Fund Bond Yen | Luxembourg | 2 | A.I.P. | 50.69 | - | XXX | (D) |
| 25 | Fideuram Fund Equity Europe | Luxembourg | 2 | A.I.P. | 95.60 | - | XXX | (D) |
| 26 | Fideuram Fund Equity France | Luxembourg | 2 | A.I.P. | 100.00 | - | XXX | (D) |
| 27 | Fideuram Fund Equity Global Emerging Markets | Luxembourg | 2 | A.I.P. | 93.61 | - | XXX | (D) |
| 28 | Fideuram Fund Equity Italy | Luxembourg | 2 | A.I.P. | 93.73 | - | XXX | (D) |
| 29 | Fideuram Fund Equity Japan | Luxembourg | 2 | A.I.P. | 94.30 | - | XXX | (D) |
| 30 | Fideuram Fund Equity Pacific Ex Japan | Luxembourg | 2 | A.I.P. | 91.92 | - | XXX | (D) |
| 31 | Fideuram Fund Equity Usa | Luxembourg | 2 | A.I.P. | 95.23 | - | XXX | (D) |

*(cont: companies included in line by line consolidation)*

| Company name | Registered office | Type of relation-ship (1) | Ownership Held by | % | Voting rights at Ordinary Shareholders' Meeting (%) (2) | Consolida-ted book value (€/mil) | Re-marks |
|---|---|---|---|---|---|---|---|
| 32 Fideuram Fund Euro Bond Long Risk | Luxembourg | 2 | A.I.P. | 50.32 | - | XXX | (D) |
| 33 Fideuram Fund Euro Bond Low Risk | Luxembourg | 2 | A.I.P. | 53.80 | - | XXX | (D) |
| 34 Fideuram Fund Euro Bond Medium Risk | Luxembourg | 2 | A.I.P. | 55.30 | - | XXX | (D) |
| 35 Fideuram Fund Euro Corporate Bond | Luxembourg | 2 | A.I.P. | 57.22 | - | XXX | (D) |
| 36 Fideuram Fund Europe Listed Consumer Discretionary Equity | Luxembourg | 2 | A.I.P. | 59.66 | - | XXX | (D) |
| 37 Fideuram Fund Europe Listed Consumer Staples Equity | Luxembourg | 2 | A.I.P. | 65.62 | - | XXX | (D) |
| 38 Fideuram Fund Europe Listed Energy Materials-Utilities Equity | Luxembourg | 2 | A.I.P. | 57.41 | - | XXX | (D) |
| 39 Fideuram Fund Europe Listed Financials Equity | Luxembourg | 2 | A.I.P. | 57.20 | - | XXX | (D) |
| 40 Fideuram Fund Europe Listed Health Care Equity | Luxembourg | 2 | A.I.P. | 54.30 | - | XXX | (D) |
| 41 Fideuram Fund Europe Listed Industrials Equity | Luxembourg | 2 | A.I.P. | 55.94 | - | XXX | (D) |
| 42 Fideuram Fund Europe Listed T.T. Equity | Luxembourg | 2 | A.I.P. | 61.20 | - | XXX | (D) |
| 43 Fideuram Fund Usa Listed Consumer Discretionary Equity | Luxembourg | 2 | A.I.P. | 60.69 | - | XXX | (D) |
| 44 Fideuram Fund Usa Listed Consumer Staples Equity | Luxembourg | 2 | A.I.P. | 56.30 | - | XXX | (D) |
| 45 Fideuram Fund Usa Listed Energy Materials-Utilities Equity | Luxembourg | 2 | A.I.P. | 51.32 | - | XXX | (D) |
| 46 Fideuram Fund Usa Listed Financials Equity | Luxembourg | 2 | A.I.P. | 57.30 | - | XXX | (D) |
| 47 Fideuram Fund Usa Listed Health Care Equity | Luxembourg | 2 | A.I.P. | 58.66 | - | XXX | (D) |
| 48 Fideuram Fund Usa Listed Industrials Equity | Luxembourg | 2 | A.I.P. | 54.76 | - | XXX | (D) |
| 49 Fideuram Fund Usa Listed T.T. Equity | Luxembourg | 2 | A.I.P. | 56.62 | - | XXX | (D) |
| 50 Fideuram Fund Zero Coupon 2006 | Luxembourg | 2 | A.I.P. | 99.96 | - | XXX | (D) |
| 51 Fideuram Fund Zero Coupon 2007 | Luxembourg | 2 | A.I.P. | 100.00 | - | XXX | (D) |
| 52 Fideuram Fund Zero Coupon 2008 | Luxembourg | 2 | A.I.P. | 99.92 | - | XXX | (D) |
| 53 Fideuram Fund Zero Coupon 2009 | Luxembourg | 2 | A.I.P. | 100.00 | - | XXX | (D) |
| 54 Fideuram Fund Zero Coupon 2010 | Luxembourg | 2 | A.I.P. | 99.89 | - | XXX | (D) |
| 55 Fideuram Fund Zero Coupon 2011 | Luxembourg | 2 | A.I.P. | 99.97 | - | XXX | (D) |
| 56 Fideuram Fund Zero Coupon 2012 | Luxembourg | 2 | A.I.P. | 99.95 | - | XXX | (D) |
| 57 Fideuram Fund Zero Coupon 2013 | Luxembourg | 2 | A.I.P. | 99.73 | - | XXX | (D) |
| 58 Fideuram Fund Zero Coupon 2014 | Luxembourg | 2 | A.I.P. | 99.77 | - | XXX | (D) |
| 59 Fideuram Fund Zero Coupon 2015 | Luxembourg | 2 | A.I.P. | 99.30 | - | XXX | (D) |
| 60 Fideuram Fund Zero Coupon 2016 | Luxembourg | 2 | A.I.P. | 99.44 | - | XXX | (D) |
| 61 Fideuram Fund Zero Coupon 2017 | Luxembourg | 2 | A.I.P. | 99.79 | - | XXX | (D) |
| 62 Fideuram Fund Zero Coupon 2018 | Luxembourg | 2 | A.I.P. | 99.67 | - | XXX | (D) |
| 63 Fideuram Fund Zero Coupon 2019 | Luxembourg | 2 | A.I.P. | 99.47 | - | XXX | (D) |
| 64 Fideuram Fund Zero Coupon 2020 | Luxembourg | 2 | A.I.P. | 98.66 | - | XXX | (D) |
| 65 Fideuram Fund Zero Coupon 2021 | Luxembourg | 2 | A.I.P. | 99.00 | - | XXX | (D) |
| 66 Fideuram Fund Zero Coupon 2022 | Luxembourg | 2 | A.I.P. | 99.43 | - | XXX | (D) |
| 67 Fideuram Fund Zero Coupon 2023 | Luxembourg | 2 | A.I.P. | 99.16 | - | XXX | (D) |
| 68 Fideuram Fund Zero Coupon 2024 | Luxembourg | 2 | A.I.P. | 99.40 | - | XXX | (D) |

*(cont: companies included in line by line consolidation)*

| | Company name | Registered office | Type of relation-ship (1) | Ownership Held by | Ownership % | Voting rights at Ordinary Shareholders' Meeting (%) (2) | Consolida-ted book value (€/mil) | Re-marks |
|---|---|---|---|---|---|---|---|---|
| 69 | Fideuram Fund Zero Coupon 2025 | Luxembourg | 2 | A.I.P. | 98.00 | - | XXX | (D) |
| 70 | Fideuram Fund Zero Coupon 2026 | Luxembourg | 2 | A.I.P. | 99.88 | - | XXX | (D) |
| 71 | Fideuram Fund Zero Coupon 2027 | Luxembourg | 2 | A.I.P. | 99.49 | - | XXX | (D) |
| 72 | Fideuram Fund Zero Coupon 2028 | Luxembourg | 2 | A.I.P. | 98.26 | - | XXX | (D) |
| 73 | Fideuram Fund Zero Coupon 2029 | Luxembourg | 2 | A.I.P. | 98.56 | - | XXX | (D) |
| 74 | Fideuram Fund Zero Coupon 2030 | Luxembourg | 2 | A.I.P. | 95.49 | - | XXX | (D) |
| 75 | Fideuram Fund Zero Coupon 2031 | Luxembourg | 2 | A.I.P. | 99.50 | - | XXX | (D) |
| 76 | Fideuram Fund Zero Coupon 2032 | Luxembourg | 2 | A.I.P. | 100.00 | - | XXX | (D) |
| 77 | Fideuram Fund Zero Coupon 2033 | Luxembourg | 2 | A.I.P. | 99.29 | - | XXX | (D) |
| 78 | Fideuram Fund Zero Coupon 2034 | Luxembourg | 2 | A.I.P. | 99.22 | - | XXX | (D) |
| 79 | Fideuram Fund Zero Coupon 2035 | Luxembourg | 2 | A.I.P. | 94.97 | - | XXX | (D) |
| 80 | Fideuram Gestions S.A. | Luxembourg | 1 | Banca Fideuram | 99.94 | 99.94 | XXX | |
| | | | | A.I.P. | 0.06 | 0.06 | XXX | |
| | | | | | 100.00 | 100.00 | | |
| 81 | Fideuram Investimenti S.G.R. S.p.A. | Rome | 1 | Banca Fideuram | 99.50 | 99.50 | XXX | |
| 82 | Fideuram Wargny Active Broker S.A. | France | 1 | Banque Privée Fideuram Wargny | 100.00 | 100.00 | XXX | |
| 83 | Fideuram Wargny Gestion S.A. | France | 1 | Banque Privée Fideuram Wargny | 99.97 | 99.97 | XXX | (E) |
| 84 | Fideuram Wargny Gestion S.A.M. | Principality of Monaco | 1 | Banque Privée Fideuram Wargny | 99.95 | 99.95 | XXX | |
| 85 | Fin. OPI S.p.A. | Turin | 1 | Banca OPI | 100.00 | 100.00 | XXX | |
| 86 | Financière Fideuram S.A. | France | 1 | Banca Fideuram | 96.97 | 96.97 | XXX | |
| 87 | Finemiro Banca S.p.A. (subsequently Neos Banca S.p.A.) | Bologna | 1 | Sanpaolo IMI | 96.84 | 96.84 | XXX | |
| 88 | Finemiro Finance S.p.A. (subsequently Neos Finance S.p.A.) | Bologna | 1 | Finemiro Banca | 100.00 | 100.00 | XXX | |
| 89 | Friulcassa S.p.A. | Gorizia | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 90 | GEST Line S.p.A. | Naples | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 91 | IDEA S.A. | Luxembourg | 1 | Sanpaolo Bank | 99.17 | 99.17 | XXX | |
| | | | | Sanpaolo IMI International | 0.83 | 0.83 | XXX | |
| | | | | | 100.00 | 100.00 | | |
| 92 | IE-New York Broker Rt | Hungary | 1 | Inter-Europa Consulting | 90.00 | 90.00 | XXX | |
| | | | | Inter-Europa Bank | 10.00 | 10.00 | XXX | |
| | | | | | 100.00 | 100.00 | | |
| 93 | IMI Capital Markets USA Corp. | United States | 1 | IMI Investments | 100.00 | 100.00 | XXX | |
| 94 | IMI Finance Luxembourg S.A. | Luxembourg | 1 | IMI Investments | 100.00 | 100.00 | XXX | |
| 95 | IMI Investimenti S.p.A. | Turin | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 96 | IMI Investments S.A. | Luxembourg | 1 | Banca IMI | 99.99 | 99.99 | XXX | |
| | | | | Banca IMI Securities | 0.01 | 0.01 | XXX | |
| | | | | | 100.00 | 100.00 | | |
| 97 | Inter-Europa Bank Rt | Hungary | 1 | Sanpaolo IMI Internazionale | 85.87 | 85.87 | XXX | (F) |
| 98 | Inter-Europa Beruhazo Kft | Hungary | 1 | Inter-Europa Bank | 100.00 | 100.00 | XXX | |
| 99 | Inter-Europa Consulting Kft | Hungary | 1 | Inter-Europa Fejlesztesi | 51.00 | 51.00 | XXX | |
| | | | | Inter-Europa Szolgaltato | 49.00 | 49.00 | XXX | |
| | | | | | 100.00 | 100.00 | | |

*(cont: companies included in line by line consolidation)*

| Company name | Registered office | Type of relation-ship (1) | Ownership Held by | % | Voting rights at Ordinary Shareholders' Meeting (%) (2) | Consolida-ted book value (€/mil) | Re-marks |
|---|---|---|---|---|---|---|---|
| 100 Inter-Europa Ertekesitesi Kft | Hungary | 1 | Inter-Europa Bank | 100.00 | 100.00 | XXX | |
| 101 Inter-Europa Fejlesztesi Kft | Hungary | 1 | Inter-Europa Bank | 100.00 | 100.00 | XXX | |
| 102 Inter-Europa Szolgaltato Kft | Hungary | 1 | Inter-Europa Bank | 100.00 | 100.00 | XXX | |
| 103 Inter-Invest Risk Management Vagyonkezelo Rt | Hungary | 1 | Inter-Europa Bank | 48.00 | 48.00 | XXX | |
| | | | Inter-Europa Consulting | 48.00 | 48.00 | XXX | |
| | | | Inter-Europa Szolgaltato | 4.00 | 4.00 | XXX | |
| | | | | 100.00 | 100.00 | | |
| 104 LDV Holding B.V. | Holland | 1 | Sanpaolo IMI Private Equity | 100.00 | 100.00 | XXX | |
| 105 Lyxor Global Equity Capital Guaranteed Fund | Luxembourg | 2 | A.I.P. | 96.38 | - | XXX | (D) |
| 106 Lyxor Noricum Cash Guaranteed | Luxembourg | 2 | A.I.P. | 98.28 | - | XXX | (D) |
| 107 NHS Investments S.A. | Luxembourg | 1 | IMI Investimenti | 99.99 | 99.99 | XXX | |
| | | | LDV Holding | 0.01 | 0.01 | XXX | |
| | | | | 100.00 | 100.00 | | |
| 108 Sanpaolo Banco di Napoli S.p.A. | Naples | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 109 Sanpaolo Bank S.A. | Luxembourg | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 110 Sanpaolo Bank (Suisse) S.A. | Switzerland | 1 | Sanpaolo Bank | 99.98 | 99.98 | XXX | |
| 111 Sanpaolo Fiduciaria S.p.A. | Milan | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 112 Sanpaolo IMI Alternative Investments S.G.R. S.p.A. | Milan | 1 | Sanpaolo IMI Asset Management | 100.00 | 100.00 | XXX | |
| 113 Sanpaolo IMI Asset Management Luxembourg S.A. (formerly Sanpaolo IMI WM Luxembourg S.A.) | Luxembourg | 1 | Sanpaolo IMI Asset Management | 100.00 | 100.00 | XXX | |
| 114 Sanpaolo IMI Asset Management S.G.R. S.p.A. | Milan | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 115 Sanpaolo IMI Bank (International) S.A. | Madeira | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 116 Sanpaolo IMI Bank Ireland Plc | Ireland | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 117 Sanpaolo IMI Capital Company I L.l.c. | United States | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 118 Sanpaolo IMI Fondi Chiusi S.G.R. S.p.A. | Bologna | 1 | Sanpaolo IMI Private Equity | 100.00 | 100.00 | XXX | |
| 119 Sanpaolo IMI Institutional Asset Management S.G.R. S.p.A. | Milan | 1 | Sanpaolo IMI Asset Management | 100.00 | 100.00 | XXX | |
| 120 Sanpaolo IMI Insurance Broker S.p.A. | Bologna | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 121 Sanpaolo IMI International S.A. | Luxembourg | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 122 Sanpaolo IMI Internazionale S.p.A. | Padua | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 123 Sanpaolo IMI Investimenti per lo Sviluppo SGR S.p.A. | Naples | 1 | Sanpaolo IMI Private Equity | 100.00 | 100.00 | XXX | |
| 124 Sanpaolo IMI Private Equity S.p.A. | Bologna | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 125 Sanpaolo IMI US Financial Co. | United States | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 126 Sanpaolo Immobiliere S.A. (formerly SP Immobiliere S.A.) | Luxembourg | 1 | Sanpaolo Bank | 99.99 | 99.99 | XXX | |
| | | | Sanpaolo IMI Asset Management Luxembourg | 0.01 | 0.01 | XXX | |
| | | | | 100.00 | 100.00 | | |
| 127 Sanpaolo Invest Ireland Ltd | Ireland | 1 | Banca Fideuram | 100.00 | 100.00 | XXX | |
| 128 Sanpaolo Invest SIM S.p.A. | Rome | 1 | Banca Fideuram | 100.00 | 100.00 | XXX | |
| 129 Sanpaolo Leasint S.p.A. | Milan | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 130 Sanpaolo Life Ltd | Ireland | 1 | A.I.P. | 100.00 | 100.00 | XXX | |
| 131 Sanpaolo Real Estate S.A. (formerly IMI Real Estate S.A.) | Luxembourg | 1 | Sanpaolo Bank | 99.99 | 99.99 | XXX | |
| | | | Sanpaolo IMI International | 0.01 | 0.01 | XXX | |
| | | | | 100.00 | 100.00 | | |

*(cont: companies included in line by line consolidation)*

| Company name | Registered office | Type of relation-ship (1) | Ownership Held by | % | Voting rights at Ordinary Shareholders' Meeting (%) (2) | Consolida-ted book value (€/mil) | Re-marks |
|---|---|---|---|---|---|---|---|
| 132 SEP S.p.A. | Turin | 1 | Sanpaolo IMI | 100.00 | 100.00 | XXX | |
| 133 Sygman Szolgaltato es Kereskedelmi Kft | Hungary | 1 | IE-New York Broker | 100.00 | 100.00 | XXX | |
| 134 Universo Servizi S.p.A. | Milan | 1 | A.I.P. | 99.00 | 99.00 | XXX | |
| | | | Sanpaolo IMI Asset Management | 1.00 | 1.00 | XXX | |
| | | | | 100.00 | 100.00 | | |

| Company name | Registered office | Type of relation-ship (1) | Ownership Held by | % | Voting rights at Ordinary Shareholders' Meeting (%) (2) | Consolida-ted book value (€/mil) | Re-marks |
|---|---|---|---|---|---|---|---|
| **Entities included in the consolidation using the proportional method** | | | | | | | |
| 1 Allfunds Bank S.A. | Spain | 3 | Sanpaolo IMI | 50.00 | 50.00 | XXX | |

## Notes to the tables of the line by line and proportional consolidation:

*(1) Type of relationship:*
*1 = subsidiaries*
*2 = companies in which the Group has the majority of the risks and benefits (SIC 12)*
*3 = companies subject to joint control*
*4 = companies subject to significant influence*
*(2) Voting rights at ordinary shareholders' meeting. Any "potential votes" are highlighted in specific notes.*

*(A) Sanpaolo IMI Internazionale has call options over the remaining 1.33% of the shareholding.*
*(B) The Parent Bank has call options for a further 33.79% of the shareholding.*
*(C) The company is considered a subsidiary following the call option effective as of 30 June 2005.*
*(D) Mutual fund in which A.I.P. S.p.A. holds the majority of the risks/benefits (SIC 12).*
*(E) In June 2005 the company merged by incorporation Sogesmar S.A..*
*(F) Sanpaolo IMI Internazionale has call options for acquiring a further 10% of the shareholding.*

Here below is the list of the Group's investments.

| | Company name | Registered office | Type of relation-ship (1) | Ownership Held by | Ownership % | Voting rights at Ordinary Shareholders' Meeting (%) (2) | Consolida-ted book value (€/mil) | Re-marks |
|---|---|---|---|---|---|---|---|---|
| | **Investments carried at equity** | | | | | | | |
| 1 | Aeroporti Holding S.r.l. | Turin | 4 | Sanpaolo IMI Private Equity | 30.00 | 30.00 | 9 | |
| 2 | Attività Finanziarie Merlo S.p.A. | Turin | 4 | Banca IMI | 33.33 | 33.33 | 5 | |
| 3 | Banque Palatine S.A. (formerly Banque Sanpaolo S.A.) | France | 4 | Sampaolo IMI | 40.00 | 40.00 | 184 | |
| 4 | Cassa dei Risparmi di Forlì S.p.A. | Forlì | 4 | Sanpaolo IMI | 29.77 | 29.77 | 66 | (A) |
| 5 | Cassa di Risparmio di Firenze S.p.A. | Florence | 4 | Sanpaolo IMI | 18.66 | 18.70 | 213 | (B) |
| 6 | CBE Service S.p.r.l. | Belgium | 4 | Sanpaolo IMI | 31.70 | 31.70 | - | |
| 7 | Cedar Street Securities Corp. | United States | 1 | Banca IMI Securities | 100.00 | 100.00 | - | |
| 8 | Consorzio Studi e Ricerche Fiscali | Rome | 1 | Sanpaolo IMI | 55.00 | 55.00 | - | |
| | | | | Banca Fideuram | 10.00 | 10.00 | - | |
| | | | | A.I.P. | 10.00 | 10.00 | - | |
| | | | | Sanpaolo IMI Asset Management | 5.00 | 5.00 | - | |
| | | | | Banca IMI | 5.00 | 5.00 | - | |
| | | | | Banca OPI | 5.00 | 5.00 | - | |
| | | | | Sanpaolo Leasint | 5.00 | 5.00 | - | |
| | | | | IMI Investimenti | 2.50 | 2.50 | - | |
| | | | | Sanpaolo IMI Private Equity | 2.50 | 2.50 | - | |
| | | | | | 100.00 | 100.00 | | |
| 9 | Consumer Financial Services S.r.l. | Bologna | 1 | Finemiro Banca | 100.00 | 100.00 | 1 | |
| 10 | CR Firenze Gestion Internationale S.A. | Luxembourg | 4 | Sanpaolo IMI | 20.00 | 20.00 | 2 | |
| 11 | Esatri S.p.A. | Milan | 4 | GEST Line | 31.50 | 31.50 | 7 | |
| 12 | Finor d.o.o. | Slovenia | 1 | Banka Koper | 100.00 | 100.00 | 2 | |
| 13 | I. Tre Iniziative Immobiliari Industriali S.p.A. | Rovigo | 4 | Cassa di Risparmio Padova e Rovigo | 20.00 | 20.00 | - | |
| 14 | Immobiliare 21 S.r.l. | Milan | 1 | Sanpaolo IMI | 100.00 | 100.00 | - | |
| 15 | Immobiliare Nettuno S.p.A. | Bologna | 1 | Cassa di Risparmio Bologna | 100.00 | 100.00 | 1 | |
| 16 | IW Bank S.p.A. | Milan | 4 | Banca IMI | 20.00 | 20.00 | 4 | |
| 17 | Lama Dekani d.d. | Slovenia | 1 | Banka Koper | 78.41 | 78.41 | 2 | |
| 18 | Liseuro S.p.A. | Udine | 4 | Sanpaolo IMI | 35.11 | 35.11 | 1 | |
| 19 | Padova 2000 Iniziative Immobiliari S.p.A. | Padua | 4 | Cassa di Risparmio Padova e Rovigo | 45.01 | 45.01 | - | |
| 20 | Pivka Perutninarstvo d.d. | Slovenia | 4 | Banka Koper | 26.36 | 26.36 | 1 | |
| 21 | S.V.I.T. S.p.A. | Padua | 1 | Cassa di Risparmio Padova e Rovigo | 57.45 | 57.45 | - | (C) |
| 22 | Sagat S.p.A. | Turin | 4 | IMI Investimenti | 12.40 | 12.40 | 7 | |
| 23 | Sanpaolo IMI Equity Management S.A. | Luxembourg | 1 | Sanpaolo IMI Private Equity | 99.99 | 99.99 | 1 | |
| | | | | LDV Holding | 0.01 | 0.01 | - | |
| | | | | | 100.00 | 100.00 | 1 | |
| 24 | Sanpaolo IMI Management Ltd | United Kingdom | 1 | Sanpaolo IMI Private Equity | 100.00 | 100.00 | 1 | |
| 25 | Sanpaolo IMI Private Equity Scheme B.V. | Holland | 4 | LDV Holding | 23.50 | 29.38 | 9 | |
| | | | | Sanpaolo IMI Equity Management | 20.00 | - | - | |
| | | | | | 43.50 | 29.38 | 9 | |
| 26 | Sanpaolo Leasint G.M.B.H. | Austria | 1 | Sanpaolo Leasint | 100.00 | 100.00 | 1 | |
| 27 | Servizi S.r.l. | Bologna | 1 | Finemiro Banca | 100.00 | 100.00 | 1 | |
| 28 | Sifin S.r.l. | Bologna | 4 | Sanpaolo IMI | 30.00 | 30.00 | 2 | |
| 29 | Sinloc - Sistemi Iniziative Locali S.p.A. | Turin | 4 | FIN.OPI | 11.85 | 11.85 | 6 | |
| | | | | Banca OPI | 8.15 | 8.15 | 4 | |
| | | | | | 20.00 | 20.00 | 10 | |

*(cont. investments carried at equity)*

| Company name | Registered office | Type of relation-ship (1) | Ownership Held by | % | Voting rights at Ordinary Shareholders' Meeting (%) (2) | Consolida-ted book value (€/mil) | Re-marks |
|---|---|---|---|---|---|---|---|
| 30 Società Friulana Esazione Tributi S.p.A. | Udine | 4 | GEST Line | 33.33 | 33.33 | 2 | |
| 31 Società Gestione per il Realizzo S.p.A. | Rome | 4 | Sanpaolo IMI | 28.31 | 28.31 | 1 | |
| | | | Banca Fideuram | 0.64 | 0.64 | - | |
| | | | | 28.95 | 28.95 | 1 | |
| 32 Splosna Plovba Portoroz d.o.o. | Slovenia | 4 | Banka Koper | 21.00 | 21.00 | - | |
| 33 Studi e Ricerche per il Mezzogiorno | Naples | 1 | Sanpaolo IMI | 16.67 | 16.67 | - | |
| | | | Banca OPI | 16.67 | 16.67 | - | |
| | | | Sanpaolo IMI Investimenti | 16.67 | 16.67 | - | |
| | | | Sanpaolo Banco di Napoli | 16.66 | 16.66 | - | |
| | | | | 66.67 | 66.67 | | |
| 34 Synesis Finanziaria S.p.A. | Turin | 4 | IMI Investimenti | 25.00 | 25.00 | 116 | |
| 35 Tobuk Ltd | Ireland | 1 | Sanpaolo IMI Bank Ireland | 100.00 | 100.00 | - | |
| 36 Trivimm S.r.l. | Verona | 4 | Sanpaolo IMI | 23.00 | 23.00 | - | |
| 37 W.D.W. S.A. | France | 1 | Banque Privèe Fideuram Wargny | 99.92 | 99.92 | - | |
| 38 West Trade Center S.A. | Romania | 1 | Sanpaolo IMI Internazionale | 100.00 | 100.00 | - | |
| 39 Aeroporto di Napoli S.p.A. (in liq.) | Naples | 4 | Sanpaolo IMI | 20.00 | 20.00 | - | |
| 40 BN Finrete S.p.A. (in liq.) | Naples | 1 | Sanpaolo IMI | 99.00 | 99.00 | 1 | |
| 41 Cardine Suisse S.A. (in liq.) | Switzerland | 1 | Sanpaolo IMI | 100.00 | 100.00 | 1 | |
| 42 Centradia Group Ltd (in liq.) | United Kingdom | 4 | Sanpaolo IMI | 30.45 | 30.45 | - | |
| 43 Cioccolato Feletti S.p.A. (in liq.) | Aosta | 1 | Sanpaolo IMI | 95.00 | 95.00 | - | |
| 44 Consorzio Agrario Provinciale di Rovigo (in liq.) | Rovigo | 4 | Cassa di Risparmio Padova e Rovigo | 35.45 | 35.45 | - | |
| 45 Consorzio bancario SIR S.p.A. (in liq.) | Rome | 4 | Sanpaolo IMI | 32.84 | 32.84 | - | |
| 46 Cotonificio Bresciano Ottolini S.r.l. (in liq.) | Brescia | 1 | Sanpaolo IMI | 100.00 | 100.00 | - | |
| 47 Emil Europe '92 S.r.l. (in liq.) | Bologna | 1 | Cassa di Risparmio Bologna | 93.47 | 93.47 | - | |
| 48 G.E.CAP S.p.A. (in liq.) | Foggia | 4 | GEST Line | 37.25 | 37.25 | - | |
| 49 Galileo Holding S.p.A. (in liq.) | Milan | 4 | Sanpaolo IMI | 31.52 | 31.52 | - | |
| 50 Imifin S.p.A. (in liq.) | Rome | 1 | Sanpaolo IMI | 100.00 | 100.00 | - | |
| 51 IMI Bank A.G. (in liq.) | Germany | 1 | Sanpaolo Bank | 100.00 | 100.00 | - | |
| 52 Integra S.r.l. (in liq.) | Belluno | 4 | Cassa di Risparmio Padova e Rovigo | 29.64 | 29.64 | - | |
| 53 ISC Euroservice G.M.B.H. (in liq.) | Germany | 1 | Sanpaolo IMI | 80.00 | 80.00 | - | |
| 54 Mega International S.p.A. (arrangement with creditors) | Ravenna | 4 | Finemiro Banca | 48.00 | 48.00 | - | |
| 55 Progema S.r.l. (in liq.) | Turin | 4 | SEP | 10.00 | 10.00 | - | |
| | | | Finemiro Banca | 10.00 | 10.00 | - | |
| | | | | 20.00 | 20.00 | | |
| 56 S.A.G.E.T. S.p.A. (in liq.) | Teramo | 1 | GEST Line | 99.98 | 99.98 | - | |
| 57 Sanpaolo IMI Capital Partners Ltd (in liq.) | Guernsey | 1 | Sanpaolo IMI Private Equity | 99.00 | 99.00 | - | |
| | | | Sanpaolo IMI Management | 1.00 | 1.00 | - | |
| | | | | 100.00 | 100.00 | | (D) |
| 58 Sanpaolo U.S. Holding Co. (in liq.) | United States | 1 | Sanpaolo IMI | 100.00 | 100.00 | 3 | |
| 59 Se.Ri.T. S.p.A. (in liq.) | Teramo | 1 | GEST Line | 100.00 | 100.00 | - | |
| 60 Sicilsud Leasing S.p.A. (in liq.) | Palermo | 1 | FIN.OPI | 100.00 | 100.00 | 1 | |
| 61 West Leasing S.A. (in liq.) | Romania | 1 | Sanpaolo IMI Bank Romania | 88.71 | 88.71 | 1 | |
| | | | | | **Total investments carried at equity** | 656 | |
| | | | | | **Total excess in net shareholders' equity** | 140 | |
| | | | | | **Total caption 100. Investments** | 796 | |

## Notes to the table of investments carried at equity:

*(1) Type of relationship:*
*1 = subsidiaries*
*2 = companies in which the Group has the majority of the risks and benefits (SIC 12)*
*3 = companies subject to joint control*
*4 = companies subject to significant influence*

*(2) Voting rights at ordinary shareholders' meeting. Any "potential votes" are highlighted in specific notes.*

*(A) The Cassa dei Risparmi di Forlì S.p.A. share purchase agreement of 29 November 2000, between Fondazione CR Forlì (seller) and SANPAOLO IMI and Cassa di Risparmio di Firenze (purchasers), provides that the purchasers shall grant Fondazione an option to sell ordinary shares representing not more than 51.35% of the share capital of CR Forlì (38.51% held by SANPAOLO IMI), to be exercised in a number of tranches, at a unit price of 8.11 euro per share for the first two tranches, and at a price determined according to the "fair market value" for the last tranches. The put option may be exercised by Fondazione at any time between 12 June 2002 and the 15th day before the expiry of the first period for notice of termination of the Consortium Agreement drawn up between the same parties (and that is up to 15 June 2008). On 12 May 2003 Fondazione CR Forlì exercised the first tranche of the put option on 8,355,370 ordinary shares (equal to 8.75% of the share capital), for a price of 68 million euro. After the acquisition, the investment held by SANPAOLO IMI rose to 29.77%.*

*(B) The agreement signed on 15 November 1999 between Ente CRF, BNP Paribas and SANPAOLO IMI, relating to the investment in the share capital of CR Firenze stopped being legally effective on 1 May 2005. Following the expiry of the aforesaid agreement – and the fact that SANPAOLO IMI believes it was Ente CRF that opposed a renewal - SANPAOLO IMI, on the basis of the agreements signed at the time, deems it has a right to acquire from Ente CRF 10.78% of the share capital of CR Firenze at a price equal to 1.5 times the "base value" of the share to be calculated by taking into account the market averages (only under the assumption that the market is adequately liquid), that is valuation methods usually applied to the sector. The deadline for exercising the call option, questioned by Ente CRF, and which originally expired on 29 June 2005 has been postponed to 30 September 2005.*

*(C) The company was sold in July 2005.*

*(D) The liquidation procedure was completed in August 2005.*

The following table highlights the goodwill arising on shareholders' equity as a result of the investments carried at equity included in the financial statements under "Equity investments" (caption 100).

| Company name | Goodwill arising on the application of the equity method |
|---|---|
| A. Investments carried at equity | |
| Cassa dei Risparmi di Forlì S.p.A. | 83 |
| Cassa di Risparmio di Firenze S.p.A. | 47 |
| Sagat S.p.A. | 10 |
| Total | 140 |

In the six-month period no impairments were found on the goodwill arising on the application of the equity method included in the above table.

## SECTION 5 - OTHER ASSETS

*Analysis of caption 120 "Tangible assets"*

| | 30/6/05 (€/mil) |
|---|---|
| A. Functional assets | |
| a) Land | 959 |
| b) Buildings | 889 |
| c) Fixtures and fittings | 107 |
| d) Electrical equipment | 135 |
| e) Other | 34 |
| Total | 2,124 |
| B. Assets held as investments | |
| a) Land | 92 |
| b) Buildings | 32 |
| Total | 124 |
| Total | 2,248 |

*Analysis of caption 130 "Intangible assets"*

| | 30/6/05 (€/mil) |
|---|---|
| 1. Goodwill | 762 |
| 2. Intangible assets generated internally | 167 |
| *2.1 Software* | *167* |
| 3. Other intangible assets | 92 |
| *3.1 Software* | *80* |
| *3.2 Leasehold improvements* | *5* |
| *3.3 Other* | *7* |
| Total | 1,021 |

The following table shows the list of goodwill amounts for the SANPAOLO IMI Group as of 30 June 2005 and highlights the company to which such goodwill relates to.

*Analysis of goodwill*

| | 30/6/05 (€/mil) |
|---|---|
| Banco di Napoli | 636 |
| Banka Koper | 57 |
| Noricum | 24 |
| Cardine Group | 11 |
| Sanpaolo IMI Private Equity | 7 |
| Allfunds Bank | 6 |
| Inter-Europa Bank | 5 |
| Eptaconsors | 5 |
| Banca Popolare dell'Adriatico | 4 |
| Other | 7 |
| Total | 762 |

In the six-month period, no impairments were identified with regard to the goodwill amounts included in the table.

## SECTION 6 - FINANCIAL INSTRUMENTS INCLUDED UNDER FINANCIAL LIABILITIES

*Analysis of caption 10 "Due to banks"*

| | 30/6/05 (€/mil) |
|---|---|
| 1. Due to central banks | 5,234 |
| *of which:*<br>*– repurchase agreements* | *2,969* |
| 2. Current accounts | 1,234 |
| 3. Deposits | 13,582 |
| 4. Repurchase agreements | 10,104 |
| 5. Loans | 9,584 |
| *of which:*<br>*– finance leases* | - |
| 6. Other amounts due | 86 |
| Total | 39,824 |
| – accruals | 139 |
| – changes due to fair value hedge | - |
| Total | 39,963 |

*Analysis of caption 20 "Due to customers"*

| | 30/6/05 (€/mil) |
|---|---|
| 1. Current accounts | 61,123 |
| 2. Deposits | 14,432 |
| 3. Repurchase agreements | 12,650 |
| 4. Loans | 637 |
| *of which:*<br>*– finance leases* | *83* |
| 5. Other amounts due | 3,511 |
| Total | 92,353 |
| – accruals | 83 |
| – changes due to fair value hedge | - |
| Total | 92,436 |

*Analysis of caption 30 "Securities issued"*

| | 30/6/05 (€/mil) |
|---|---|
| 1. Securities | |
| – debentures | 44,640 |
| – other securities | 6,065 |
| – accruals | 408 |
| – changes due to fair value hedge | 383 |
| Total | 51,496 |

"Financial dealing liabilities" shown under liability caption 40 (11,685 million euro) are almost totally represented by the valuation of derivatives traded by the Group.

"Financial liabilities designated as at fair value" shown under liability caption 50. (21,672 million euro) relate to the value of insurance policies issued where the total risk is retained by the insured (so called Class D) and classified as financial instruments (IAS 39). The values of the policies classified as insurance contracts based on IFRS 4 are included under "*Technical Reserves*" (caption 130).

## SECTION 7 - PROVISIONS FOR RISKS AND CHARGES

*Analysis of caption 120 "Provisions for risks and charges"*

| | 30/6/05 (€/mil) |
|---|---|
| 1. Company pension funds | 218 |
| 2. Other funds | 1,527 |
| 2.1 legal disputes | 539 |
| 2.2 personnel charges | 439 |
| 2.3 other risks and charges | 549 |
| Total | 1,745 |

“Other funds” equal to 1,527 million euro are detailed as follows:

- 2.1. Legal disputes: the provision is made up of 539 million euro, of which 345 million euro set up by the Parent Bank, 119 million euro by the other bank networks of the Group, 56 million euro by Banca Fideuram and its subsidiaries and 19 million euro by the remaining subsidiaries. The provisions accrued in the fund cover estimated losses arising from legal disputes and, more specifically, repayments claimed by the receivers of bankrupt customers;
- 2.2. Personnel charges: the provision amounts to 439 million euro and is made up of 313 million euro set up by the Parent Bank, 99 million euro by the other bank networks of the Group and 27 million euro by the remaining subsidiaries. The provision includes expenses for voluntary incentive retirement schemes of 254 million euro, long-service bonuses to employees of 88 million euro and other personnel costs of 97 million euro;
- 2.3. Other risks and charges: the provision is made up of 549 million euro, of which 270 million euro set up by the Parent Bank, 74 million euro by the other bank networks of the Group, 115 million euro by Banca Fideuram and its subsidiaries and 90 million euro by the remaining subsidiaries. The provision includes also 78 million euro relating to sundry indemnities payable to agents of the Fideuram distribution network, 62 million of charges relating to the renegotiation of mortgage loans, 28 million relating to risks associated with the management of complaints about the Argentine, Cirio and Parmalat bonds (see the second part of this note) and 381 million of other provisions for other risks including those arising from guarantees given by the Parent Bank for company transactions and those of a commercial or operational nature, connected with the distribution and dealing in financial products.

### Anatocism

In March 1999, the Supreme Court 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.

After the reversal by the Supreme Court, D.Lgs. no. 342/99 was enacted, confirming the legitimacy of the compound interest calculation in current account contracts as long as it is applied to both interest payable and receivable over the same period of time: the CICR (Credit and Savings Interdepartmental Committee) was assigned to determine the methods of such calculation and from 22 April 2000, the date on which the Committee’s ruling became effective, all current accounts were adjusted by compounding interests receivable and payable on a quarterly basis.

Since April 2000 the calculation of compound interest on a half-yearly basis is considered legitimate and the pending dispute relates only to those contracts signed before that date; it should be noted, however, that despite the

Supreme court has repeatedly confirmed the invalidity of the compound interest clause, many judges of courts having substantive jurisdiction have disregarded the ruling and continue to consider it legitimate.

On 4 November 2004, the Joint Sections of the Supreme Court authoritatively excluded, once again, that the use in question can be considered regulatory.

Nevertheless, on the basis of a number of profiles different from those already examined by the Supreme Court, the sentence issued by the Joint Sections does not eliminate the possibility of upholding the legitimacy of the method of calculating half-yearly interest payable, by way of arguments recognized as being well founded by substantive jurisprudence.

As a whole, the number of cases pending has remained at an insignificant level in absolute terms, but it is constantly and carefully monitored. The risks relating to the disputes in question are accounted for by prudent accruals made to the provision for risks and charges, which are proportionate to the amount of the single legal claims; where the introductory measures do not quantify the demand and until an accounting opinion has been expressed on the issue, the risk involved is covered by accruals to the provision for risks and charges.

## 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 tax payers 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.

Through Law no. 311/2004 (Art. 1, subsection 426) the legislator granted all tax collection licensees the opportunity to amend irregularities in connection with activities performed by collectors up to 20 November 2004, through payment of the sum of 3 euro for each inhabitant residing in the territorial areas to which the tax collectors had been assigned. The type of legal disputes affecting the Licensee seem to fall within the scope of the above law, also in the opinion of external consultants. GEST Line is evaluating the possibility of availing of the amnesty which, considering the population residing in the territory assigned, would cost around 24 million euro.

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 above mentioned guarantees cover any losses or contingent liabilities following events prior to the respective dates of transfer. In 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.

The risk pertaining to the dispute in respect of the tax collection activities of the concession in Venice is not comprised in the aforementioned guarantees and, instead, solely affects the capital of GEST Line. Following the proceedings for fiscal damages as a result of alleged irregularities by some tax officials, the local section of the General Accounting Office ruled against the licensee for a sum of around 11 million euro. The relevant sentences have all been contested with their enforcement suspended; as a consequence an appropriate accrual has been made.

## 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. The SANPAOLO IMI Group, like all primary Italian banking groups, had loan transactions with 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 Legislative Decree 58/1998.

The Bank and each of the sanctioned parties have appealed against the aforementioned ruling before the competent Court of Appeal of Turin. Judgment is still pending.

### 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 having been 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.

### Actions filed by the Commission for the Parmalat group companies under insolvency proceedings

In the period between December 2004 and March 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 and the Cassa di Risparmio based in Bologna by Parmalat group companies in the year before the insolvency proceedings were instituted.

The total amount claimed in the seven proceedings thus instituted is equal to approximately 1,259 million.

Following the internal preliminary investigation on the legitimacy of the claims, it was considered, in agreement with the legal advisors who assist the Group companies 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.

Such risk is sufficiently covered by specific accruals to provisions for risks and charges.

### The management of claims relating to defaulted bonds

As regards complaints by customers holding Parmalat, Cirio and Argentine bonds, the Group policy provides that Group companies should carefully evaluate that the financial instruments sold to customers are adequate to each investor’s financial standing.

Contingent liabilities relating to complaints concerning said bonds are adequately covered by accruals to the provision for risks and charges. As of 30 June 2005 the related accruals amounted to 28 million euro.

### Dispute relating to the sanction proceedings initiated by Consob against Sanpaolo IMI Asset Management S.G.R. S.p.A.

The pecuniary administrative penalties imposed by the Ministry of Finance upon proposal by Consob as a result of investigations carried out at the premises of Sanpaolo IMI Asset Management have been appealed against, in accordance with Art. 195 TUF (Consolidated Financial Law), by SGR and its sanctioned representatives before the Court of Appeal of Milan which, on 26 November 2003, ruled that the penalties were illegal. An appeal against this decision has been filed before the Supreme Court by the Ministry and by Consob. SGR immediately filed a counterclaim, requesting the dismissal of the appeals filed by the Authorities. The related judgment is still pending.

### Proceedings initiated by the Antitrust Authority against former Sanpaolo IMI Wealth Management (now Sanpaolo IMI Asset Management SGR) and former Fideuram Vita (now A.I.P.)

In January 2004 the Antitrust Authority notified Sanpaolo IMI Wealth Management, as holding company and outsourcer of Sanpaolo Vita, and Fideuram Vita that they were subject to investigations in respect of the purchase of a database from a company specialized in analyzing the insurance market. This database contained information concerning contractual conditions, prices and methods of distribution of life insurance and pension products. Having concluded the investigation, initially performed on a number of insurance companies and then on the aforementioned Group companies, the Antitrust Authority issued a “Notification of Investigation Results”, in which it was assumed that a restrictive agreement was in place. Following the receipt of this “Notification”, all of the parties involved prepared their counterclaims; the proceedings were concluded on 30 September 2004. Although the Antitrust Authority did not impose any fines, it concluded that the investigation revealed the existence of a horizontal agreement between the parties involved in the proceedings that had violated Art. 2, subsection 2 of Law 287/90, concerning the exchange of sensitive commercial information between competitive businesses.

The above-mentioned sanction was appealed against before the TAR Lazio (Latium's Regional Administrative Court) which overruled it on 27 April 2005, asserting that no such restriction of competition existed. This judgment can be appealed against by the aforesaid Authority within a year from the date it was filed.

### Proceedings initiated by the Legal Authorities against a certain number of financial planners of Banca Fideuram and employees of the subsidiary Fideuram Bank Suisse

In March 2004 the Legal Authorities (Public Prosecutor's Office of the Court of Florence) commenced investigations into, among others, a certain number of financial planners of the Banca Fideuram group and employees of the subsidiary Fideuram Bank Suisse. The objections concern alleged illegal practices (consisting in the offer of investment services or financial products by a subject unauthorized in Italy), apart from one financial planner who is also charged with money laundering. The Bank has set up a special work team for the quick and in-depth verification of the facts and has ensured maximum cooperation with the investigating Authorities.

### Investigations initiated by the Public Prosecutor's office of Spoleto against Sanpaolo Invest SIM S.p.A. and Banca Fideuram S.p.A.

The Public Prosecutor's office of Spoleto, on 5 May 2005, terminated its investigation of a case involving a number of crimes committed against some customers by one of Sanpaolo Invest SIM financial planners.

The investigation involved also some representatives of Sanpaolo Invest who were accused of violating Art. 2638 of the Italian Civil Code on the assumption that they had not informed Consob of the irregularities found in connection with the above-mentioned case during a verification on the internal control procedures related to the financial planners.

The alleged accusations made against the aforesaid representatives caused Sanpaolo Invest, as well as Banca Fideuram (as the beneficiary of the partial spin-off of the banking branch which already belonged to Sanpaolo Invest, hence considered as jointly liable with the former company), to be held liable for the alleged violation of Law 231/2001.

Such responsibility, if established, entails the application of penalties which, with regard to the type of crime challenged to the company representatives, are only pecuniary and may range from a minimum of 52,000 to a maximum of 620,000 euro.

The proceedings, which have only gone as far as the preliminary stage, are carefully monitored by a working group that has been set up at the Parent Bank.

In June 2005, Consob launched an investigation into Sanpaolo Invest SIM with regard to the efficiency of its management and internal control processes.

### Initiatives taken by Consob against Banca Fideuram S.p.A.

Following a series of meetings held with the management of Banca Fideuram, on 9 June 2005 Consob, as part of its supervisory powers, brought to the attention of Banca Fideuram that there were a number of weaknesses in the procedures followed for investment and consultancy services provided to customers as well as in those relating to the internal control systems.

Consob also requested Banca Fideuram to make all necessary arrangements to fix all the weaknesses that had been highlighted. The Bank Bodies then approved the actions to be taken to improve the above-mentioned procedures, paying particular attention to two specific matters, i.e. the information provided to customers and the assessment of the adequacy of the transaction carried out by it.

## 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 Supreme Court 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 Supreme Court referred to another section of the Rome Appeal Court the decision on whether or not the total amount owed to the Bank by 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 Supreme Court sentence passed final judgment on the right of Consorzio to be held harmless by Mrs. Battistella Primarosa (heir to Mr. Nino Rovelli) and Eurovalori S.p.A.. The Supreme Court 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 Supreme Court sentence has been calculated in accordance with national and international 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 Supreme Court 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 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 given context, it is extremely clear that the actual amount receivable from Consorzio Bancario SIR S.p.A. in liquidation is correct.

## SECTION 8 - SHAREHOLDERS' EQUITY

*Analysis of shareholders' equity*

| | 30/6/05 (€/mil) |
|---|---|
| Net shareholders' equity | |
| – valuation reserves (caption 140) | 1,225 |
| – capital instruments (caption 160) | - |
| – reserves (caption 170) | 4,231 |
| a) legal reserve | 1,044 |
| b) other reserves | 3,187 |
| – share premium account (caption 180) | 761 |
| – capital reserve (caption 190) | 5,236 |
| – own shares (caption 200) | -52 |
| Total Group capital and reserves | 11,401 |
| – net income (caption 220) | 894 |
| Group interest in shareholders' equity | 12,295 |
| Minority interest (caption 210) | 196 |
| Total | 12,491 |

### Group shareholders' equity

### Capital and equity reserves

The capital, share premiums and the legal reserve coincide with the corresponding captions of the shareholders' equity of the Parent Bank.

On 30 June 2005, the "share capital" of the Bank which, in the six-month period has been increased by 18 million euro as a result of the exercise of stock options, is equal to 5,236 million euro, subdivided into no. 1,481,587,818 ordinary shares and no. 388,334,018 preference shares, both of 2.8 euro nominal value each.

The share premiums also increased by 36 million euro as a result of the aforesaid exercise of the stock options.

Own shares are made up of the Parent Bank and Banca IMI shares as well as those of the mutual funds held as part of the Group insurance business and consolidated on a line by line basis in accordance with international accounting standards. More detailed information regarding own shares is provided in the "Report on Operations - Capital and reserves".

*Analysis of caption 140 "Valuation Reserves"*

| | 30/6/05 (€/mil) |
|---|---|
| 1. Available for sale financial assets | 912 |
| 2. Tangible assets | - |
| 3. Intangible assets | - |
| 4. Foreign investment hedge | - |
| 5. Cashflow hedge | -30 |
| 6. Exchange differences | - |
| 7. Long-term discontinued assets | - |
| 8. Special revaluation laws | 343 |
| Total | 1,225 |

## Minority interests

As of 30 June 2005, the portion of “minority interests” amounting to 196 million euro essentially relates to the share attributable to minority shareholders in Banca Fideuram.

The details of any changes occurred in the consolidated net shareholders’ equity relating to the six-month period are shown in the related table.

## SECTION 9 - OFF-BALANCE SHEET TRANSACTIONS

The guarantees granted and the commitments undertaken by the Group, which entail the exposure to credit risks, are analyzed as follows:

| | 30/6/05 (€/mil) |
|---|---:|
| Guarantees | 17,547 |
| Commitments | 27,436 |
| **Total** | **44,983** |

“Guarantees granted to minority interests” are analyzed as follows:

| | 30/6/05 (€/mil) |
|---|---:|
| a) Commercial guarantees | 10,330 |
| b) Financial guarantees | 7,173 |
| c) Assets lodged in guarantee | 44 |
| **Total** | **17,547** |

The commitments undertaken by the Group are detailed below:

| | 30/6/05 (€/mil) |
|---|---:|
| Purchase of securities not yet settled | 4,936 |
| Commitments for derivatives on loans | 1,666 |
| Other commitments certain to be called on | 689 |
| Undrawn lines of credit granted | 10,266 |
| Put options issued | 4,615 |
| Mortgage loans and leasing contracts to be disbursed | 1,806 |
| Deposits and loans to be made | 3,099 |
| Membership of Interbank Deposit Guarantee Fund | 122 |
| Other commitments not certain to be called on | 237 |
| **Total** | **27,436** |

### Financial information relating to derivative contracts and forward currency purchase/sale transactions

This section offers supplementary information on transactions in derivative contracts according to the standards established jointly by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO).

The table below shows the notional nominal capital of purchase/sale of currency and derivative contracts on interest rates, exchange rates and share prices, analyzed by type of transaction.

*Notional amounts*

*(€/mil)*

| | Interest rates | Exchange rates | Share prices | Other | Total |
|---|---|---|---|---|---|
| OTC trading contracts | | | | | |
| - Forward (a) | 41,879 | 15,075 | - | - | 56,954 |
| - Swap (b) | 729,053 | 701 | - | - | 729,754 |
| - Opions purchased | 34,332 | 12,554 | 9,502 | - | 56,388 |
| - Options sold | 58,713 | 14,676 | 12,229 | - | 85,618 |
| - Other | 3,202 | 97 | 120 | - | 3,419 |
| Listed trading contracts | | | | | |
| - Futures purchased | 46,319 | 53 | 68 | - | 46,440 |
| - Futures sold | 49,270 | 63 | 121 | - | 49,454 |
| - Future currency against currency | - | 109 | - | - | 109 |
| - Options purchased | 1,684 | - | 5,985 | - | 7,669 |
| - Options sold | 4,448 | - | 4,259 | - | 8,707 |
| - Other | - | - | - | - | - |
| Total trading contracts | 968,900 | 43,328 | 32,284 | - | 1,044,512 |
| Total hedging contracts | 12,520 | 7,068 | 6,690 | - | 26,278 |
| **Grand total (c)** | **981,420** | **50,396** | **38,974** | **-** | **1,070,790** |
| *- of which OTC contracts* | *879,695* | *50,171* | *28,539* | - | *958,405* |

*(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 swaps.*
*(c) Includes basis swaps for 19,343 million euro and does not include forward transactions on currency with an original duration of less than 2 days, amounting altogether to 5,426 million euro.*

The table below shows the residual duration of the above OTC transactions:

*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 | 401,360 | 304,673 | 173,662 | 879,695 |
| Exchange rate related | 45,182 | 4,382 | 607 | 50,171 |
| Share prices related | 13,820 | 11,829 | 2,890 | 28,539 |
| Other contracts | - | - | - | - |

The table below reports the credit risk equivalent relating to OTC contracts, broken down into their various components: positive market value and add-on.

*Notional amounts, market values and similar add-on of OTC derivative contracts* *(€/mil)*

| | Interest rates | Exchange rates | Share prices | Other | Total |
|---|---|---|---|---|---|
| **Notional amounts** | **879,695** | **50,171** | **28,539** | - | **958,405** |
| A. Market value of OTC trading contracts | | | | | |
| A.1 positive market value | 14,809 | 669 | 706 | - | 16,184 |
| A.2 negative market value | -15,616 | -417 | -696 | - | -16,729 |
| B. Add-on | 3,753 | 380 | 690 | - | 4,823 |
| C. Market value of OTC hedging contracts | | | | | |
| C.1 positive market value | 719 | 82 | 2 | - | 803 |
| C.2 negative market value | -305 | -525 | -1 | - | -831 |
| D. Add-on | 51 | 92 | 39 | - | 182 |
| **Credit risk equivalent (A.1+B+C.1+D)** | **19,332** | **1,223** | **1,437** | - | **21,992** |

The table below reports the positive and negative market value of quoted contracts:

*Notional amounts and market values of quoted OTC derivative contracts* *(€/mil)*

| | Interest rates | Exchange rates | Share prices | Other | Total |
|---|---|---|---|---|---|
| **Notional amounts** | **101,725** | **225** | **10,435** | - | **112,385** |
| A. Market value of OTC trading contracts | | | | | |
| A.1 positive market value | 39 | 1 | 120 | - | 160 |
| A.2 negative market value | -24 | -2 | -4 | - | -30 |
| B. Market value of OTC hedging contracts | | | | | |
| B.1 positive market value | - | - | - | - | - |
| B.2 negative market value | - | - | - | - | - |

Market values of hedging and dealing transactions arranged with third parties have been calculated using the criteria established by the Bank of Italy with regard to the solvency ratio. The market values identified in the table above derive from the application of the aforementioned criteria which provide for inclusion in the calculation of the market value of accrued income and expenses currently maturing as well as the result deriving from the current rate revaluation of the principal amount of cross-currency interest rate swaps to be exchanged at maturity.

Lastly, the table below shows the breakdown of credit risk equivalent on unquoted contracts by type of counterparty.

*Credit quality of OTC derivative contracts by counterparty* *(€/mil)*

| | Postive market value | Add-on | Credit risk equivalent (a) (current value) |
|---|---|---|---|
| Governments and central banks | - | 3 | 3 |
| Banks | 16,018 | 4,664 | 20,682 |
| Other operators | 969 | 338 | 1,307 |
| **Total** | **16,987** | **5,005** | **21,992** |

*(a) Including the equivalent credit risk relating to contracts with an original life not exceeding 14 days. The existence of Master Netting Agreements allows a reduction in the above equivalent credit risk of 15,724 million euro in respect of banks and 972 million euro in respect of other operators.*

The aforementioned transactions are not normally covered by real or personal guarantees. There have been no losses on loans for derivatives during the year, and there are no outstanding derivative contracts waived, but not settled.

The risks inherent in derivative contracts entered into by the Group are monitored by the complex risk management and control system set up by the Group. A description of the organizational model and the results of monitoring the evolution of risks for 2005 is reported in the special section of the Report on Group Operations ("Risk management and control").

## Credit derivatives

Transactions in derivatives on loans carried out by the Group as of 30 June 2005, are analyzed below:

*(€/mil)*

| Categories of operations | |
|---|---|
| 1. Hedging purchases | |
| 1.1 With exchange of capital | |
| – credit default swap | 1,464 |
| – credit linked note | 122 |
| 1.2 Without exchange of capital | |
| – credit default swap | 1,424 |
| 2. Hedging sales | |
| 2.1 With exchange of capital | |
| – credit default swap | 1,277 |
| – credit linked note | 40 |
| 2.2 Without exchange of capital | |
| – credit default swap | 310 |
| – credit linked note | 39 |
| Total | 4,676 |

As regards the savings management and administration activity carried out by the SANPAOLO IMI Group, please refer to the detailed information on the Report on Group Operations.

Furthermore, through the subsidiary GEST Line, the Group managed the collection and recovery of taxation and duties for 34,493 million euro as of 30 June 2005.

# Part C - Information on the statement of income

## SECTION 1 - INTEREST

| | First half 2005 (€/mil) |
|---|---|
| 10. Interest income and similar revenue | 3,985 |
| 20. Interest expense and similar charges | -1,768 |
| **30. Net interest income** | **2,217** |
| *of which: banking group* | *1,908* |
| *of which: insurance sector (*)* | *309* |

*(*) In the reclassified statement of income, the contribution from the insurance business sector is repoted in "Income from insurance business".*

### *Analysis of caption 10 "Interest income and similar revenues"*

| | First half 2005 (€/mil) |
|---|---|
| 1. Financial assets held for trading | 194 |
| 2. Financial assets designated at fair value | 34 |
| 3. Available-for-sale investments | 407 |
| 4. Held-to-maturity investments | 19 |
| 5. Loans to banks | 266 |
| 6. Loans to customers | 2,884 |
| 7. Hedging derivatives (*) | 60 |
| 8. Other financial assets | 121 |
| Total | 3,985 |

*(*) They represent the net effect of differentials on derivative hedging contracts.*

### *Analysis of caption 20 "Interest expense and similar charges"*

| | First half 2005 (€/mil) |
|---|---|
| 1. Due to banks | 404 |
| 2. Due to customers | 592 |
| 3. Securities issued | 741 |
| 4. Financial dealing liabilities | 5 |
| 5. Financial liabilities designated as at fair value | 5 |
| 6. Other liabilities | 21 |
| 7. Hedging derivatives (*) | - |
| Total | 1,768 |

*(*) They represent the net effect of differentials on derivative hedging contracts.*

## SECTION 2 - COMMISSIONS

| | First half 2005 (€/mil) |
|---|---|
| 40. Commissions receivable | 2,024 |
| 50. Commissions payable | -447 |
| 60. Net commissions | 1,577 |
| *of which: insurance sector (*)* | *-36* |
| *of which: banking group* | *1,613* |

*(*) In the reclassified statement of income, the contribution from the insurance business sector is reported in "Income from insurance business".*

*Analysis of caption 40 "Commissions receivable"*

| | First half 2005 (€/mil) |
|---|---|
| a) guarantees granted | 45 |
| b) credit derivatives | 3 |
| c) Management, dealing and advisory services: | |
| 1. financial instruments trading | 65 |
| 2. currency trading | 14 |
| 3. portfolio management | |
| 3.1. individual | 124 |
| 3.2. collective | 659 |
| 4. custody and administration of securities | 29 |
| 5. depositary bank | 67 |
| 6. placement of securities | 45 |
| 7. acceptance of instructions | 44 |
| 8. advisory services | 12 |
| 9. distribution of corporate services | |
| 9.1. portfolio management | |
| 9.1.1. individual | 4 |
| 9.1.2. collective | 24 |
| 9.2. insurance products | 25 |
| 9.3. other products | 1 |
| d) collection and payment services | 170 |
| e) servicing for securitization transactions | - |
| f) tax collection services | 61 |
| g) other services | 632 |
| Total | 2,024 |

*Analysis of the caption "Other services"*

| | First half 2005 (€/mil) |
|---|---|
| Loans granted | 147 |
| Deposits and current account overdrafts | 167 |
| Insurance services | 174 |
| Current accounts | 85 |
| Other | 59 |
| Total | 632 |

*Analysis of caption 40 "Commissions receivable" - Products and services distribution channels*

| | First half 2005 (€/mil) |
|---|---|
| a) with own operating points | |
| 1. portfolio management | 599 |
| 2. placement of securities | 21 |
| 3. corporate services | 11 |
| b) outside supply | |
| 1. portfolio management | 184 |
| 2. placement of securities | 24 |
| 3. corporate services | 43 |

*Analysis of caption 50 "Commissions payable"*

| | First half 2005 (€/mil) |
|---|---|
| a) guarantees received | 2 |
| b) credit derivatives | 3 |
| c) management and dealing services | |
| 1. financial instruments trading | 34 |
| 2. currency trading | 1 |
| 3. portfolio management | |
| 3.1. own portfolio | 51 |
| 3.2. third party portfolio | - |
| 4. custody and administration of securities | 13 |
| 5. placement of financial instruments | 20 |
| 6. door-to-door sales of securities, financial products and services | 184 |
| d) collection and payment services | 44 |
| e) other services | 95 |
| Total | 447 |

*Analysis of the caption "Other services"*

| | First half 2005 (€/mil) |
|---|---|
| Dealing activities on loan transactions | 27 |
| Loans obtained | 34 |
| Other | 34 |
| Total | 95 |

## **SECTION 3** - NET DEALING, HEDGING AND FAIR VALUE OPTION RESULTS

This section of the Notes illustrates the following financial statement captions: "80. Net dealing income", "90. Net hedging income", "110. Net income from financial assets designated as at fair value" and "120. Net income from financial liabilities designated as at fair value".

In the reclassified statement of income included in the Report on Operations, the caption "Dividends and income from other financial assets and liabilities" is detailed as follows:

*Analysis of caption "Dividends and income from other financial assets and liabilities"*

| | First half 2005 (€/mil) |
|---|---|
| 70. Dividends and other revenues | 306 |
| 80. Net dealing income | -160 |
| 90. Net hedging income | -6 |
| 100. Gain/(Loss) on disposal of available for sale financial assets (only subcaption b) | 79 |
| 110. Net income from financial assets designated as at fair value | 1,201 |
| 120. Net income from financial liabilities designated as at fair value | -923 |
| **Total** | **497** |
| *of which: banking group (a)* | *166* |
| *of which: insurance sector (*)* | *331* |
| Reclassification of the utilization of the provision for risks and charges relating to Italenergia Bis (b) | 60 |
| **Total dividends and income from other financial assets and liabilities (a+b)** | **226** |

*(*) In the reclassified statement of income, the contribution from the insurance business sector is reported in "Income from insurance business".*

*Analysis of caption 80. "Net dealing income"*

| | First half 2005 (€/mil) |
|---|---|
| **1. Financial assets** | |
| 1.1 Debt securities | 147 |
| 1.2 Shares | 170 |
| 1.3 O.I.C.R. shares | 89 |
| 1.4 Loans | - |
| **2. Financial liabilities** | |
| 2.1 Securities issued | - |
| 2.2 Other liabilities | 21 |
| **3. Derivatives** | |
| 3.1 Financial derivatives | |
| – on debt securities and interest rates | -49 |
| – on equities and interest rates | -606 |
| – on currencies and gold | 59 |
| – other | 9 |
| **Total** | **-160** |

*Analysis of caption 90 "Net hedging income"*

| | First half 2005 (€/mil) |
|---|---|
| A. Income | |
| A.1 Revaluations of fair value hedging derivatives | 360 |
| A.2 Revaluations of hedged assets (fair value hedge) | 541 |
| A.3 Write-downs of hedged liabilities (fair value hedge) | 120 |
| Total income from hedging activities | 1,021 |
| B. Charges | |
| B.1 Write-downs of fair value hedging derivatives | -670 |
| B.2 Write-downs of hedged assets (fair value hedge) | -6 |
| B.3 Revaluations of hedged liabilities (fair value hedge) | -351 |
| Total charges from hedging activities | -1,027 |
| Net hedging income | -6 |

*Analysis of the net results of financial assets/liabilities designated as at fair value - Captions 110 and 120*

| | First half 2005 (€/mil) |
|---|---|
| 1. Financial assets | 1,201 |
| 1.1 Debt securities | 1,160 |
| 1.2 Equity shares | 35 |
| 1.3 O.I.C.R. shares | 11 |
| 1.4 Loans and other financial activities | -5 |
| 2. Financial liabilities | -923 |
| Total | 278 |

Financial liability valuations relate only to the insurance policies issued where the total risk is retained by the insured (the so-called CLASS D).

## SECTION 4 - GAINS (LOSSES) ON DISPOSALS

*Analysis of caption 100.a "Gains (losses) on disposals loans"*

*(€/mil)*

| | Loans to banks | Loans to customers | Total |
|---|---|---|---|
| A. Gains | 2 | 25 | 27 |
| B. Losses | - | 3 | 3 |
| C. Net gain (loss) on disposals | 2 | 22 | 24 |

*Analysis of caption 100.b "Gains (losses) on available for sale investments"*

*(€/mil)*

| | Debt securities | Equities | O.I.C.R. | Loans | Total |
|---|---|---|---|---|---|
| A. Gains | 80 | 18 | - | - | 98 |
| B. Losses | 1 | 18 | - | - | 19 |
| C. Net gain (loss) on disposals | 79 | - | - | - | 79 |

*Analysis of caption 100.d "Gains (losses) on disposal of financial liabilities"*

*(€/mil)*

| | Debt securities |
|---|---|
| A. Gains | 3 |
| B. Losses | 10 |
| C. Net gain (loss) on disposal | -7 |

## SECTION 5 - ADMINISTRATIVE COSTS

*Analysis of caption 190.a "Personnel costs"*

| | First half 2005 (€/mil) |
|---|---|
| a) wages and salaries | 988 |
| b) social security charges | 282 |
| c) provision for termination indemnities | 49 |
| d) pension and similar | 55 |
| e) costs arising on payment agreements based on own financial instruments | 5 |
| Total | 1,379 |

*Average number of employees by category*

| | First half 2005 |
|---|---|
| a) Executives | 797 |
| b) Managers | 5,030 |
| c) Other employees | 37,435 |
| Total | 43,262 |
| Atypical employment contracts | 274 |
| Total | 43,536 |

*Analysis of caption 190.b "Other administrative costs"*

| | First half 2005 (€/mil) |
|---|---|
| IT expenses | 188 |
| Software maintenance and upgrades | 60 |
| External data processing | 36 |
| Maintenance of operating assets | 26 |
| Data transmission charges | 29 |
| Database access charges | 24 |
| Equipment leasing charges | 13 |
| Property costs | 141 |
| Rental of premises | 89 |
| Security services | 17 |
| Cleaning of premises | 14 |
| Maintenance of property owned by the Bank | 11 |
| Maintenance of leasehold premises | 10 |
| General expenses | 124 |
| Postal and telegraph charges | 32 |
| Office supplies | 17 |
| Transport and counting of valuables | 9 |
| Courier and transport services | 10 |
| Other expenses | 56 |
| Professional and insurance fees | 152 |
| Professional fees | 79 |
| Legal and judiciary expenses | 26 |
| Insurance premiums banks and customers | 29 |
| Investigation/commercial information costs | 18 |
| Advertising and marketing expenses | 51 |
| Advertising and entertainment | 41 |
| Contributions and membership fees to trade unions and business associations | 10 |
| Indirect personnel costs | 47 |
| Indirect personnel expenses | 47 |
| Utilities | 42 |
| Energy | 24 |
| Telephone | 18 |
| Recoveries | -14 |
| Total | 731 |
| Indirect duties and taxes | 156 |
| – stamp duties | 107 |
| – substitute tax (Pres. Decree 601/73) | 25 |
| – local property taxes | 7 |
| – tax on stock exchange contracts | 4 |
| – non-recoverable VAT on purchases | 4 |
| – other | 9 |
| Recoveries | -146 |
| Total | 10 |
| Total other administrative costs | 741 |

For purposes of clarity and completeness, all cost recoveries that, according to the provisions of IAS/IFRS regulations, compensate the related costs incurred, are shown with an opposite sign.

## SECTION 6 - ADJUSTMENTS AND PROVISIONS

*Analysis of caption 140.a "Net adjustments to loans"*

*(€/mil)*

| | Write-downs | | | Write-backs | | | Total |
|---|---|---|---|---|---|---|---|
| | Specific | Portfolio | | Specific | Portfolio | | |
| | | Country risk | Other | | Country risk | Other | |
| A. Loans to banks | - | -3 | - | 1 | - | - | -2 |
| B. Loans to customers | -301 | - | -145 | 212 | 1 | 5 | -228 |
| C. Net accrual to provision for risks and charges | -8 | - | -3 | 12 | - | - | 1 |
| Total | -309 | -3 | -148 | 225 | 1 | 5 | -229 |

*Analysis of caption 140.b "Adjustments due to impairment of available for sale investments"*

*(€/mil)*

| | Write-downs | | | Write-backs | | | Total |
|---|---|---|---|---|---|---|---|
| | Specific | Portfolio | | Specific | Portfolio | | |
| | | Country risk | Other | | Country risk | Other | |
| A. Debt securities | - | - | - | - | - | - | - |
| B. Equities | -2 | - | - | - | - | - | -2 |
| C. O.I.C.R. shares | -1 | - | - | - | - | - | -1 |
| D. Loans to banks | - | - | - | - | - | - | - |
| E. Loans to customers | - | - | - | - | - | - | - |
| Total | -3 | - | - | - | - | - | -3 |

No impairments of held-to-maturity investments and other financial assets were recorded in the six-month period.

Net accruals made to provisions for risks and charges are shown in the reclassified statement of income according to the following table.

| | | First half 2005 (€/mil) |
|---|---|---|
| | Net provisions from reclassified fianancial statements | -108 |
| | Reclassification of utilization of provision for risks and charges on Italenergia Bis transaction (*) | 60 |
| 200. | Net accruals to provision for risks and charges | -48 |

*(*) In the reclassified statement of income, the utilization of the provisions set up for risks associated with Italenergia Bis is reclassified under "Dividends and income from other financial assets and liabilities" together with other income/charges arising on that transaction.*

*Analysis of caption 200 "Net provisions for risks and charges"*

*(€/mil)*

| | Parent Bank | Fideuram Group | Other Bank Networks | Other | TOTAL |
|---|---|---|---|---|---|
| Net accruals for legal disputes | -17 | -31 | -11 | - | -59 |
| Net accruals for sundry charges | -9 | -19 | - | 39 | 11 |
| TOTAL | -26 | -50 | -11 | 39 | -48 |

The statement of income caption "Provisions for risks and charges" relating to "Other" subsidiaries includes a 60 million euro net utilization concerning the Group overall exposure to Italenergia Bis (the exposure being represented by current financial instruments and "available for sale" investments). The net utilization of the provision was possible thanks to the fact that the trading obstacles initially put by EDF with regard to the exercise of the put options held by the banks holding a stake in the capital of IEB no longer existed. The utilization has been shown in the reclassified statement of income, along with the other income and charges generated by the above-mentioned transaction, under "Dividends and results of other financial assets and liabilities". The net effect on the statement of income, generated by the Group's overall exposure, was equal to +4 million euro.

*Analysis of caption 210 "Net adjustments to tangible assets"*

| | First half 2005 (€/mil) |
|---|---|
| Amortization (a) | -113 |
| Impairment adjustments (b) | - |
| Write-backs (c) | - |
| **Net result (a+b+c)** | -113 |

*Analysis of caption 220 "Net adjustments to intangible assets"*

| | First half 2005 (€/mil) |
|---|---|
| Amortization (a) | -89 |
| Impairment adjustments (b) | - |
| Write-backs (c) | - |
| **Net result (a+b+c)** | -89 |

## **SECTION 7** - OTHER STATEMENT OF INCOME CAPTIONS

*Analysis of caption 70 "Dividends and other income"*

| | First half 2005 (€/mil) |
|---|---|
| A. Financial assets held for trading | 254 |
| B. Available-for-sale investments | 52 |
| Total (*) | 306 |

*(*) In the reclassified statement of income, the contribution from the insurance business sector (6 million euro) is included under "Income from insurance business".*

*Analysis of caption 230 "Other operating income and expenses"*

| | First half 2005 (€/mil) |
|---|---|
| **Other operating income** | |
| Expenses recovered | 18 |
| Income from IT companies | 5 |
| Reimbursement of services rendered to third parties | 7 |
| Other income on consumer credit and leasing transactions | 9 |
| Rent and other income from property | 2 |
| Other non-recurring income | 30 |
| *of which: recovery of tax credits in dispute* | *7* |
| Other income | 17 |
| **Total other income** | 88 |
| **Other operating expenses** | |
| Other charges on consumer credit leasing transactions | 14 |
| Transactions for legal disputes | 6 |
| Other non-recurring expenses | 19 |
| Other expenses | 6 |
| **Total other expenses** | 45 |
| **Total other operating income and expenses** | 43 |

The caption "Expenses recovered" includes those recoveries that, pursuant to IAS/IFRS regulation, cannot be offset against the related expenses incurred.

*Analysis of caption 280 "Profits (Losses) on disposal of investments"*

| | First half 2005 (€/mil) |
|---|---|
| A. Property | |
| – Profits on disposal | 6 |
| – Losses on disposal | - |
| B. Other assets | |
| – Profits on disposal | 7 |
| – Losses on disposal | - |
| Net profit (loss) | 13 |

# Part D – Regulatory capital structure

A breakdown of the regulatory capital and a description of the minimum requirements for supervisory purposes is provided below. The final estimates will be submitted to the Bank of Italy following the approval of this Half Year Report. The estimated amounts have been calculated pursuant to current supervisory regulations on the basis of the accounting data complying with D.Lgs. 87/92. A six-monthly accounting report has been drawn up for the purpose and then submitted to a "limited review" by the independent auditors. The new regulations on the subject, that will be issued by the Bank of Italy to incorporate the changes made by the international accounting standards (IAS/IFRS) and to introduce the related "prudential filters", will become applicable for banking groups and single banks from 31 December 2005 and 30 June 2006 respectively.

*Regulatory capital structure*

| Categories/Values | 30/6/05 (€/mil) | 31/12/04 (€/mil) |
|---|---|---|
| A. Regulatory capital | | |
| A.1 Tier 1 capital | 11,333 | 10,860 |
| A.2 Tier 2 capital | 5,543 | 5,356 |
| A.3 Items to be deducted | -859 | -840 |
| A.4 Regulatory capital | 16,017 | 15,376 |
| B. Minimum regulatory requirements | | |
| B.1 Credit risk | 10,076 | 9,568 |
| B.2 Market risk | 1,319 | 1,045 |
| *of which:* | | |
| *- risks on dealing portfolio* | *1,308* | *1,039* |
| *- exchange rate risks* | *11* | *6* |
| *- concentration risls* | *-* | *-* |
| B.2.1 Tier 3 subordinated loans | 579 | 594 |
| B.3 Other regulatory requirements | 19 | 63 |
| B.4 Total regulatory requirements | 11,414 | 10,676 |
| C. Risk assets and capital adequacy-ratios | | |
| C.1 Risk-weighted assets (*) | 142,675 | 133,450 |
| C.2 Tier 1 capital net of preferred shares / Risk-weighted assets | 7.2% | 7.4% |
| C.3 Tier 1 capital / Risk weighted assets | 7.9% | 8.1% |
| C.4 Regulatory capital / Risk weighted assets (**) | 11.6% | 12.0% |

*(*) Total minimum requirements multiplied by the minimum compulsory ratio for lending risks (12.5).*
*(**) On the basis of Bank of Italy letter no. 10155 dated 3 August 2001, in order to compute the Total Risk ratio, Tier 3 subordinated loans are considered a component of total capital.*

Tier 1 capital includes preferred shares amounting to 1,000 million euro, whereas Tier 2 capital includes also subordinated loans equal to 5,383 million euro.

# Part E – Transactions with related parties

### Procedural aspects

The Board of Directors of SANPAOLO IMI has defined a Group procedure to resolve on transactions with related parties, aimed at establishing specific competencies and responsibilities, as well as indicating the information flows between the Bank structures and its direct and indirect subsidiaries.

The Group has also established specific guarantee and transparency procedures in respect of transactions with subjects who carry out administration, management and control functions within the Banking Group, in compliance with Art. 136 of D. Lgs. 385/93 Testo Unico Bancario (Consolidated Banking Law).

Details of the above are provided in the 2004 "Corporate Governance" report.

### Transactions with related parties

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

On 28 April 2005 a compromise agreement was completed between Sanpaolo Bank S.A. and Ente Holding S.r.l. (100% controlled by the Fondo Pensioni of the SANPAOLO IMI Group, one of the Banks' related parties) regarding a real estate transaction between the same Ente Holding S.r.l. and a third party, a defaulting seller on behalf of which Sanpaolo Bank operated on the basis of a fiduciary contract. In compliance with such agreement, Sanpaolo Bank acquired, on a non-recourse basis, the amounts due (recuperation and compensation) by the defaulting seller to Ente Holding, in respect of a payment of 7.8 million euro made by Sanpaolo Bank in favor of Ente Holding (the amount was equal to the nominal value of the legally binding money deposit paid at the time by Ente Holding); in relation to this compromise agreement, Ente Holding waived its entitlement to interest, charges and main damages arising on the transaction. The compromise was considered adequate and overall fair also from the point of view of Sanpaolo Bank as, given the particularly complex context and the peculiarities of Ente Holding, it avoided a legal dispute and the risks associated with it as well as any additional costs which might have been incurred.

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

Non-atypical or non-unusual transactions entered into with related parties fall within the scope of the Group's ordinary activities and are usually entered into at market conditions, based on valuations of mutual economic convenience, in line with the internal procedures mentioned above. Transactions with infra-Group related parties have been eliminated from the Group consolidated financial statements.

The activity carried out with each category of related parties is detailed further on, according to IAS 24 requirements, net of any infra-group transactions.

The detailed list of SANPAOLO IMI assets, liabilities, guarantees and commitments, income and charges deriving from transactions with Group subsidiaries and associated companies over which the Group exercises "significant influence" as of 30 June 2005, is attached to the Half Year Report of the Parent Bank.

- Transactions with Joint Ventures

Transactions with Joint Ventures fall within the ordinary activity carried out by the Group and are entered into at the same market conditions applied to other non-related counterparties enjoying the same credit rating.

• Transactions with Pension Funds

Except for what is stated in the paragraph dealing with atypical and unusual transactions, the relationships of the SANPAOLO IMI Group with Pension Funds fall under the Group's ordinary activity and are entered into at the same market conditions applied to other non-related counterparties enjoying the same credit rating.

• Transactions with important shareholders

Transactions with important shareholders and parties related to them fall under the Group's ordinary activity and are entered into at the same market conditions applied to other non-related parties enjoying the same credit rating.

• Transactions with representatives

The relationships between the SANPAOLO IMI Group and its representatives (including parties related to them), fall under the Group's ordinary activity and are entered into at the same market conditions, where applicable, that are generally agreed with employees and/or collaborators and, in case of a legal entity, those agreed with non-related counterparties enjoying the same credit rating.

## Significant transactions

During the six-month period, no significant transactions have been entered into with related parties.

However, certain relevant transactions are highlighted below.

The investment by a number of major shareholders and associated companies, in quotas of funds managed by Sanpaolo IMI Fondi Chiusi SGR amounting to 62.5 million euro. The transactions have been made at the same economic conditions applied to the other investors of the funds.

Quotas of the Fondo Cardine Impresa, managed by Sanpaolo IMI Fondi Chiusi SGR, were also sold by Sanpaolo IMI Private Equity (SPIPE) – sponsor of the 'Fondo' – to Fondazione Cassa di Risparmio Padova e Rovigo (Shareholder) at the nominal value of 3.3 million euro, equal to the amount already paid by SPIPE into the 'Fondo', the assignee taking over the obligation to make all subsequent payments. The transaction is in line with the strategies approved in SPIPE 2004-2005 industrial plan.

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**AUDITORS' REPORT ON THE LIMITED REVIEW OF THE CONSOLIDATED INTERIM FINANCIAL REPORTING PREPARED IN ACCORDANCE WITH ARTICLE 81 OF CONSOB REGULATION APPROVED BY RESOLUTION No. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS**

To the Shareholders of
Sanpaolo IMI SpA

1. We have performed a limited review of the consolidated interim financial reporting and related notes included in the Half Year Report as of 30 June 2005 of Sanpaolo IMI SpA. The Half Year Report as of 30 June 2005 is the responsibility of Sanpaolo IMI SpA's directors. Our responsibility is to issue this report based on our limited review. We have also ensured that the information included in the Report on Operations are consistent with other information in the interim financial reporting.

2. Our work was carried out in accordance with the procedures for a limited review recommended by the National Commission for Companies and the Stock Exchange (CONSOB) with resolution no. 10867 of 31 July 1997. The limited review of the interim financial reporting of certain subsidiaries, which at 30 June 2005 reflected "Total assets" representing some 2 percent of consolidated total assets, "Net interest income" representing some 1 percent of consolidated net interest income and ""Net interest and other banking income" representing some 6 percent of the consolidated net interest and other banking income, is the responsibility of other auditors. The limited review consisted principally of inquiries of company personnel about the information reported in the consolidated interim financial reporting and about the consistency of the accounting principles utilised therein as well as the application of analytical review procedures on the data contained in the consolidated interim financial reporting. The limited review excluded certain auditing procedures such as compliance testing and verification and validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike the audit on the annual consolidated financial statements, we do not express a professional audit opinion on the consolidated interim financial reporting.

3. Regarding the comparative data of the prior year consolidated financial statements presented in the consolidated interim financial reporting, reference should be made to our report dated 25 October 2005.

   The comparative data of the prior year consolidated interim financial reporting, restated in accordance with International Financial Reporting Standards (IFRS), and the related IFRS reconciliation schedules are derived from the half-year figures prepared in accordance with the

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provisions of law and the accounting standards previously in force. Such data had been subject to a limited review by us, for which reference is made to our report dated 20 September 2004.

4. Based on our review, no significant changes or adjustments came to our attention that should be made to the consolidated interim financial reporting, identified in paragraph 1 of this report, in order to make it consistent with the criteria for the preparation of interim financial reporting established by Article 81 of the CONSOB Regulation approved by Resolution No. 11971 dated 14 May 1999 and subsequent amendments.

5. We draw to your attention that, as described in "Part A – Accounting Policies" of the notes to the consolidated interim financial reporting as of 30 June 2005, Sanpaolo IMI SpA, in order to enable a consistent comparison for the purpose of the comments included in the Report on Operations, restated the statement of income for the six months of 2004 to consider the estimate of the effect as if IAS 32, IAS 39 and IFRS 4 had been applied since 1 January 2004; we have not performed an audit or review of such restated statement of income.

   Furthermore, as described in the same section of the notes to the consolidated interim financial reporting as of 30 June 2005, the comparative data restated in accordance to the IFRS included in the consolidated balance sheet will represent the published comparative data in the first consolidated financial statements compliant with the IFRS; these figures might be modified due to the issue of new principles or interpretation by the relevant standard setters, amendments of existing principles, or future directions of the European Commission in respect of the endorsement of the international accounting standards before the publication of the first consolidated financial statements compliant with the IFRS.

Turin, 25 October 2005

PricewaterhouseCoopers SpA

Signed by
Sergio Duca
(Partner)

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

# SANPAOLO IMI Group transition to international accounting standards

# Introduction

The consolidated half year report as of 30 June 2005 is the first report that the SANPAOLO IMI Group has opted to prepare in accordance with the international accounting standards and in compliance with the provision of Article no. 81 of the Issuers Regulations adopted by Consob Resolution no. 11971 of 14 May 1999 and subsequent modifications and integrations. This appendix to the half year report provides the information relating to the transition to IAS/IFRS provided by IFRS 1 "First-time Adoption of International Financial Reporting Standards".

The information on the transition is provided according to the scheme set out below:

Accounting principles adopted for the transition to the IAS/IFRS. The accounting policies applied for the first-time adoption of the new accounting standards, as well as any exemptions and exceptions to the general transition rule used by the Group are set out in detail.

Reconciliation statements and notes. The reconciliation statements of shareholders' equity as of 1 January 2004, 30 June 2004, 31 December 2004 and 1 January 2005 are provided together with the reconciliation of the statement of income for the first half of 2004 and for the entire 2004 financial year (referred to as summary reconciliations). The reconciliation of the financial position as of 31 December 2004 and 1 January 2005 and of the economic results for the first half of 2004 are provided on a line by line basis, following the layout of the financial statements (referred to as analytical reconciliation), for a better understanding of the comparatives included in the 2005 financial statements.
The reconciliation statements are also accompanied by explanatory notes.

# Transition to the IAS/IFRS accounting standards

The general accounting principle set out in IFRS 1 for first-time adoption of IAS/IFRS provides for the reclassification of all balance sheet balances at the date of transition, such date being 1 January 2004, by applying international accounting standards used for the preparation of the first IAS-compliant financial statements retrospectively, as if they had always been in force.

The adjustments deriving from the retrospective application of international accounting standards at the date of transition are charged directly to shareholders' equity.

As an exception to the above, IFRS 1 allows the date of transition for first-time adoption of IAS 32 and 39 dealing with financial instruments, and of IFRS 4 dealing with insurance contracts, to be set at 1 January 2005. The Group has chosen this option: therefore, in the prior year financial statements, the captions relating to financial instruments and insurance contracts reflect the accounting principles in force before the new rules, taking into account however, the effect of extending the line by line consolidation to include subsidiaries which were previously excluded (the so-called mix model).

IFRS 1 also provides some exemptions to the retrospective application of international accounting principles. The following is a list of exemptions that the SANPAOLO IMI Group availed itself of in the first time adoption of IAS/IFRS.

- <u>Business combinations:</u> the SANPAOLO IMI Group did not apply IFRS 3 retrospectively to business combinations that occurred before 1 January 2004. Therefore, upon making its transition to IAS/IFRS, the goodwill included in the financial statements is based on amounts recorded on the basis of the accounting rules previously in force.

- <u>Restatement of the book value of tangible assets to fair value instead of cost:</u> the SANPAOLO IMI Group has opted to state, at the transition date of 1 January 2004, tangible assets at historical cost as adjusted by past revaluations made on the basis of special laws. Land and works of art, instead, have not been recorded at cost but at fair value, based on an appraisal made by an independent expert.

- <u>Employee benefits:</u> for the purpose of valuing termination indemnities and other defined-benefit funds, the Group has chosen not to apply the so-called "corridor method" retrospectively, as provided by IAS 19 "Employee benefits" since, under certain conditions (see Explanatory Notes – Part A "Accounting policies" – section 11) it is not necessary to recognize part of the actuarial gains and losses. Therefore the actuarial gains and losses for periods prior to 1 January 2004 have been wholly recognized on transition.

- <u>Allocation of financial instruments booked in prior years:</u> for the purposes of classification, the date of purchase of financial instruments designated at fair value or available for sale is deemed to be the date of transition to IAS 39 (1 January 2005)

- <u>Share based payments:</u> the Group has elected not to apply IFRS 2 "Share based payment" to stock options assigned before 7 November 2002 and to assignments after that date if they had already matured at 1 January 2005.

# Reconciliation statements and notes

The notes are provided with the reconciliation statements, at the relevant dates, between the consolidated results prepared on the basis of Italian accounting principles (known as Italian GAAP) and those restated applying international accounting standards, with the exception of IAS 32 and 39 and IFRS 4 for dates prior to 1 January 2005. Additional reconciliation statements provided are those relating to shareholders' equity as of 1 January 2004, 30 June 2004, 31 December 2004 and 1 January 2005, together with the statement of income for the first half of 2004 and the full year 2004.

In order to allow a better understanding of the method of restating comparative results included in the financial statements, reconciliation statements are also provided for the individual captions of the balance sheet as of 31 December 2004 and 1 January 2005 and of the statement of income for the first half of 2004.

Following the introduction of the new international accounting standards or in the event of modifications to or different interpretation of the principles already applied, the values carried in the reconciliation statements may change before the 2005 consolidated financial statements are published. Furthermore, due to alignment to IAS/IFRS principles by companies valued using the equity method, the data may undergo further minor changes.

The reconciliation of shareholders' equity as of 1 January 2004, 31 December 2004 and 1 January 2005 and of the statement of income as of 31 December 2004 are subject to audit by an independent auditors in accordance with the provisions of Consob Communication n. 5025723 dated 15.4.2005.

# TABLE 1 SUMMARY RECONCILIATION OF CONSOLIDATED SHAREHOLDERS' EQUITY ACCORDING TO IFRS 1

| | | 1/1/2004 (*) (€/mil) | 30/6/2004 (*) (€/mil) | 31/12/2004 (*) (€/mil) | 1/1/2005 (**) (€/mil) |
|---|---|---|---|---|---|
| Consolidated shareholders' equity according to Italian GAAP | | 11,266 | 11,291 | 11,980 | 11,980 |
| *- Group* | | *10,995* | *10,973* | *11,804* | *11,804* |
| *- minority interests* | | *271* | *318* | *176* | *176* |
| 20. | Financial assets held for trading | n.a. | n.a. | n.a. | +317 |
| 30. | Financial assets designated as at fair value | n.a. | n.a. | n.a. | +76 |
| 40. | Available-for-sale investments | n.a. | n.a. | n.a. | +932 |
| 60. | Due from banks | n.a. | n.a. | n.a. | +2 |
| 70. | Loans to customers | n.a. | n.a. | n.a. | +794 |
| 80. | Hedging derivatives (positive value) | n.a. | n.a. | n.a. | +747 |
| 100. | Investments | - | +10 | +19 | +19 |
| 120. | Tangible assets | +475 | +472 | +471 | +471 |
| 130. | Intangible assets | +10 | +73 | +111 | +111 |
| 140./ 80. | Tax assets/liabilities | -227 | -233 | -248 | -86 |
| 160./100. | Other assets/liabilities | +31 | -2 | +56 | -607 |
| 10. | Due to banks | n.a. | n.a. | n.a. | -3 |
| 30. | Securities issued | n.a. | n.a. | n.a. | -1,035 |
| 40. | Financial dealing liabilities | n.a. | n.a. | n.a. | -406 |
| 60. | Hedging derivatives (negative value) | n.a. | n.a. | n.a. | -783 |
| 70. | Value adjustment of financial liabilities hedged against | n.a. | n.a. | n.a. | -18 |
| 110. | Employee termination indemnities | +17 | +12 | +4 | +4 |
| 120. | Provision for risks and charges | +180 | +158 | +135 | +51 |
| 130. | Technical reserves | n.a. | n.a. | n.a. | -389 |
| 210. | Changes to scope of consolidation - Minority interest | +59 | +59 | +62 | +62 |
| Total adjustments for IAS/IFRS | | +545 | +549 | +610 | +259 |
| Consolidated shareholders' equity according to IAS/IFRS | | 11,811 | 11,840 | 12,590 | 12,239 |
| *- Group* | | *11,435* | *11,458* | *12,308* | *12,035* |
| *- minority interests* | | *376* | *382* | *282* | *204* |

*(*) Excluding IAS 32 and 39 and IFRS 4.*
*(**) Including IAS 32 and 39 and IFRS 4.*

## TABLE 2.1 ANALYTICAL RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET (MIX MODEL) AS OF 31 DECEMBER 2004 - ASSETS

(€/mil)

| ASSETS | | Italian GAAP 31/12/04 (A) | Reclassifications (B) | Changes to scope of consolidation (C) | Adjustments (D) | IAS/IFRS 31/12/2004 (*) (E=A+B+C+D) |
|---|---|---|---|---|---|---|
| 10. | Cash and liquid balances | | 1,348 | 17 | - | 1,365 |
| 10,It | Cash and deposits with central banks and post offices | 1,348 | (1,348) | | | |
| 20. | Financial assets held for trading | | 26,125 | 39,653 | - | 65,778 |
| 30. | Financial assets designated as at fair value | | - | - | - | - |
| 40. | Available-for-sale investments | | 2,824 | 7 | - | 2,831 |
| 50. | Held-to-maturity investments | | 3,219 | (22) | - | 3,197 |
| 20. It | Treasury bills and similar bills eligible for refinancing with central banks | 2,553 | (2,553) | | | |
| 50. It | Subordinated bonds and other debt securities | 23,716 | (23,716) | | | |
| 60. It | Shares, quotas and other equities | 3,021 | (3,021) | | | |
| 60. | Due from banks | | 23,777 | 461 | - | 24,238 |
| 30. It | Due from banks | 23,777 | (23,777) | | | |
| 70. | Loans to customers | | 121,907 | 1,297 | - | 123,204 |
| 40. It | Loans to customers | 121,907 | (121,907) | | | |
| 80. | Hedging derivatives | | - | - | - | - |
| 90. | Value adjustment of financial assets hedged against | | - | - | - | - |
| 100. | Investments | | 1,736 | (916) | 19 | 839 |
| 70. It | Equity investments | | | | | |
| | a) carried at equity | 597 | (597) | | | |
| | b) other | 2,824 | (2,824) | | | |
| 80. It | Investments in Group companies | | | | | |
| | a) carried at equity | 1,082 | (1,082) | | | |
| 110. | Technical reserves ceded to third party reinsurers | | - | 25 | - | 25 |
| 120. | Tangible assets | | 1,815 | 42 | 471 | 2,328 |
| 120. It | Tangible fixed assets | 1,804 | (1,804) | | | |
| 130. | Intangible assets | | 1,001 | (57) | 111 | 1,055 |
| | *of which:* | | | | | |
| | *- goodwill* | | *718* | *(61)* | *109* | *766* |
| 100. It | Goodwill arising on application of the equity method | 57 | (57) | | | |
| 90. It | Goodwill arising on consolidation | 712 | (712) | | | |
| 110. It | Intangible fixed assets | 289 | (289) | | | |
| 140. | Income tax assets | | 3,199 | 21 | 84 | 3,304 |
| | *a) current* | | *1,804* | *(6)* | - | *1,798* |
| | *b) deferred* | | *1,395* | *27* | *84* | *1,506* |
| 150. | Non-current assets and groups of assets to be disposed of | | - | - | - | - |
| 160. | Other assets | | 24,099 | 589 | (92) | 24,596 |
| 140. It | Own shares or quotas | 54 | (54) | | | |
| 150. It | Other assets | 23,597 | (23,597) | | | |
| 160. It | Accrued income and prepaid expenses | 3,819 | (3,819) | | | |
| Total assets | | 211,157 | (107) | 41,117 | 593 | 252,760 |

*(*) Excluding IAS 32 and 39 and IFRS 4.*

## TABLE 2.2 ANALYTICAL RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET (MIX MODEL) AS OF 31 DECEMBER 2004 - LIABILITIES

(€/mil)

| LIABILITIES | | Italian GAAP 31/12/2004 (A) | Reclassifications (B) | Changes in scope of consolidation (C) | Adjustments (D) | IAS/IFRS 31/12/2004 (*) (E=A+B+C+D) |
|---|---|---|---|---|---|---|
| 10. | Due to banks | | 28,198 | 79 | - | 28,277 |
| 10. It | Due to banks | 28,198 | (28,198) | | | |
| 20. | Due to customers | | 88,638 | 179 | - | 88,817 |
| 20. It | Due to customers | 88,488 | (88,488) | | | |
| 30. | Securities issued | | 53,519 | 1,422 | - | 54,941 |
| 40. | Financial dealing liabilities | | - | - | - | - |
| 50. | Financial liabilities designated as at fair value | | - | - | - | - |
| 30. It | Securities issued | 46,564 | (46,564) | | | |
| 60. | Hedging derivatives | | - | - | - | - |
| 70. | Value adjustment of financial liabilities covered by general hedges | | - | - | - | |
| 110. It | Subordinated liabilities | 6,955 | (6,955) | | | |
| 80. | Tax liabilities | | 422 | 29 | 332 | 783 |
| | *a) current* | | *281* | *23* | *-* | *304* |
| | *b) deferred* | | *141* | *6* | *332* | *479* |
| 90. | Liabilities associated with discontinued assets | | - | - | - | - |
| 100. | Other liabilities | | 25,555 | 480 | (148) | 25,887 |
| 50. It | Other liabilities | 22,162 | (22,162) | | | |
| 60. It | Accrued expenses and deferred income | 2,647 | (2,647) | | | |
| 40. It | Public funds administered | 150 | (150) | | | |
| 110. | Employee termination indemnities | | 886 | - | (4) | 882 |
| 70. It | Provisions for employee termination indemnities | 886 | (886) | | | |
| 120. | Provision for risks and charges: | | 1,852 | 17 | (135) | 1,734 |
| | *a) pension and similar commitments* | | *212* | *(6)* | *3* | *209* |
| | *b) other funds* | | *1,640* | *23* | *(138)* | *1,525* |
| 80. It | Provisions for risks and charges | 3,046 | (3,046) | | | |
| 90. It | Reserve for possible loan losses | 81 | (81) | | | |
| 130. | Technical reserves | | - | 38,849 | - | 38,849 |
| 140. | Valuation reserves | | 69 | - | 274 | 343 |
| 150. | Share reimbursements | | - | - | - | - |
| 160. | Capital instruments | | - | - | - | - |
| 170. | Reserves | | 4,399 | - | 176 | 4,575 |
| 170. It | Reserves | 3,963 | (3,963) | | | |
| 180. It | Revaluation reserves | 69 | (69) | | | |
| 180. | Share premium reserves | | 725 | - | - | 725 |
| 160. It | Additional paid-in capital | 725 | (725) | | | |
| 190. | Capital | | 5,218 | - | - | 5,218 |
| 150. It | Capital | 5,218 | (5,218) | | | |
| 100. It | Reserve for general banking risks | 6 | (6) | | | |
| 130. It | Negative goodwill arising on application of the equity method | 430 | (430) | | | |
| 200. | Own shares | | - | - | - | - |
| 210. | Minority interest | | 176 | 62 | 44 | 282 |
| 140. It | Minority interests | 176 | (176) | | | |
| 220. | Net income | | 1,393 | - | 54 | 1,447 |
| 200. It | Net income | 1,393 | (1,393) | | | |
| Total liabilities | | 211,157 | (107) | 41,117 | 593 | 252,760 |

*(*) Excluding IAS 32 and 39 and IFRS 4.*

## TABLE 3.1 ANALYTICAL RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET (FULL IAS) AS OF 1 JANUARY 2005 - ASSETS

(€/mil)

| ASSETS | IAS/IFRS 31/12/2004 (*) (A) | Reclassifications (B) | Adjustments (C) | IAS/IFRS 1/1/2005 (**) (D=A+B+C) |
|---|---|---|---|---|
| 10. Cash and liquid balances | 1,365 | (1) | - | 1,364 |
| 20. Financial assets held for trading | 65,778 | (37,838) | 317 | 28,257 |
| 30. Financial assets designated as at fair value | - | 23,575 | 76 | 23,651 |
| 40. Available-for-sale investments | 2,831 | 22,559 | 932 | 26,322 |
| 50. Held-to-maturity investments | 3,197 | (1,379) | - | 1,818 |
| 60. Due from banks | 24,238 | 668 | 2 | 24,908 |
| 70. Due from customers | 123,204 | 2,282 | 794 | 126,280 |
| 80. Hedging derivatives | - | 822 | 747 | 1,569 |
| 90. Value adjustment of financial assets covered by general hedges | - | - | - | - |
| 100. Investments | 839 | - | - | 839 |
| 110. Technical reserves ceded to third party reinsurers | 25 | - | - | 25 |
| 120. Tangible assets | 2,328 | - | - | 2,328 |
| 130. Intangible assets | 1,055 | - | - | 1,055 |
| *of which:* | | | | |
| *- goodwill* | *766* | - | - | *766* |
| 140. Income tax assets | 3,304 | - | 485 | 3,789 |
| *a) current* | *1,798* | - | - | *1,798* |
| *b) deferred* | *1,506* | - | *485* | *1,991* |
| 150. Non-current assets and groups of assets to be disposed of | - | - | - | - |
| 160. Other assets | 24,596 | (18,456) | 46 | 6,186 |
| Total assets | 252,760 | (7,768) | 3,399 | 248,391 |

*(*) Excluding IAS 32 and 39 and IFRS 4.*
*(**) Including IAS 32 and 39 and IFRS 4.*

## TABLE 3.2 ANALYTICAL RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET (FULL IAS) AS OF 1 JANUARY 2005 - LIABILITIES

(€/mil)

| LIABILITIES | IAS/IFRS 31/12/2004 (*) (A) | Reclassifications (B) | Adjustments (C) | IAS/IFRS 1/1/2005 (**) (D=A+B+C) |
|---|---|---|---|---|
| 10. Due to banks | 28,277 | 13 | 3 | 28,293 |
| 20. Due to customers | 88,817 | (82) | - | 88,735 |
| 30. Securities issued | 54,941 | (2,915) | 1,035 | 53,061 |
| 40. Financial dealing liabilities | - | 10,864 | 406 | 11,270 |
| 50. Financial liabilities designated as at fair value | - | 19,255 | - | 19,255 |
| 60. Hedging derivatives | - | 1,158 | 783 | 1,941 |
| 70. Value adjustment of financial liabilities covered by general hedges | - | - | 18 | 18 |
| 80. Income tax liabilities | 783 | - | 323 | 1,106 |
| *a) current* | *304* | - | - | *304* |
| *b) deferred* | *479* | - | *323* | *802* |
| 90. Liabilities associated with discontinued assets | - | - | - | - |
| 100. Other liabilities | 25,887 | (16,806) | 709 | 9,790 |
| 110. Employee termination indemnities | 882 | - | - | 882 |
| 120. Provision for risks and charges: | 1,734 | - | 84 | 1,818 |
| *a) pension and similar commitments* | *209* | - | - | *209* |
| *b) other funds* | *1,525* | - | *84* | *1,609* |
| 130. Technical reserves | 38,849 | (19,255) | 389 | 19,983 |
| 140. Valuation reserves | 343 | - | 691 | 1,034 |
| 150. Share reimbursements | - | - | - | - |
| 160. Capital instruments | - | - | - | - |
| 170. Reserves | 4,575 | - | (903) | 3,672 |
| 180. Share premium reserves | 725 | - | - | 725 |
| 190. Capital | 5,218 | - | - | 5,218 |
| 200. Own shares | - | - | (61) | (61) |
| 210. Minority interest | 282 | - | (78) | 204 |
| 220. Net income | 1,447 | - | - | 1,447 |
| Total liabilities | 252,760 | (7,768) | 3,399 | 248,391 |

*(*) Excluding IAS 32 and 39 and IFRS 4.*
*(**) Including IAS 32 and 39 and IFRS 4.*

## TABLE 4 SUMMARY RECONCILIATION OF THE CONSOLIDATED NET INCOME FOR 2004 ACCORDING TO IFRS 1 (*)

| | | First half 2004 (**) (€/mil) | 2004 (**) (€/mil) |
|---|---|---|---|
| Net income applying Italian GAAP | | 726 | 1,441 |
| *- Group* | | *691* | *1,393* |
| *- minority interests* | | *35* | *48* |
| 30. | Net interest income | -16 | -27 |
| 60. | Net commissions | - | -3 |
| 190 a) | Personnel costs | -8 | -15 |
| 190 b) | Other administrative costs | -1 | -7 |
| 200. | Net provisions for risks and charges | +3 | -1 |
| 210. | Net adjustments to fixed assets | -3 | -4 |
| 220. | Net adjustments to intangible fixed assets | +62 | +104 |
| 230. | Other operating expenses/income | - | +1 |
| 250. | Profits (losses) on equity shareholdings | +13 | +25 |
| 280. | Profits (losses) from disposals of investments | - | -1 |
| 300. | Income taxes for the period | -6 | -18 |
| 340. | Changes to scope of consolidation - Net income attributable to minority interests | +6 | +7 |
| Total adjustments for IAS/IFRS | | +50 | +61 |
| Net income applying IAS/IFRS | | 776 | 1,502 |
| *- Group* | | *735* | *1,447* |
| *- minority interests* | | *41* | *55* |

*(*) The amounts shown in the table do not reflect the overall effect on single income captions affected by the reconciliation since they do not take into account the reclassifications between captions through the application of new accounting standards and the extension of the area of consolidation.*

*(**) Excluding IAS 32 and 39 and IFRS 4.*

## TABLE 5 ANALYTICAL RECONCILIATION OF THE CONSOLIDATED STATEMENT OF INCOME (MIX MODEL) FOR THE FIRST HALF OF 2004

(€/mil)

| STATEMENT OF INCOME | | Italian GAAP first half 2004 (A) | Reclassifications (B) | Changes in scope of consolidation (C) | Adjustments (D) | IAS/IFRS first half 2004 (*) (E=A+B+C+D) |
|---|---|---|---|---|---|---|
| 10. | Interest income and similar revenue | | 3,570 | 270 | - | 3,840 |
| 10. It | Interest income and similar revenue | 3,570 | (3,570) | | | |
| 20. | Interest expense and similar charges | | (1,711) | (26) | (16) | (1,753) |
| 20. It | Interest expense and similar charges | (1,711) | 1,711 | | | |
| 30. | Net interest income | 1,859 | - | - | - | 2,087 |
| 40. | Commissions receivable | | 1,973 | 2 | - | 1,975 |
| 40. It | Commission income | 1,973 | (1,973) | | | |
| 50. | Commissions payable | | (369) | (35) | - | (404) |
| 50. It | Commission expense | (369) | 369 | | | |
| 60. | Net commissions | 1,604 | - | - | - | 1,571 |
| 70. | Dividends and similar revenues | | 121 | 30 | - | 151 |
| 30. It | Dividends and other revenues | 121 | (121) | | | |
| 80. | Net dealing income | | 77 | 530 | - | 607 |
| 90. | Net result from hedging transactions | | - | - | - | - |
| 100. | Profit (loss) from the disposal or repurchase of: | | 3 | - | - | 3 |
| | a) loans | | - | - | - | - |
| | b) available for sale investments | | 3 | - | - | 3 |
| | c) held-to maturity investments | | - | - | - | - |
| | d) financial liabilities | | - | - | - | - |
| 110. | Financial assets held at fair value | | - | 13 | - | 13 |
| 120. | Financial liabilities designated as at fair value | | - | - | - | - |
| 60. It | Profits (losses) on financial transactions | 77 | (77) | | | |
| 130. | Net interest and other banking income | 3,661 | - | - | - | 4,432 |
| 140. | Adjustments to net values of: | | (288) | (4) | - | (292) |
| | a) loans | | (268) | (4) | - | (272) |
| | b) available for sale investments | | (19) | - | - | (19) |
| | c) held-to maturity investments | | (1) | - | - | (1) |
| | d) other financial instruments | | - | - | - | - |
| 140. It | Provisions to reserves for possible loan losses | (9) | 9 | | | |
| 120. It | Adjustments to loans and provisions for guarantees and commitments | (479) | 479 | | | |
| 130. It | Writebacks of adjustments to loans and provisions for guarantees and commitments | 220 | (220) | | | |
| 150. It | Adjustments to financial fixed assets | (115) | 115 | | | |
| 160. It | Writebacks of adjustments to financial fixed assets | 95 | (95) | | | |
| 150. | Net result from financial transactions | 3,373 | - | - | - | 4,140 |
| 160. | Net premiums | | - | 3,890 | - | 3,890 |
| 170. | Balance of other income/charges from insurance business | | - | (4,490) | - | (4,490) |
| 180. | Net result of financial and insurance business | 3,373 | - | - | - | 3,540 |
| 190. | Administrative costs: | | (2,128) | (38) | (9) | (2,175) |
| | a) personnel costs | | (1,394) | (9) | (8) | (1,411) |
| | b) other administrative costs | | (734) | (29) | (1) | (764) |
| 80. It | Administrative costs | (2,258) | 2,258 | | | |
| 200. | Net provisions for risks and charges | | (53) | - | 3 | (50) |
| 100. It | Provisions for risks and charges | (78) | 78 | | | |
| 210. | Net adjustments to tangible assets | | (110) | - | (3) | (113) |
| 220. | Net adjustments to intangible assets | | (97) | - | - | (97) |
| 90. It | Adjustments to tangible and intangible fixed assets | (279) | 279 | | | |
| 230. | Other operating charges/income | | 16 | 9 | - | 25 |
| 110. It | Other operating expense | (34) | 34 | | | |
| 70. It | Other operating income | 192 | (192) | | | |
| 240. | Operating costs | (2,457) | - | - | - | (2,410) |
| 250. | Profits (Losses) on equity shareholdings | | 186 | (106) | 13 | 93 |
| 260. | Net result of tangible and intangible assets at fair value | | - | - | - | - |
| 270. | Adjustments to the value of goodwill | | (62) | - | 62 | - |
| 170. It | Income (losses) from investments carried at equity | 140 | (140) | | | |
| 280. | Profits (Losses) from disposals of investments | | - | - | - | - |
| 290. | Profit (Loss) before taxation | 1,056 | - | - | - | 1,223 |
| 230. It | Changes in reserves for general banking risks | - | - | | | |
| 180. It | Income from ordinary activities | 1,056 | - | | | |
| 190. It | Extraordinary income | 118 | (118) | | | |
| 200. It | Extraordinary expenses | (46) | 46 | | | |
| 210. It | Extraordinary net income | 72 | - | | | |
| 300. | Income taxes for the period | | (402) | (39) | (6) | (447) |
| 240. It | Taxes for the period | (402) | 402 | | | |
| 310. | Net Profits (Losses) for the period | 726 | - | - | - | 776 |
| 320. | Profits (Losses) on discontinued operations | | - | - | - | - |
| 330. | Net income | | - | - | - | 776 |
| 250. It | Income (loss) attributable to minority interest | (35) | 35 | | | |
| 340. | Profit attributable to minority interest | | (35) | (6) | - | (41) |
| 260. It | Net income | 691 | - | | | |
| 350. | Net income for the year attributable to the Parent Bank | | - | - | 44 | 735 |

*(*) Except IAS 32 and 39 and IFRS 4.*

## Notes on the methods used to draft the reconciliation statements

The "summary reconciliation statements" (Tables 1 and 4) show, for each caption of the new financial statements, the effects of the change before taxation, which are shown altogether under a separate heading. The amounts shown, except for some "net" values which are specifically highlighted, correspond to those carried in the "adjustments" column in the "analytical reconciliation statements".

The "analytical reconciliation statements" for the financial statements as of 31 December 2004 (Table 2) and for the statement of income for the first half of 2004 (Table 5) are both based on the mix model and show both the captions used in the old layout of the financial statements and the new ones according to the IAS layout. In particular they are preceded by Arabic numerals which are typical of their respective layouts, with the suffix "It" for those captions previously used according to Italian accounting principles.

The columns in the analytical statements are described below:

- Balances according to Italian GAAP (column "A"). This column is valued according to the captions using the old style layout of the financial statements and carries the values published in the past.
- Reclassifications (column "B"). This shows the reclassifications required to write back all the balances of the Italian GAAP captions in order to restore them to the new IAS layout. For this purpose, captions referring to financial instruments were reclassified on the basis of the conventional policies indicated in the following paragraph.
- Changes in the scope of consolidation (column "C"). Within the IAS layout, this shows the effect of the changes in the scope of consolidation mainly attributable to the inclusion of the Group's insurance sector. The amounts carried have been calculated according to the accounting principles previously in force.
- Adjustments (column "D"). This column shows the effects of applying IAS/IFRS principles for measurement and evaluation. Therefore it shows the amounts which will have an effect on net equity and net income. The amounts highlighted in here correspond to those shown in the "summary reconciliation statements".

The "analytical reconciliation statement" for the balance sheet as of 1 January 2005 (Table 3) has been prepared using as a starting point the *mix model* balance sheet as of 31 December 2004 (column "A"), as defined in the specific reconciliation statements and highlighting the reclassifications (column "B") and adjustments (column "C") made as a result of the application of IAS 32 and 39 (financial instruments) and IFRS 4 (insurance products) principles.

## Conventional reclassification principles for financial instruments in the 2004 reconciliation statements

As already mentioned, the balance sheet as of 31 December 2004 and the statement of income as of 30 June 2004 were prepared applying international accounting standards, with the exception of IAS 32, 39 and IFRS 4. Therefore, the valuation and classification of financial instruments in compliance with IAS has been applied from 1 January 2005. In the 2004 accounts, financial instruments were valued according to Italian accounting principles and reclassified to the IAS/IFRS captions in compliance with the principles indicated below.

"Cash and deposits" and "loans" due to/from banks and customers have been reclassified to the corresponding captions in the IAS/IFRS layout. "Treasury bills and similar bills eligible for refinancing with central banks", "bonds and other debt securities" and "shares, quotas and other equities" have been recorded to "financial assets held for trading" and "held-to-maturity investments" respectively, according to whether they were classified to the "dealing" or "investment" portfolios in the financial statements prepared according to Italian accounting principles. Investments not valued using the equity method have been recorded under "available for sale investments". "Securities issued" and "subordinated liabilities" have been reclassified to "securities issued". "Accruals, prepayments and deferrals", "other assets" and "other liabilities" have been recorded under "other assets" and "other liabilities" in the IAS/IFRS layout.

In the statement of income, interest, commissions and dividends have been recorded under the corresponding captions in the new layout. The caption “net dealing income” includes the balance of what was formerly classified as “profits (losses) from financial transactions” in the layout used for Italian accounting principles. “Provisions to the reserve for probable loan losses”, “adjustments” and “write-backs of adjustments to loans and provisions for guarantees and commitments” have been classified under “adjustments for impairment in net value of a) loans”. “Adjustments” and “write-backs of financial fixed assets” have been included under the IAS/IFRS caption “adjustments for impairment in the value of financial assets”.

## Notes to the reconciliations

Assets held for trading. The securities portfolio, separately identified according to Italian GAAP as “dealing” and “investment” portfolio, has been reclassified as of 1 January 2005 by the Parent Bank and its subsidiaries, to the categories provided by IASB in line with prevailing management and operating guidelines and, in any case, with the objectives of the Group. The Group has classified under ‘Dealing transactions’ those securities held in its trading desk portfolios which are generally traded very frequently or expected to be disposed of in the short term as well as derivatives held for dealing. Furthermore, IAS 39 rules governing hedging transactions have led to the de-recognition of a significant portion of hedging transactions previously carried out in the portfolio. The inclusion under “assets held for trading” of derivatives which, at 1 January 2005, could not be classified as hedging transactions and their consequent valuation at fair value, gave rise to a write-up adjustment to assets of 455 million euro, of which 206 million euro refer to options that already hedged optional components of structured deposits. To partially compensate the aforementioned adjustments to derivatives, the total adjustment shown in the reconciliation statements includes the elimination of own shares of the Parent Bank (61 million euro) and of individual subsidiaries (57 million euro), as well as lower amounts for: (i) the adjustment to fair value of securities previously valued at cost; (ii) the effect of recalculating the fair value of dealing derivatives in order to reflect the valuation models, taking into account the credit worthiness of the counterparties and other specifications provided for by international accounting standards.

Financial assets designated at fair value. The Banking Group has made limited use of the designation at fair value (known as fair value option) for financial instruments, restricting it mainly to account for its portfolio of structured securities, whereas it has been used extensively by its insurance subsidiaries in respect of securities to cover policies where the investment risk is borne by the insured. Ideally, the exposure of the Group to such securities is compensated by offsetting the policies against the relevant liabilities designated at fair value.

Available for sale investments. Upon first-time adoption of international accounting standards, those debt securities which could not be classified under any other portfolio have been included under available for sale investments, together with all equity investments that do not fall under the subsidiary, affiliated or joint-control category. Only where valuations were not reliable – taking into account, among other things, the specific characteristics of the issuer, that is, the significant spread in the ranges of value resulting from the application of the valuation models, or rather, the lack of information useful to applying valuation models given the scarse importants of the shareholding – were securities still carried at cost. The most significant investments still carried at cost are investments in Banca d’Italia, Borsa Italiana, Hutchison 3G Italia and Credito Sportivo. The positive adjustment refers to the fair value of securities already valued at cost, offset against a specific valuation reserve included under shareholders’ equity. The valuation reserve relating to available for sale investments, included under shareholders’ equity, was not adjusted for taxation since, according to IAS, investments maintain current tax exemptions (participation exemption regime).
The balance sheet adjustment of 583 million euro refers in particular to the fair value adjustment made to debt securities of the insurance sector, against high risk insurance policies. The relevant valuation reserve relating to available for sale investments, included under shareholders’ equity is partially compensated by recording a valuation reserve but with opposite sign, calculated on the insurance liabilities (mathematical reserves) according to the option given by IFRS 4, to avail of “shadow accounting” for the portion of income due to policy underwriters.

Held-to-maturity investments. The investment portfolio has been recalculated due to stricter constraints being imposed by the international accounting standards on “held-to-maturity investments”, by reclassifying those securities that had been previously classified as "available for sale investments". No adjustments were made to those values already booked according to Italian accounting principles.

Due from banks. Only inter-bank placements are classified in this caption, with the exclusion therefore of debt securities. The adjustment of 2 million euro refers to an adjustment to the value of hedged transactions.

Loans to customers. In addition to non-securitized loans to customers, the IAS/IFRS loan portfolio (*loans and receivables*) also comprises unquoted securities arising from the restructuring of exposures or purchased upon subscription or assignment of corporate customers. As regards the discounting of doubtful loans, the SANPAOLO IMI Group has adopted the net present value criteria set by IAS/IFRS for doubtful loans since 1998, the year in which its shares were quoted on the US market. Therefore, the value of equity at transition has been changed only in respect of the adjustment of hedged loans (+640 million euro) and the improvement of the application of "amortized cost" in accordance with IAS. More specifically, as regards this last point, equity was reduced by 34 million euro (21 million net of its tax effect) due to an adjustment to the value of non-interest bearing loans granted by GEST Line, the tax collection subsidiary company, to the various entities on behalf of which it carries out its collection activity. The adjustment was made to take into account the discounting at effective interest rates, compared to the expected average collection period. This adjustment reflects also the 167 million euro increase in loans due to the separate accounting of the commitment incorporated in the FIAT convertible loan under derivative liabilities (dealing).

Hedging derivatives. This caption comprises derivatives which were already classified as hedging instruments in the financial statements prepared in accordance with Italian accounting principles and which, at 1 January 2005 could be considered as such according to IFRS 1 transition rules. The adjustment to shareholders' equity (+747 million euro) reflects the adjustment to fair value of such derivatives and is substantially compensated by the adjustment to fair value of the underlying hedged items.

Investments carried at net equity. This caption includes both the valuation to net equity of investments in affiliated companies and the positive differences in shareholders' equity which are carried under a separate caption in the financial statements prepared according to Italian accounting principles. The 2004 adjustments relate to the write-back of the 2004 amortization charge on such differences since IFRS 3 does not provide for the systematic amortization of goodwill with effect from 1 January 2004. The write-back of 2004 amortization has a positive effect on the economic result for the first half of 2004 and for the full year 2004, due to the increase in profit of companies carried at equity.

Tangible fixed assets. Tangible fixed assets included in the financial statements prepared in accordance with Italian accounting principles have been reclassified to this caption which, for the first time, includes also leasehold property where the related entry is included under financial liabilities. The increase in shareholders' equity relates mainly to the fair value adjustment (+366 million euro) of land in the real estate portfolio, made on the basis of appraisals carried out by independent experts. This fair value represents the new book value that replaces cost. Works of art are also subject to adjustment to fair value (+42 million euro) as a replacement of cost, still based on appraisals carried out by independent experts. Since they are considered to be assets not subject to amortization, previous amortization charges (made on the basis of Italian accounting principles) have been reversed (+19 million euro). In the statement of income, the higher "adjustments to the value of tangible fixed assets" refer mainly to amortization of leasehold property, which previously had not been included.

Intangible assets. This caption reflects the reversal of long-term charges and other intangible assets which, according to IAS/IFRS, can no longer be capitalized. Furthermore, amortization of internally-developed software has been recalculated according to criteria approved under the IAS principles.
In particular, this caption includes goodwill arising on the line by line consolidation and on the purchase of business branches. Following the adoption of IAS/IFRS, goodwill is considered as an asset with an indefinite economic life and as such it can no longer be systematically amortized (as required, instead, by Italian accounting principles). Goodwill must be reviewed annually for impairment (impairment test) and, if necessary, written down to reflect any "permanent loss in

value". The SANPAOLO IMI Group carried out an impairment test on goodwill recorded as of 1 January 2004 and 31 December 2004 which revealed no losses in value compared to the amounts reported in the financial statements. As already noted, no other adjustments were made to goodwill given that the Group decided not to adopt IFRS 3 to business combinations retrospectively. The write-up adjustment made to the caption refers to the reversal of 2004 amortization charges and reflects positively on the result for the first half of 2004 and on the full year, under the caption "adjustments to intangible assets".

Tax assets and liabilities. The amounts shown relate to deferred taxation on taxable and deductible temporary differences arisen by applying the international accounting standards to other balance sheet items.

Other assets and liabilities. This caption covers Group assets and liabilities not reported in other captions of the financial statement. The more important adjustments refer to the reporting in assets of the deferrals of placement commission expenses paid to companies outside the Group (129 million) for the placement of policies issued by the insurance business, and in liabilities of the corresponding deferrals of positive commissions collected by the underwriters on the issue of those policies (380 million). These amounts will be reported in the statement of income on a straight line basis for the life of the underlying products. Moreover, purchase commitments were subscribed for controlled investments to the sum of 83 million, liabilities were eliminated for dividends attributable to the minority interests of subsidiaries (42 million euro at 1 January 2004 and at 31 December 2004/1 January 2005) and already recorded in other liabilities in accordance with national accounting standards, and deferred assets and liabilities were eliminated in relation to hedged derivatives closed in previous years.

Due to banks. This caption comprises all amounts due to banks at their "amortized cost". The adjustment of 3 million euro refers to an adjustment to the value of the positions caused by accounting of hedges.

Securities issued. On the basis of Italian accounting principles, own securities issued and then repurchased on the market for trading are considered as assets to be included in the financial statements. On the other hand, IAS/IFRS require such securities to be cancelled on repurchase. In accordance with IAS 39, own debt securities have been cancelled against the corresponding liability caption "Debt securities issued"; the excess value of the amount already recorded under assets over the corresponding liability resulted in a negative adjustment to opening shareholders' equity, due to the higher carrying value of the securities portfolio compared to the amortized value of the relevant collected amount.
Upon transition to IAS, deposits of structured securities were recorded by retrospectively applying "split accounting" whereby both the embedded derivative and the host contract are initially recorded separately at fair value, and at a later stage, the derivative is recorded at fair value whilst the host contract at amortized cost as adjusted to take into account any relevant hedges. The fair values (of embedded derivatives and of the host contracts) that are initially recorded, unless significantly different from their related market value, must be equal to the amounts collected. This accounting method, provided for in the international accounting standards, resulted in allocating total issue costs and income over the life of the product by recording the host contract at amortized cost and writing off any day-one profit recorded in the previous financial statements prepared according to Italian accounting principles. The adjustment includes 234 million euro relating to the recording of the host contracts at amortized cost after deducting the relevant derivatives and 525 million euro relating to the recording of hedges on deposits represented by securities.

Financial dealing liabilities: This caption comprises those dealing derivatives with a negative fair value. The adjustment refers to the negative value of 766 million euro of derivatives previously classified as hedges and reclassified as dealing at the date of transition as well as to the positive value of 359 million euro for options sold which were embedded in the structured deposits and accounted for separately from the host contract (split accounting).

Hedging derivatives - liabilities. This caption comprises only derivatives with a negative fair value which were already qualified as hedges in the financial statements prepared in accordance with Italian accounting principles and which, at 1 January 2005 could be considered as hedges according to IFRS 1 transition rules. The adjustment to equity (-783 million euro) is basically compensated by the adjustment to fair value of the underlying hedged items.

Adjustment to financial liabilities covered by general hedges. The adjustment refers to an adjustment to the value of portfolios of financial liabilities exposed to interest rate risk to take into account of the related hedges.

Employee termination indemnities. IAS/IFRS provide for a different accrual principle for liabilities matured in respect of obligations to employees. Accruals are calculated on the basis of the existing workforce taking into account the expected length of service, and the total liability matured must be subject to actuarial calculations. For IAS/IFRS purposes the specific accounting treatment of the accruals in accordance with art. 2120 of the Civil Code is still subject to discussion by the accounting profession. In line with prevailing doctrine, the Group has chosen to evaluate the above liability towards its workforce according to the provisions of IAS 19 "Employee benefits" as regards defined benefit pension funds. As a result of the above decision, the commitment has been subject to valuation by an independent actuary. The accrual at 1 January 2004 was made taking into account also all prior year actuarial losses and gains as permitted by the transition provisions. The Group has chosen to accrue all such losses and gains by adopting the so-called 'corridor accounting'. The 2004 statement of income benefited from the positive effect of lower accruals recorded in personnel costs.

Provisions and reserves: provisions and reserves include provisions for employees specifically required by IAS 19 "Employee benefits" and, especially, accruals for commitments to make good the technical deficit in the defined benefit pension funds. As regards the latter ones, estimates already made by an independent actuary for the purposes of the financial statements prepared in accordance with Italian accounting principles, have been adjusted to take into consideration the "projected unit credit method" and other requirements set out in the aforementioned international accounting principle. With regard to potential liabilities other than those linked to a working relationship, the IAS provide that they be recorded at the present value payable when due; this differs from Italian accounting principles which provide for the full accrual of the potential liability. Therefore the relevant accruals have been reduced to take into account the cost of money by discounting the expected future cash outflows. Lastly, those provisions which did not satisfy the stricter requirements of IAS 37 in respect of accruals have been wholly eliminated. In accordance with international accounting standards, the statement of income for the 2004 financial year has been adjusted by a charge for interest payable calculated on the amounts accrued.

Technical reserves. In brief, Italian accounting principles for insurance products provide that:
- the amounts collected for the issue of insurance products must be recorded directly in the statement of income as "insurance premiums";
- in respect of these premiums, insurance companies accrue the expected amounts payable to the insured in appropriate "technical reserves";
- the difference, in the statement of income, between the premiums recorded under income and the accruals to reserves recorded under costs represent the margin earned by insurance companies in the statement of income.

Differently, IAS/IFRS distinguish products mostly on the basis of their economic content, which can be financial or insurance-related. In this way, products issued by insurance companies must be entered either as financial or insurance instruments, depending on the type of risks associated with them.

The products characterized mostly by insurance risks follow IFRS 4 rules, which basically refer to the accounting principles; on the other hand, products of a financial nature are accounted for in accordance with IAS 39 "financial instruments".

Therefore, technical reserves relating to products which also under IAS provisions are classified as insurance products, have been accounted for in accordance with Italian accounting principles and, in accordance with IAS 39, adjusted to take into account the different valuation of the relevant investments made. In particular, the Group has chosen to avail itself of "shadow accounting", whereby insurance liabilities are adjusted by way of an entry to a valuation reserve under shareholders' equity which mirrors the recording of the related available for sale investments. It should be noted that the reserves for policies with a significant financial content have been reclassified as financial liabilities.

Changes in the scope of consolidation – minority interests. Under international accounting standards, all subsidiaries are consolidated on a line by line basis, therefore, with regard to the SANPAOLO IMI Group, to the entire insurance sector, which was previously included in the consolidated accounts using the equity method. This change has not affected the Group shareholders' equity in any way; however, the inclusion of investments consolidated on a proportional basis or carried at equity in the consolidation area of the consolidated financial statements prepared on a line by line basis, in accordance with Italian accounting principles, has affected minority interest. The greater amount shown refers mainly to the line by line consolidation of Banca Koper which was previously consolidated using the proportional method.

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**AUDITORS' REPORT ON THE IFRS RECONCILIATION SCHEDULES ILLUSTRATING THE IMPACT OF THE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

To the Board of Directors of
Sanpaolo IMI SpA

1. We have audited the accompanying reconciliation schedules, consisting of the reconciliation schedule between the consolidated balance sheet prepared in accordance to the Law Decree n° 87/92 and the one prepared in accordance to the IFRS as of 31 December 2004 and 1 January 2005, the "Summary reconciliation of consolidated shareholders' equity" at 1 January 2004, 31 December 2004 and 1 January 2005, and the "Summary reconciliation of the consolidated net result" for the year ended 31 December 2004 (hereinafter the "IFRS Reconciliation Schedules") of Sanpaolo IMI Group and related explanatory notes, as presented in the section "Transaction to international accounting principles of the Sanpaolo IMI Group" of the Half Year Report as of 30 June 2005. The aforementioned IFRS Reconciliation Schedules derive from the consolidated financial statements of Sanpaolo IMI SpA as of 31 December 2004 prepared in compliance with the laws governing the criteria for the preparation of financial statements, which we audited and on which we issued our report on 8 April 2005. The IFRS Reconciliation Schedules have been prepared in connection with the process of transition to the International Financial Reporting Standards (IFRS) endorsed by the European Commission. The IFRS Reconciliation Schedules are the responsibility of Sanpaolo IMI SpA's directors. Our responsibility is to express an opinion on the IFRS Reconciliation Schedules based on our audit.

2. We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the IFRS Reconciliation Schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS Reconciliation Schedules. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   The audit of the financial statements of certain subsidiaries included in the consolidated financial statements of Sanpaolo IMI SpA as of 31 December 2004, prepared in accordance to the Law Decree No. 87/92 and presented in the IFRS Reconciliation Schedules, representing 18 percent of consolidated "Total assets", 3 percent of consolidated "Net interest income",

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and 12 percent of the consolidated "Net interest and other banking income", is the responsibility of other auditors.

3. In our opinion, the IFRS Reconciliation Schedules identified in paragraph 1 of this report, taken as a whole, have been prepared in compliance with the criteria and standards set out in article 81 of Regulation for Issuers No. 11971/1999 adopted by Consob with its Resolution No 14990 dated 14 April 2005.

4. We draw to your attention that the IFRS Reconciliation Schedules, having been prepared solely for the purpose of the transition project for the preparation of the first consolidated financial statements at 31 December 2005 compliant with the IFRS endorsed by the European Commission, do not include the comparative financial information and explanatory notes that would be required in order to fairly present the consolidated financial position and the consolidated result of operations of Sanpaolo IMI SpA in compliance with IFRS.

   Furthermore, as described in the explanatory notes to the transaction to international accounting principles of the Sanpaolo IMI Group, the IFRS Reconciliation Schedules will represent the published comparative data in the first consolidated financial statements compliant with the IFRS; these figures might be modified due to the issue of new principles or interpretation by the relevant standard setters, amendments of existing principles, or future directions of the European Commission in respect of the endorsement of the international accounting standards before the publication of the first consolidated financial statements compliant with the IFRS.

Turin, 25 October 2005

PricewaterhouseCoopers SpA

Signed by
Sergio Duca
(Partner)

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

# Attachments

## ATTACHMENT TO REPORT ON GROUP OPERATIONS

PRO FORMA RECONSTRUCTION OF THE CONSOLIDATED STATEMENT
OF INCOME FOR THE FIRST HALF 2004 (FULL IAS)

## ATTACHMENT TO CONSOLIDATED EXPLANATORY NOTES

LIST AS OF EQUITY INVESTMENTS HIGHER THAN 10% OF THE CAPITAL
IN UNLISTED COMPANIES AND IN LIMITED LIABILITY COMPANIES

## PRO FORMA RECONSTRUCTION OF THE CONSOLIDATED STATEMENT OF INCOME FOR THE FIRST HALF 2004 (FULL IAS)

The pro forma reconstruction – applying IAS 32 and 39 and IFRS 4 – of the reclassified statement of income for the first half of 2004 was made solely for the purpose of providing a basis for comparison of the results for the first half of 2005. The reconstruction has not been independently audited.

(€/mil)

| STATEMENT OF INCOME | Mix model IAS balance first half 2004 (A) | Reclassifications for IAS 32 and 39 and IFRS 4 (B) | Adjustments: IAS 32 and 39 and IFRS 4 insurance sector (C) | Adjustments: IAS 32 and 39 other companies (D) | Adjustments: Other pro forma adjustments (E) | Recalculated balance first half 2004 (F=A+B+C+D+E) |
|---|---|---|---|---|---|---|
| A. Net interest income | 1,838 | 20 | - | 13 | - | 1,871 |
| B. Net commissions | 1,603 | 6 | - | -9 | - | 1,600 |
| C. Income from credit disposals, assets held to maturity and repurchase of financial liabilities | - | 2 | - | - | - | 2 |
| D. Dividends and income from other financial assets and liabilities | 206 | 15 | - | -24 | - | 197 |
| E. Profits (losses) on equity shareholdings | 93 | -55 | - | - | - | 38 |
| F. Income from insurance business | 179 | - | -15 | - | - | 164 |
| - Total operating income | 3,919 | -12 | -15 | -20 | - | 3,872 |
| G. Net adjustments to loans | -266 | -38 | - | - | - | -304 |
| H. Net adjustments to other financial assets | -20 | - | - | -92 | - | -112 |
| - Net operating income | 3,633 | -50 | -15 | -112 | - | 3,456 |
| I. Personnel costs | -1,411 | - | - | - | 8 | -1,403 |
| L. Other administrative costs | -764 | 2 | - | - | - | -762 |
| M. Net adjustments to tangible and intangible assets | -210 | - | - | - | - | -210 |
| - Operating costs (I+L+M) | -2,385 | 2 | - | - | 8 | -2,375 |
| N. Other net income (expenses) | 25 | -5 | - | -2 | - | 18 |
| O. Impairment of goodwill | - | - | - | - | - | - |
| P. Profits (losses) from disposals of investments | - | - | - | - | - | - |
| Q. Net provisions for risks and charges | -50 | -2 | - | - | - | -52 |
| - Pre-tax operating profit | 1,223 | -55 | -15 | -114 | 8 | 1,047 |
| R. Taxes for the period | -447 | - | 3 | 4 | -4 | -444 |
| S. Profits (losses) on discontinued operations | - | 55 | - | - | - | 55 |
| T. Profit attributable to minority interests | -41 | - | - | 3 | 11 | -27 |
| - Net profit | 735 | - | -12 | -107 | 15 | 631 |

The table thus presented, reveals the following:

- IAS mix model balance for the first half of 2004 (column "A"). This column shows the results of the "analytical reconciliation of the consolidated statement of income for the first half of 2004 (mix model)" (see historical) reclassified to the layout used in the Report on operations.
- Reclassifications (column "B"). This reveals the reclassifications between the different balance sheet captions by applying IAS 32 and 39 and IFRS 4.
- Adjustments (columns "C", "D" and "E"). These show the adjustments to value through the application of the principles and other minor adjustments made to provide a consistent comparison with the first half of 2005.

# LIST OF EQUITY INVESTMENTS AS OF 30 JUNE 2005 HIGHER THAN 10% OF THE CAPITAL REPRESENTED BY SHARES WITH VOTING RIGHTS IN UNLISTED COMPANIES OR IN LIMITED LIABILITY COMPANIES (IN ACCORDANCE WITH ART. 126 OF CONSOB RESOLUTION NO. 11971 OF 14 MAY 1999) (1)

| Name | Held by | Share % |
|---|---|---|
| Agricola del Varano S.r.l. | Cassa di Risparmio Padova e Rovigo | 26.58 |
| Alilaguna S.r.l. | Cassa di Risparmio Venezia | 80.00 |
| Alpifin S.r.l. (in liq.) | Friulcassa | 10.44 |
| Ama International S.p.A. | FIN.Opi | 14.97 |
| Istituto per l'Enciclopedia della Banca e della Borsa S.p.A. | SANPAOLO IMI | 12.11 |
| | Banca Fideuram | 0.35 |
| | | 12.46 |
| Banca d'Italia | SANPAOLO IMI | 8.33 |
| | Cassa di Risparmio Bologna | 6.20 |
| | Cassa di Risparmio Padova e Rovigo | 1.20 |
| | Cassa di Risparmio Venezia | 0.88 |
| | Friulcassa | 0.62 |
| | | 17.23 |
| Banco del Desarrollo S.A. | SANPAOLO IMI | 15.72 |
| Banque Espirito Santo et de la Venetie S.A. | SANPAOLO IMI | 18.00 |
| Banque Galliere S.A. (in liq.) | Cassa di Risparmio Bologna | 17.50 |
| Beato Edoardo Materiali Ferrosi S.r.l. | Cassa di Risparmio Padova e Rovigo | 50.00 |
| | Cassa di Risparmio Venezia | 50.00 |
| | | 100.00 |
| Biessefin S.p.A. (in liq.) | SANPAOLO IMI | 36.10 |
| Borsa Italiana S.p.A. | Banca IMI | 7.94 |
| | SANPAOLO IMI | 5.37 |
| | Sanpaolo Bank | 0.43 |
| | | 13.74 |
| Calitri Denim Industries S.p.A. (bankrupt) | Isveimer (in liq.) | 14.29 |
| Celeasing S.r.l. | SANPAOLO IMI | 100.00 |
| Cen.Ser. Centro Servizi S.p.A. | Cassa di Risparmio Padova e Rovigo | 11.60 |
| Centradia Limited (in liq.) | Centradia Goup (in liq.) | 100.00 |
| Centradia Services Ltd (in liq.) | Centradia Goup (in liq.) | 100.00 |
| Centrale dei Bilanci S.r.l. | SANPAOLO IMI | 12.60 |
| Centro Agroalimentare di Napoli Scpa | SANPAOLO IMI | 12.56 |
| Centro Factoring S.p.A. | SANPAOLO IMI | 10.81 |
| Centro Leasing S.p.A. | SANPAOLO IMI | 12.33 |
| Cimos International d.d. | Banka Koper | 13.55 |
| Dorado - Cigs S.r.l. | Cassa di Risparmio Bologna | 25.00 |
| Dulevo S.p.A. (bankrupt) | SANPAOLO IMI | 16.30 |
| Efrem S.r.l. | Servizi | 20.00 |
| Elvetia Edile S.r.l. | SANPAOLO IMI | 100.00 |
| Emporium S.r.l. | Cassa di Risparmio Padova e Rovigo | 51.27 |
| Equipe Investments S.p.A. | Cassa di Risparmio Padova e Rovigo | 100.00 |

| Name | Held by | Share % |
|---|---|---|
| Esatto S.p.A. | GEST Line | 16.33 |
| Esped Spedizioni S.r.l. | Cassa di Risparmio Padova e Rovigo | 29.80 |
| Eufigest S.A. | Sanpaolo IMI Asset Management | 12.88 |
| Evoluzione 94 S.p.A. | SANPAOLO IMI | 5.99 |
| | Cassa di Risparmio Bologna | 2.55 |
| | Friulcassa | 1.97 |
| | | 10.51 |
| Fides S.p.A. (bankrupt) | Isveimer (in liq.) | 20.00 |
| Fin.Ser. S.p.A. | Cassa di Risparmio Padova e Rovigo | 15.00 |
| Fin. Tess. S.p.A. | Cassa di Risparmio Padova e Rovigo | 98.00 |
| Finlombarda Leasing S.p.A. (in liq.) | SANPAOLO IMI | 14.00 |
| Finplozner S.p.A. | Friulcassa | 25.00 |
| Fonti di Gaverina | SANPAOLO IMI | 60.64 |
| Gerard H Polderman S.r.l. | Cassa di Risparmio Padova e Rovigo | 100.00 |
| Giraglia Immobiliare S.p.A. | SANPAOLO IMI | 17.15 |
| Guiness Peat Aviation ATR Ltd | Sanpaolo IMI Bank Ireland | 12.50 |
| I Guardi S.r.l. | Cassa di Risparmio Venezia | 56.00 |
| IAM Piaggio S.p.A. (in liq.) | SANPAOLO IMI | 9.68 |
| | Banca Fideuram | 3.74 |
| | | 13.42 |
| Idra Investments S.p.A. (in liq.) | Ldv Holding | 11.56 |
| Immobiliare dell'Isola Cattaneo S.p.A. | SANPAOLO IMI | 48.57 |
| Immobiliare Femar S.p.A. | Cassa di Risparmio Padova e Rovigo | 38.57 |
| Immobiliare Peonia Rosa S.r.l. | SANPAOLO IMI | 57.00 |
| Immobiliare Santa Caterina S.r.l. | Sanpaolo Banco di Napoli | 100.00 |
| Impianti S.r.l. (in liq.) | SANPAOLO IMI | 14.16 |
| Integrated Shipping Company | SANPAOLO IMI | 100.00 |
| Istituto per il Credito Sportivo | SANPAOLO IMI | 10.81 |
| Isveimer S.p.A. (in liq.) | SANPAOLO IMI | 65.22 |
| | Banca Popolare dell'Adriatico | 0.17 |
| | | 65.39 |
| Italenergia Bis S.p.A. | IMI Investimenti | 12.48 |
| Italpower S.p.A. (in liq.) | IMI Investimenti | 15.00 |
| Ittica Ugento S.p.A. | Sanpaolo Banco di Napoli | 26.96 |
| IXIS Asset Management Group S.A. | SANPAOLO IMI | 12.00 |
| Kall Kwik Italia S.p.A. (in liq.) | Sanpaolo Leasint | 15.00 |
| Kish Receivables Co. | Tobuk | 20.83 |
| La Compagnia Finanziaria S.p.A. | SANPAOLO IMI | 12.09 |
| Lingotto S.p.A. | FIN.Opi | 17.02 |
| Loop S.p.A. | Sanpaolo Leasint | 19.79 |
| Loseri S.p.A. | SANPAOLO IMI | 18.40 |
| Marche Capital S.p.A. | Banca Popolare dell'Adriatico | 11.99 |
| Mirano Costruzioni S.r.l. | Cassa di Risparmio Venezia | 100.00 |
| Nuova Siga S.p.A. | SANPAOLO IMI | 93.13 |

| Name | Held by | Share % |
|---|---|---|
| Pantecna S.p.A. (bankrupt) | SANPAOLO IMI | 15.50 |
| Pdp Box Doccia S.p.A. | Cassa di Risparmio Padova e Rovigo | 80.00 |
| Pila 2000 S.p.A. | Cassa di Risparmio Padova e Rovigo | 37.19 |
| Praxis Calcolo S.p.A. | Ldv Holding | 14.52 |
| | Sanpaolo IMI Private Equity | 0.29 |
| | | 14.81 |
| Primorske Novice d.o.o. | Banka Koper | 17.12 |
| Print S.r.l. | Banca Popolare dell'Adriatico | 100.00 |
| Razvojni Center Mal. Gospod. D.o.o. | Banka Koper | 19.53 |
| Sago S.p.A. (2) | SANPAOLO IMI | 26.67 |
| SI Holding S.p.A. | SANPAOLO IMI | 11.16 |
| Siteba S.p.A. | SANPAOLO IMI | 10.45 |
| Soa Nordest S.p.A. | Cassa di Risparmio Padova e Rovigo | 15.00 |
| Società Capua Group Imbottigliamento Bevande Gassate S.p.A. | Sanpaolo Banco di Napoli | 80.19 |
| SSB - Società per i Servizi Bancari S.p.A. | SANPAOLO IMI | 15.54 |
| | Banca Fideuram | 0.02 |
| | | 15.56 |
| Stoà S.c.p.a. | SANPAOLO IMI | 10.20 |
| Tecnoalimenti S.c.p.A. (2) | SANPAOLO IMI | 20.00 |
| Tecnobiomedica S.p.A. (2) | SANPAOLO IMI | 26.32 |
| Tecnocittà S.r.l. (in liq.) | SANPAOLO IMI | 12.00 |
| Tecnofarmaci S.p.A. (2) | SANPAOLO IMI | 20.50 |
| Tecnogen S.c.p.a. (2) | SANPAOLO IMI | 29.96 |
| Tecnotessile S.r.l. (2) | SANPAOLO IMI | 40.00 |
| Trieste Terminal Cereali S.r.l. | Cassa di Risparmio Padova e Rovigo | 31.25 |
| Venezia tronchetto Real Estate S.p.A. | S.V.I.T. | 99.62 |
| Zampieri S.r.l. | Cassa di Risparmio Venezia | 25.00 |

*(1) This excludes equity investments already listed in "Part B - Section 4" of the Consolidated Explanatory Notes.*
*(2) Equity investments originating from transactions as per Law 1089 of 25 October 1968 (Applied Research Reserve).*

# Half Year Report on the Parent Bank

# Half Year Report on SANPAOLO IMI S.p.A.

# Parent Bank balance sheet

| | 30/6/2005 (€) | 31/12/2004 (*) (€) |
|---|---|---|
| **ASSETS** | | |
| 10. Cash and liquid balances | 479,776,859 | 750,300,526 |
| 20. Financial assets held for trading | 5,848,047,462 | 5,545,164,960 |
| 30. Financial assets designated as at fair value | 1,224,496,424 | 1,526,901,488 |
| 40. Available-for-sale investments | 2,216,688,199 | 2,552,918,510 |
| 50. Held-to-maturity investments | 1,440,915,643 | 1,443,499,213 |
| 60. Loans to banks | 42,274,566,715 | 37,983,888,429 |
| 70. Loans to customers | 63,167,618,285 | 57,813,823,833 |
| 80. Hedging derivatives | 1,301,912,143 | 345,130,482 |
| 90. Value adjustment of financial assets hedged against | n.a. | n.a. |
| 100. Investments | 9,467,122,152 | 9,414,666,844 |
| 110. Tangible assets | 1,481,491,008 | 1,562,328,297 |
| 120. Intangible assets | 808,273,334 | 793,802,262 |
| *of which:* | | |
| *- goodwill* | *612,745,215* | *565,245,216* |
| 130. Tax assets | 1,938,791,601 | 2,046,416,422 |
| *a) current* | *1,351,140,625* | *1,423,802,500* |
| *b) deferred* | *587,650,976* | *622,613,922* |
| 140. Non-current assets and groups of assets to be disposed of | n.a. | n.a. |
| 150. Other assets | 3,073,622,270 | 2,816,172,977 |
| Total assets | 134,723,322,095 | 124,595,014,243 |

*(*) Reconstructed on the basis of IAS/IFRS with the exception of IAS 32 and 39 and IFRS 4 where the date of transition is 1 January 2005. For information on the methods of reconstruction used, refer to "SANPAOLO IMI Group transition to international accounting standards".*

| | 30/6/2005 (€) | 31/12/2004 (*) (€) |
|---|---|---|
| **LIABILITIES** | | |
| 10. Due to banks | 41,831,788,936 | 37,076,748,091 |
| 20. Due to customers | 47,018,598,846 | 44,133,520,757 |
| 30. Securities issued | 25,430,740,596 | 24,273,444,651 |
| 40. Financial dealing liabilities | 2,262,314,699 | 2,042,424,263 |
| 50. Financial liabilities designated at fair value | n.a. | n.a. |
| 60. Hedging derivatives | 848,765,473 | 671,280,915 |
| 70. Adjustment to financial liabilities covered by general hedges | 14,906,604 | n.a. |
| 80. Tax liabilities | 177,893,594 | 153,592,668 |
| *a) current* | *43,113,211* | *42,000,000* |
| *b) deferred* | *134,780,383* | *111,592,668* |
| 90. Liabilities associated with discontinued assets | n.a. | n.a. |
| 100. Other liabilities | 5,075,938,183 | 4,185,672,162 |
| 110. Provisions for employee termination indemnities | 474,286,968 | 475,671,445 |
| 120. Provision for risks and charges: | 953,886,967 | 960,935,264 |
| *a) pension and similar commitments* | *25,592,690* | *15,802,000* |
| *b) other provisions* | *928,294,277* | *945,133,264* |
| 130. Valuation reserves | 464,009,996 | 172,583,647 |
| 140. Redeemable shares | n.a. | n.a. |
| 150. Capital instruments | n.a. | n.a. |
| 160. Reserves | 3,317,936,484 | 3,437,147,265 |
| 170. Share premium reserves | 760,983,698 | 724,718,927 |
| 180. Capital | 5,235,781,141 | 5,217,679,141 |
| 190. Own shares (-) | -42,508,503 | -42,508,503 |
| 200. Net income | 897,998,413 | 1,112,103,550 |
| Total liabilities | 134,723,322,095 | 124,595,014,243 |

*(*) Reconstructed on the basis of IAS/IFRS with the exception of IAS 32 and 39 where the date of transition is 1 January 2005. For information on the methods of reconstruction used, refer to "SANPAOLO IMI Group transition to international accounting standards".*

# Parent Bank statement of income

| | | First half 2005 (€) | First half 2004 (*) (€) |
|---|---|---|---|
| 10. | Interest income and similar revenues | 1,942,327,485 | 1,757,353,124 |
| 20. | Interest expense and similar charges | -1,191,769,988 | -1,048,982,656 |
| 30. | **Net interest income** | **750,557,497** | **708,370,468** |
| 40. | Commissions receivable | 748,397,150 | 740,172,550 |
| 50. | Commissions payable | -41,480,792 | -44,200,055 |
| 60. | **Net commissions** | **706,916,358** | **695,972,495** |
| 70. | Dividends and other revenues | 716,697,265 | 747,372,320 |
| 80. | Net dealing income | -2,769,966 | 45,840,445 |
| 90. | Net result of hedging transactions | -2,050,907 | n.a. |
| 100. | Profits (Losses) on disposal or repurchase of: | 49,222,191 | 3,194,766 |
| | *a) loans* | *11,468,341* | *766,509* |
| | *b) available for sale investments* | *45,066,436* | *1,680,257* |
| | *c) held to maturity investments* | | |
| | *d) financial liabilities* | *-7,312,586* | *748,000* |
| 110. | Net result of financial assets designated as at fair value | 17,416,916 | -1,111,629 |
| 120. | Net result of financial liabilities designated as at fair value | n.a. | n.a. |
| 130. | **Net interest and other banking income** | **2,235,989,354** | **2,199,638,865** |
| 140. | Net adjustments for impairment of: | -119,694,495 | -92,422,365 |
| | *a) loans* | *-118,599,312* | *-74,766,660* |
| | *b) available for sale investments* | *-1,087,878* | *-17,696,915* |
| | *c) held to maturity investments* | | |
| | *d) other financial transactions* | *-7,305* | *41,210* |
| 150. | **Net result of financial management activities** | **2,116,294,859** | **2,107,216,500** |
| 160. | Administrative costs: | -1,092,447,107 | -1,155,193,182 |
| | *a) personnel* | *-681,458,742* | *-747,405,523* |
| | *b) other* | *-410,988,365* | *-407,787,659* |
| 170. | Net accruals to provisions for risks and charges | -25,537,396 | -13,715,023 |
| 180. | Net adjustments to tangible assets | -84,551,253 | -83,203,916 |
| 190. | Net adjustments to intangible assets | -70,764,324 | -68,778,019 |
| 200. | Other operating income/charges | 217,772,758 | 169,848,336 |
| 210. | **Operating costs** | **-1,055,527,322** | **-1,151,041,804** |
| 220. | Income (losses) on investments | 509,579 | 82,457,965 |
| 230. | Net fair value adjustment to tangible and intangible assets | n.a. | n.a. |
| 240. | Goodwill adjustments | | |
| 250. | Profits (Losses) on disposal of investments | 8,909,308 | -180,021 |
| 260. | **Operating profit (Loss) before taxation** | **1,070,186,424** | **1,038,452,640** |
| 270. | Taxes for the period | -172,188,011 | -140,129,769 |
| 280. | **Operating profit (Loss) after taxation** | **897,998,413** | **898,322,872** |
| 290. | Profits (losses) on discontinued operations | | 71,511,458 |
| 300. | **Profit for the period** | **897,998,413** | **969,834,330** |

*(*) Reconstructed on the basis of IAS/IFRS with the exception of IAS 32 and 39 where the date of transition is 1 January 2005. For information on the methods of reconstruction used, refer to "SANPAOLO IMI Group transition to international accounting standards".*

# Statement of changes in Parent Bank shareholders' equity

(€/mil)

| | Share capital | Legal reserve | Share premium reserve | Extraor-dinary reserve | Valuation reserve carried at fair value | AFS reserve | Cash Flow Hedge Reserve | Reserve for Stock Option plan | Reserve for purchase of own shares | Restricted reserve for purchase of own shares | Own shares | Reserve for Art. 13 c.6 of D.Lgs. 124/93 | Reserve for Law 342/2000 | Reserve for D.Lgs. 213/98 | Reserve for D.Lgs. 153/99 | Profit for the period | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Shareholders' equity as of 31 December 2003 - Italian GAAP | 5,144 | 1,029 | 708 | 768 | | | | | 966 | 34 | - | 5 | - | 14 | 854 | 824 | 10,346 |
| Adjustments to opening balance as of 1/1/04 for FTA IAS (net of deferred taxation) (*) | | | | -673 | 168 | | | 3 | | | | | | | | | -502 |
| Allocation of 2003 net income: | | | | | | | | | | | | | | | | | |
| - extraordinary reserve | | | | 109 | | | | | | | | | | | | -109 | - |
| - reserve for Art.13 c.6 of D.Lgs. 124/93 | | | | | | | | | | | | | | | | | - |
| - distribution of dividends | | | | | | | | | | | | | | | | -715 | -715 |
| Reclassification of Reserve for D.Lgs. 153/99 | | | | 854 | | | | | | | | | | | -854 | | - |
| Recalculation of deferred taxation on reserves subject to taxation | | | | | | | | | | | | | | 2 | | | 2 |
| Purchase and valuation of own shares | | | | | | | | | 2 | -2 | | | | | | | - |
| Income for the first half of 2004 | | | | | | | | | | | | | | | | 271 | 271 |
| Changes to first half of 2004 on application of IAS/IFRS with the exception of IAS 32 and 39 (*) | | | | 699 | | | | 1 | | | | | | | | | 700 |
| Shareholders' equity as of 30/6/04 for IAS/IFRS with the exception of IAS 32 and 39 | 5,144 | 1,029 | 708 | 1,757 | 168 | - | - | 4 | 968 | 32 | - | 5 | - | 16 | - | 271 | 10,102 |
| Purchase and valuation of own shares | | | | | | | | | -11 | 11 | | | | | | | - |
| Increase in share capital following the exchange on the spin off of Fideuram Vita from Banca Fideuram | 74 | | | | | | | | | | | | | | | | 74 |
| Allocation of goodwill from spin off of Banca Fideuram | | 15 | 17 | 100 | | | | | | | | | 3 | | | | 135 |
| Allocation of goodwill following spin off of Sanpaolo IMI Wealth Management | | | | 43 | | | | | | | | | | | | | 43 |
| Allocation of goodwill from merger of INVESP | | | | 159 | | | | | | | | | 1 | | | | 160 |
| Allocation of goodwill from merger of Prospettive 2001 | | | | 9 | | | | | | | | | | | | | 9 |
| Income for the year 2004 | | | | | | | | | | | | | | | | 765 | 765 |
| Change to income for the second half of 2004 by applying IAS/IFRS with the exception of IAS 32 and 39 (*) | | | | -625 | | | | 1 | | | | | | | | | -624 |
| Shareholders' equity as of 31/12/04 applying IAS/IFRS with the exception of IAS 32 and 39 | 5,218 | 1,044 | 725 | 1,443 | 168 | - | - | 5 | 957 | 43 | - | 5 | 4 | 16 | - | 1,036 | 10,664 |
| Change to opening balance as of 1/1/05 for FTA IAS (net of deferred taxation), by applying IAS 32 and 39 (*) | | | | -352 | | 307 | -24 | | | | -43 | | | | | | -112 |
| Shareholders' equity as of 1 January 2005 applying IAS/IFRS, including IAS 32 and 39 | 5,218 | 1,044 | 725 | 1,091 | 168 | 307 | -24 | 5 | 957 | 43 | -43 | 5 | 4 | 16 | - | 1,036 | 10,552 |
| Allocation of 2004 income: | | | | | | | | | | | | | | | | | |
| - extraordinary reserve | | | | 162 | | | | | | | | | | | | -162 | - |
| - distibution of dividends | | | | | | | | | | | | | | | | -874 | -874 |
| Exercise of stock option rights | 18 | | 36 | | | | | -8 | | | | | | | | | 46 |
| Change to reserves on application of IAS 39: | | | | | | | | | | | | | | | | | |
| - valuation difference | | | | | | 44 | -9 | | | | | | | | | | 35 |
| - reallocation of earnings to statement of income | | | | | | -27 | | | | | | | | | | | -27 |
| Income for the period | | | | | | | | 4 | | | | | | | | 898 | 902 |
| Net equity as of 30 June 2005 | 5,236 | 1,044 | 761 | 1,253 | 168 | 324 | -33 | 1 | 957 | 43 | -43 | 5 | 4 | 16 | - | 898 | 10,634 |

*(*) See attached IAS/IFRS reconciliation tables prepared on the basis of IFRS 1, para. 39 and 45, and relative Explanatory notes.*

# Parent Bank Statement of cash flows

| | 30/6/2004 (*) (€/mil) | 30/6/2005 (€/mil) |
|---|---|---|
| Net income for the period | 970 | 898 |
| Reconciliation of the net income for the period to cash inflows from operating activities | | |
| - changes in the value of financial dealing assets and liabilities | 2 | 67 |
| - changes in the value of financial assets and liabilities designated as at fair value | n.a. | -19 |
| - net result from hedging transactions | n.a. | 2 |
| - adjustments for impairment in values of: | 82 | 185 |
| *- loans* | *122* | *184* |
| *- available for sale investments - equities* | *18* | *1* |
| *- shareholdings* | *-58* | *-* |
| - Profit/loss from the purchase/disposal of: | -78 | - |
| *- held to maturity investment* | *-* | *-* |
| *- shareholdings* | *-78* | *-* |
| - net provisions for risks and charges | 14 | 34 |
| - accruals for employee termination indemnities and other reserves for employees | 39 | 27 |
| - cost for stock options | 1 | 5 |
| - adjustments to the net value of tangible and intangible assets | 152 | 155 |
| - income tax | 140 | 172 |
| - profit/loss on disposals of other investments | - | -9 |
| Cash flows from operating activities | 1,322 | 1,517 |
| - Decrease/(Increase) in tied bonds held with Central Banks | - | - |
| - Decrease/(Increase) in financial assets held for trading | -1,433 | -1,269 |
| - Decrease/(Increase) in financial assets designated as at fair value | - | 323 |
| - Decrease/(Increase) in available for sale investments | -18 | 547 |
| - Decrease/(Increase) due from banks | -1,067 | -4,289 |
| - Decrease/(Increase) due from customers | 1,055 | -5,324 |
| - Decrease/(Increase) from others | -126 | -550 |
| Cash flow generated/(absorbed) through the reduction/(increase) in financial assets | -1,589 | -10,562 |
| - Increase/(Decrease) due to banks | -1,489 | 4,702 |
| - Increase/(Decrease) due to customers | 2,602 | 2,761 |
| - Increase/(Decrease) securities issued | -396 | 1,636 |
| - Increase/(Decrease) financial dealing liabilities | -162 | -168 |
| - Increase/(Decrease) other liabilities | 205 | 801 |
| Cash flow generated/(absorbed) through the increase/(reduction) in financial liabilities | 760 | 9,732 |
| Total Cash flow generated/(absorbed) by operating activities (A) | 493 | 687 |
| - Sale/(Purchase) of investments (including profits/losses from disposals) | -22 | -52 |
| - Sale/(Purchase) of financial instruments held to maturity (including profits/losses from disposals) | 49 | 3 |
| - Sale/(Purchase) of other investments (including profits/losses from disposals) | -58 | -80 |
| Total Cash flow generated/(absorbed) by investments (B) | -31 | -129 |
| - issue/purchase of own shares | - | - |
| - issue/purchase of capital instruments | - | 46 |
| - distribution of dividends | -716 | -874 |
| Total Cash flow generated/(absorbed) by funding activities (C) | -716 | -828 |
| TOTAL CASH FLOWS FOR THE PERIOD (A+/-B+/-C) | -254 | -270 |
| Cash and liquid balances at beginning of year | 741 | 750 |
| Cash and liquid balances at end of year | 487 | 480 |

*(*) The cash flow statement as of 30 June 2004 was prepared on the basis of the financial statements as of 1 January 2004 and 30 June 2004 adjusted for the transition to IAS/IFRS, with the exception of IAS 32 and 39 for which transition is set for 1 January 2005.*

# Explanatory Notes to the Half Year Report on the Parent Bank

# Explanatory Notes to the Half Year Report on the Parent Bank

## Introduction

With a view to rationalizing the compliance requirements associated with the preparation of the Half Year Report, the Bank has chosen to avail itself of the option not to publish the Notes to the Financial Statements of the Parent Bank, as allowed by Consob (Regulation no. 11971 of 14/5/99 as amended by Resolution no. 14990 of 15 April 2005). In fact, the Bank believes that the information published on the Group's performance in the first half of 2005, consisting in a Report on Operations and Half Year Consolidated Financial Statements, is perfectly adequate to ensure an in-depth analysis of the financial and economic situation of the SANPAOLO IMI Group, both as a whole and by business sector.

Taking into account that the Group's half year report is prepared on the basis of the provisions of Art. 81 of Regulation 11971 (as amended by Resolution no. 14990 of 15 April 2005), which establishes IAS 34 as the reference principle, and considering that SANPAOLO IMI shall make use of the option granted by Art. 4, subsection 2 of D.Lgs. 38/05, to prepare the 2005 annual financial statements in accordance with IAS/IFRS, for the sake of consistency, also the accounting statements of the Parent Bank are prepared in compliance with international accounting standards.

In accordance with the provisions of IFRS 1 "First time adoption of the International Financial Reporting Standards", the half year report includes the reconciliation statements of shareholders' equity as of 1 January 2004, 30 June 2004, 31 December 2004 and 1 January 2005 as well as those of the economic results for the first six months of 2004 and the 2004 financial year. The same appendix contains also the reconciliations of each caption of the statement of income for the first six months of 2004 and of the balance sheet as of 31 December 2004 and 1 January 2005; this is also for the purpose of allowing an understanding of how the comparative figures included in the financial statements schedules have been calculated.

It should be pointed out that the values shown in the IFRS reconciliation statements will be used to prepare the comparatives for the first financial statements as of 31 December 2005 prepared according to IAS/IFRS. Such values may be subject to changes should new international accounting standards be introduced or in the event that the actual principles are modified, or even if new interpretations are introduced or previous ones are modified, either retrospectively or before the financial statements are published.

The Half Year Report on the Parent Bank therefore comprises the following documents:
- Half year report on SANPAOLO IMI S.p.A. (Balance sheet, Statement of income, Statement of changes in shareholders' equity, Statement of cash flows);
- Notes containing the new IAS/IFRS valuation criteria adopted for the preparation of the accounts;
- Reconciliation statements, with relevant notes, prepared also in accordance with IFRS 1 and aimed at highlighting the effects of the transition from Italian accounting principles to IAS/IFRS;
- Attachment showing the assets, liabilities, income and expenses relating to the operations carried out by the Parent Bank with subsidiary companies and those companies subject to significant influence, in order to provide complementary information about the relationships with related parties of the Bank.

## Basis of preparation of financial statements

For the preparation of its financial statements the Parent Bank referred to the accounting principles issued by IASB (including the SIC and IFRIC explanatory documents) and approved by the European Commission (up to 30 June 2005) pursuant to European Regulation no. 1606 of 19 July 2002.

The following documents have been used for interpretation and support, even if they are not approved by the European Commission:

- *Framework for the Preparation and Presentation of Financial Statements issued by the International Accounting Standards Board* (issued in 2001);
- Implementation Guidance, Basis for Conclusions, IFRIC and any other documents drawn up by the IASB or the IFRIC to provide further guidance on the accounting principles issued;
- Explanatory documents dealing with the application of IAS/IFRS in Italy issued by the Italian Accounting Standards Authority (OIC) and the Italian Bankers' Association (ABI).

As provided by IAS 34, the results of the six-month period are shown, for comparative purposes, beside the previous year's data. In particular, the balance sheet is compared with the data as of 31 December 2004, whereas the statement of income is compared with the results of the corresponding period of the previous financial year (first half of 2004). In this respect, referring however for further details to what is stated in the specific appendix on the transition to the international accounting standards, we highlight that, as allowed by IFRS 1, SANPAOLO IMI has chosen to postpone the date for the first application of IAS 32 and 39 in respect of financial instruments to 1 January 2005. As a result, the accounting results as of 30 June 2005, only with regard to the items affected by the aforementioned accounting standards and even if shown in the comparative balance sheet captions, are not comparable with those of the previous financial year owing to the use of inconsistent bases.

The half year financial statements of the SANPAOLO IMI Group have been subjected to a limited audit by PricewaterhouseCoopers S.p.A., in accordance with Consob Recommendations no. 97001574 of 20 February 1997, no. 10867 of 31 July 1997, and no. 5025723 of 15 April 2005 and as approved by shareholders' resolution of 29 April 2004, which appointed them as auditors for the 2004/2006 three-year period.

In compliance with Consob Communication no. 5025723 of 15 April 2005, the above mentioned reconciliations of shareholders' equity as of 1 January 2004, 31 December 2004 and 1 January 2005 and the economic result as at 31 December 2004 required by IFRS, were subjected to a full audit by PricewaterhouseCoopers S.p.A..

## Valuation criteria adopted for the main aggregate values of the financial statements

The valuation criteria adopted for the preparation of the financial statements in accordance with IAS/IFRS accounting standards in force at the date of this half year report are shown below. As already mentioned in the Introduction, such principles could change before the end of the year, upon approval of the new international accounting standards.

In this context it is worth noting that on the basis of the information presently available, on 8 July 2005 the Accounting Regulatory Committee informed the European Commission of their favorable opinion with regard to the approval of the document issued by IASB on 16 June 2005 which introduced amendments to IAS 39 for the Fair Value Option. The European Commission intends to proceed with the approval (by publishing in the Official Journal of the European Union) before the end of September, making the principle applicable also to First-Time Adopters as of 1 January 2005.

Given that the Half Year Report does not take into account the aforementioned document, since it was not legally recognized at the moment the Report was being prepared, it should be noted that the approval by the European Commission could eventually result in some changes to the accounting standards illustrated below, in respect of the liabilities of the Bank and its hedging transactions. In this case, the adjustments made will be appropriately highlighted in the financial statements for 2005.

### Standardized purchases and sales of financial assets

As regards the recording in the financial statements of 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, the Bank makes reference to the settlement date.

## Financial assets held for trading

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

Available-for-sale investments are initially recorded in the balance sheet at their fair value, which generally corresponds to the consideration paid.

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

Those equities and related derivative contracts whose fair value cannot be reliably established or verified are stated in the financial statements at cost as adjusted for any impairment losses. Such impairment losses are not reinstated.

The fair value of financial instruments quoted on active markets is represented by the related market quotation. 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 valuation models (mainly based on objective financial variables), as well as by taking into account the prices recorded on recent transactions and market prices of similar financial instruments.

Derivatives are treated as assets if the fair value is positive and as liabilities, if the fair value is negative. The Group offsets current positive and negative values arising from transactions made with the same counterparty where such setoff has been expressly provided for under the terms of the contract.

An embedded derivative that is a derivative instrument that is embedded in another contract (host contract), is split from the latter and accounted for separately if:
a. the economic features and the risks of the embedded derivative are not ‘closely related’ to those 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 valued at fair value, its value adjustment being recorded in the statement of income.

## Financial assets valued at fair value

According to the IAS/IFRS accounting standards approved by the European Commission, any financial asset that is so defined at the time of acquisition, regardless of the reason why it is held, can be classified under ‘financial assets valued at fair value through profit or loss’.

Also in line with IASB recommendations, the Bank has classified under that category exclusively debt securities with embedded derivatives or debt securities that are hedged against.

## Held-to-maturity investments

The investments held to maturity are represented by non-derivative financial instruments, with fixed or determinable payments and fixed terms that the Bank has the intention of and capacity to hold until maturity.

Held-to-maturity investments are valued 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 using the original effective interest rate.

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.

### Available-for-sale investments

These are assets different from loans and receivables, held-to-maturity investments and financial assets held for trading. These include debt securities and equities that do not fall under the subsidiary, affiliated or joint control category.

Available-for-sale financial assets are recorded in the financial statements at fair value, which normally corresponds to their purchase cost as increased by any transaction costs or income directly attributable to the assets.

Subsequent to their initial recording, available for sale investments are designated as at fair value, any change in value being recorded in a specific reserve under equity.

Certain unquoted 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.

The results of the valuations 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 has occurred.

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 valuation 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 assess whether an impairment loss has occurred is as follows:
- evidence that the issuer is suffering serious financial difficulties, proven by the non-fulfillment or non-payment of interest or capital;
- collective proceedings are likely to be opened;
- financial instruments are no longer dealt with on an active market;
- worsening of the economic conditions that affect the financial flows of the issuer;
- downgrading of the issuer's rating and negative news heralding 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 a prolonged reduction in the fair value of equities below its cost may be considered as objective evidence of a reduction in value.

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

Any write-back of debt securities, on the other hand, 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 like the effects owing to exchange rate differences.

The exchange rate differences relating to available for sale investments are recorded in a specific reserve under equity.

## Loans

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 under available for sale financial assets since their acquisition.

When medium-/long-term loans are initially recorded in the financial statements at fair value, which generally corresponds to the consideration paid, inclusive of direct ancillary costs/income and are, subsequently, valued at amortized cost using the effective interest method. Short-term loans, including evergreen 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 verified to establish if, due to any losses in value, they may have to be stated at their estimated realizable value; the verification process takes into account the solvency of borrowers in difficulty and any debt-servicing problems faced by specific product sectors or countries where the borrowers reside, as well as any guarantees received and negative market trends involving homogeneous loan categories.

As regards the classification of impaired exposures under the various risk categories (non-performing, problem, restructured and expired 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 for the transfer of loans to the various risk categories.

The classification is carried out by the operating structures with the assistance of the departments responsible for the control and recovery of loans.

Any adjustments to the value of loans shown in the financial statements are calculated taking into account the extent to which they have deteriorated, whether they are valued on a case-by-case or aggregate basis, as detailed further on.

The following are valued on a case-by-case 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 estimated realizable value of impaired exposures that are valued on a case-by-case basis, which is formalized by resolutions issued by the Administrative Bodies of the Parent Bank and the other levels within the organization empowered to deal with the matter, shall be 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 by reference to the expected collection proceeds (future financial flows), their timing and the applicable discount rate.

As regards impaired exposures, the amounts of the expected collection proceeds shown in the collection schedules and their timing are determined on analytical assumptions made by the departments in charge of loan valuation and, failing these, on lump-sum estimates based on statistics of internal historical data and sector studies.

The discount rate applied by the Bank to the expected collection proceeds shown in the collection schedules of impaired exposures were the original rates used for medium- to long-term loans and the weighted average of the rates actually charged on short-term loan exposures.

The following loans are valued on an aggregate basis:

- Expired exposures: exposures to subjects that are not classified under the previous risk categories which, at the end of the period, show outstanding loans or loans that are more than 180 days overdue. The valuation is made on a historical statistical basis.
- Exposures subject to country risk: unsecured exposures to borrowers resident in countries with debt-servicing difficulties, are valued by applying write-down percentages specified by the Banking association. Those loans which, on the basis of an objective state of insolvency, are classified in the previous risk categories are valued on a case-by-case basis.
- Performing loans: loans to borrowers who, at the balance sheet date, have not yet shown any specific insolvency risks. General adjustments to performing loans are calculated by applying a model developed on the basis of Risk Management methodologies used 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 valuation 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 rate for each portfolio, based on the historical experience of the Bank and the time interval between the default event and its formal occurrence which takes place when the loan is actually classified under doubtful loans.
- 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 economic cycle on the various economic sectors.

Write-downs, 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 write-downs, however, may be reinstated by means of "write-backs" recorded in a caption included under the statement of income where all net value adjustments on loans are recorded, in the event that the reason for such write-downs ceases to apply or the amount recovered on the loans is higher than that of the original write-down booked in the records.

Considering the methodology used to calculate the write-downs of impaired exposures, the mere passage of time, and the fact that the expected collection dates are, as a result, brought forward, implies an automatic reduction of the implicit financial charges previously deducted from the value of the loans. This effect is recorded in the financial statements under interest income.

If the loans are assigned, they are removed from the financial statements and any income (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 has passed to the assignee, the Bank still maintains control over the financial flows arising from the loans as well as the risks and rewards connected with it, the loan is still shown in the financial statements, a liability being recorded to reflect the proceeds received from the assignee.

## 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 the Bank may achieve 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/liabilities, of irrevocable commitments and of portfolios of financial assets and liabilities, including core deposits as allowed by IAS 39 approved by the European Commission;
- hedging of the variability of financial flows of assets/liabilities recorded in the financial statements or of highly probable forecast transactions.

For the purpose of enabling hedging relationships the Bank formally documents the relationship between the hedging instruments and the hedged items, as well as its risk management objectives, its strategy for undertaking the various hedging transactions and the methods it will use to verify the effectiveness of the hedge. The Bank assesses at hedge inception and on an ongoing basis whether the hedge is effective in offsetting changes in fair values or cash flows of hedged items. Retrospective tests are failed if the ratio between the changes in fair value of the hedging instruments and those of the hedged items are in the range of 80-125%.

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, is sold, terminated or exercised, (iii) the hedged item is sold, matures or is reimbursed, becomes impaired, (iv) the forecast transaction is no longer deemed highly probable.

### Fair value hedge

Where a fair value hedge is in place, changes in the fair value of hedging instruments and hedged items (as far as the part attributable to the hedged risk and assuming that the hedge is effective) are recorded in the income statement. The differences between the changes in value represent the ineffective portion of the hedge and give rise to a net economic impact.

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 case of interest-bearing financial instruments, or as a lump in all other cases.

### Cash flow hedge

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognized directly in shareholder's equity. When the financial flows that are hedged against occur and are recorded in the statement of income, then the gain or loss relating to the hedging instrument is transferred from shareholders' equity to 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 "net dealing income".

## Shareholdings

Subsidiaries are all companies over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Associates are all companies in which the Group holds 20% or more of the voting rights and those over which it has significant influence in formulating administrative, financial and operating policies as a result of legal relationships and prevailing situations.

Jointly controlled companies are those where agreements exist to the effect that any administrative, financial and management decisions require both the Group's consent and that of the other participants sharing the control over the company.

Shareholdings in subsidiaries, associates and jointly controlled companies are recorded at cost and adjusted to reflect any loss in value.

## Tangible assets

Tangible assets include:
- land and buildings used for business purposes;
- land and buildings held as investments;
- electronic equipment;
- property, plant and equipment.

Assets for business use are those assets held by the Bank (owned or under a finance lease contract) and used for the production and supply of services or for administration purposes, with a useful life which extends beyond the financial year.

Assets held as investments are those held by the Bank (owned or 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. Subsequently tangible assets, including real estate investments, are carried at cost less accumulated depreciation and provisions for any impairment to value.

Costs incurred after acquisition increase the book value of the asset or are carried as separate assets only when the use of the investment generates future economic benefit. Other types of subsequent expenditures are charged to the statement of income of the year in which they are incurred.

In particular, as regards property, the parts relating to land and buildings represent separate assets for accounting purposes and are recorded at the time 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 operating assets, as their useful life cannot be estimated and generally the related value does not depreciate owing to the passage of time.

Buildings and other tangible assets, other than art collections, have a limited useful life and are therefore subject to amortization in relation to their estimated useful lives.

The useful life of tangible assets that are subject to depreciation is kept regularly under review to take account of any change in circumstances and, if any initial estimates are changed then the related depreciation rate is adjusted too.

## 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 is represented by the excess of the cost over the fair value of the acquired net assets of the businesses or business branches at 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 to goodwill 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 statements 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.

### Debts and securities issued

Loans to banks and loans to customers include all technical forms of interbank and customer funding (deposits, current accounts, loans). They are inclusive of operating debts, and finance lease liabilities.

Securities issued, both quoted and unquoted, include investment certificates and certificates of deposit and are shown in the financial statements net of any repurchased portion.

Debts and securities issued are shown in the financial statements at fair value of the liabilities, which usually coincides with the proceeds received or the issue price of the securities, adjusted for any charges/income that are directly attributable to these liabilities.

Debts and securities issued, except for repayable on demand and short-term customer accounts, 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 issued represents a new placing for accounting purposes and therefore gives rise to a change in the average book value of the related liabilities.

### Financial dealing liabilities

Financial dealing liabilities include the negative results of the valuations of dealing derivatives and the liabilities relating to the technical exposures on securities.

### Tax assets and liabilities

Income tax, calculated according to domestic tax regulations, are 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 the income for the period.

Tax assets and liabilities include the net balance the Parent Bank must pay the relevant Italian and foreign tax authorities. 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 suffered or tax credits of previous financial years that the Bank can claim against taxes payable in future financial years.

Current tax assets include tax credits the Bank has formally claimed from the relevant tax authorities.

Given that the Group has opted for the Domestic Tax Consolidation, the tax positions attributable to the Bank and those of other Group companies are managed separately from an administrative point of view.

Deferred taxation, is computed under the so-called liability method, taking into account the tax effect of temporary differences between the book value of assets and liabilities and their value for taxation purpose which will give rise to taxable income or deductible amounts in future years. To this end, "taxable temporary differences" are differences which will give rise to taxable income in future years while "deductible temporary differences" are those which will give rise to deductible amounts in future years.

Deferred tax liabilities are calculated by applying the tax rates established by current law to the taxable provisional differences likely to generate a tax burden and to the deductible provisional differences if these are likely to be recovered. Deferred tax assets and liabilities relating to the same tax and expiring in the same period are offset against each other.

In the financial years where deductible temporary differences are greater than taxable temporary differences, the related anticipated taxes are recorded to the balance sheet assets as Deferred tax assets. On the other hand, in the years where taxable temporary differences are greater than deductible temporary differences, the related deferred taxes are included under balance sheet liabilities as deferred tax liabilities.

If Deferred tax assets and liabilities relate to items pertaining to the statement of income, the contra item will be represented by income tax.

Where anticipated and deferred taxation relate to transactions that have been recorded in the shareholders' equity without affecting the statement of income (such as for example the adjustments relating to the first application of the IAS, the valuations of available for sale investments or of cash flow hedge contracts), the contra entry is made in shareholders' equity, under specific reserves where so provided (e.g. valuation reserves).

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 to a specific reserve pursuant to Art. 21 of D. Lgs. 213/98, that will be taxed upon distribution, is charged directly against this reserve.

No provision is made for the Banks' reserves subject to taxation which are "taxable only in the event of distribution". This is because such reserves are allocated to accounts that are not available for distribution and because the events which would give rise to such taxation are not expected to occur.

Deferred taxation for companies included in the tax consolidation is recorded to those companies' financial statements according to the accruals principle and considering that the impact of the tax consolidation is limited to the liquidation of current tax positions.

### 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.

Defined benefit plans included in the financial statements require to be calculated using actuarial techniques which provide an estimate of the sums matured by employees in exchange for services rendered in the current year and in previous years which are then discounted to obtain the present value of the Bank's commitments.

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

This method, which falls within the domain of general techniques relating to the so-called "accrued benefits" takes into account each period of service by the employee with the company as an additional unit of benefit entitlement: therefore, the actuarial liability must be quantified taking into account only the employee's number of years of service with the company at the valuation date, and the overall liability is usually recalculated based on the relationship between the number of years of service accrued at the valuation date and the total number of years of service matured at the time the benefit will be paid. Furthermore, the above method takes into account also any future pay increases, due to whatever reason (inflation, seniority and promotion, contract renewal) up to the time the work contract terminates.

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.

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 with expiry equal to the average remaining life of the liability.

Any actuarial gains or losses, defined as the difference between the value shown in the financial statements and the present value of the Bank's commitments at the end of the period, are recorded on the basis of the "corridor" method, that is only when they exceed 10% of the present value of the Bank's commitments at the end of the period. In such case, the amount exceeding the 10% is charged to the statement of income in line with the employees' average remaining working life from the beginning of the following financial year.

## Provision for risks and charges

Provisions for risks and charges represent reserves provided to cover known or likely liabilities the extent or timing of which is uncertain and which are shown in the financial statements if:
- the Bank has a current (legal or implicit) obligation due 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 subcaption "Pensions and similar commitments" includes provisions recorded on the basis of international accounting standards IAS 19 "Employee benefits" in order to cover the technical deficit of the fixed performance supplementary pension fund.

In this case also, actuarial calculations are carried out by an external actuary in accordance with the reference accounting principle, based on the "Projected Unit Credit Method".

More specifically, the Bank's commitment is calculated as the algebraic sum of the following values:
- the present value of pension benefits calculated considering, for the employees in service, only the years of service already rendered and assumptions that take into account future pay increases;
- less the current value of the assets of the pension fund;
- (less or plus) any actuarial gain or loss not included in the financial statements, according to the "corridor" method.

As previously mentioned, the "corridor" method requires that any actuarial gains/losses, defined as the difference between the value of the balance sheet liability and the present value of the Bank's commitments at the end of the period, are recorded in the financial statements only when they exceed the greater of 10% of the average present value of pension benefits and 10% of the current value of the pension fund assets. The amount exceeding the 10% is charged to the statement of income in line with the average remaining working life of employees in service and the average remaining working life of retired employees from the beginning of the following financial year.

The discount rate used for the valuations is established based on the market rate of zero coupon bonds, 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.

The "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 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 financial year end, including accruals for incentive voluntary redundancy payments and other welfare and social contributions.

Where the effect of the timing difference for the estimated expense is significant, the Bank calculates the amount of the funds and the provisions to be equal to the present value of those costs it assumes will be necessary to incur to extinguish its commitments. The discount rate used is gross of taxes and is such that it reflects current market valuations of the present value of money 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. Such increase is accounted for as interest payable.

"Other funds" include provisions to set up the reserve necessary to pay out seniority bonuses to employees that become payable upon reaching 25 and 35 years of service. Also these provisions have been accrued on the basis of an appraisal carried out by an independent actuary by adopting the methods recommended by IAS 19 dealt with earlier. Considering the characteristics of the Bank's commitment, the "corridor" method is not applicable, therefore any actuarial gain or loss is recorded in the financial statements regardless of its amount.

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 write-downs owing to the deterioration of guarantees given, the derivative contracts assimilated to the former according to international accounting standards and the irrevocable commitments to grant finance. These write-downs are included under 'Other liabilities'.

## Valuation reserves

Valuation reserves include reserves arising from the valuation of available for sale investments, derivative contracts used as cash flow hedges and the revaluation reserves set up pursuant to special laws in past financial years that have not been allocated to other items making up the Bank's shareholders' equity in previous financial years, net of the relevant deferred taxation. Furthermore, the caption includes also revaluations of tangible assets, net of deferred taxation, made when the IAS/IFRS were first applied.

## Own shares

Own shares purchased are shown in the financial statements at cost under a specific caption, with a minus sign, as part of the Bank's shareholders' equity and are not subject to valuation.

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

## Other information

### Currency transactions

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

Monetary items are translated at the exchange rate applicable 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 ruling 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 monetary items using rates that differ from those applied when the transaction was initially recorded or those ruling at the previous year-end 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 the 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, in the financial statements, the related changes in fair value.

### 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.

### Payments in the form of shares

For stock option plans in favor of employees, resolved with effect from 7 November 2002, the Bank applies the accounting treatment set out in IFRS 2 which deals with share-based payments.

According to this accounting method, the options granted are valued at the fair value prevailing at the date they are assigned, 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 period that the rights assigned mature, the other side of the entry being in a caption included under shareholders' equity which is not available for distribution.

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.

Failure to exercise the stock option rights owing 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 services rendered 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 be received by the Bank.

Income is recorded in the financial statements according to the accruals concept.

In particular:
- interest is accounted for on the basis of the accrual concept which takes into account the effective earnings;
- 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, prices applied to recent transactions in the same market where the instrument is traded can be verified. Failing these conditions, the estimated difference is recorded in the statement of income on a straight-line basis over the duration of the transactions.

Revenue and costs are matched with one another and are dealt with in the statement of income of the period to which they relate. If this matching can be done generally and 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.

# SANPAOLO IMI S.p.A. transition to international accounting standards

TRANSITION TO THE IAS/IFRS ACCOUNTING STANDARDS

RECONCILIATION STATEMENTS AND NOTES

# Transition to the IAS/IFRS accounting standards

Detailed information concerning the transition is illustrated below according to the following headings:

*Accounting standards applied in the transition,* which highlight the criteria used for the transition from Italian accounting principles to IAS/IFRS, with particular reference to the options chosen by the Bank and by the Group with respect to the valuation principles adopted at the date of transition and the exemptions from full retrospective application of certain standards provided by IFRS 1.

*Reconciliation statements and notes,* which in accordance with the provisions of IFRS 1, include the reconciliations of shareholders' equity as of 1 January 2004, 30 June 2004, 31 December 2004 and 1 January 2005 as well as reconciliation statements for the economic results for the first six months of 2004 and the previous financial year.

## Accounting standards applied in the transition

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 1 January 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 30 June 2005.

IFRS 1 provides for some optional exemptions to retrospective application of international accounting standards. SANPAOLO IMI has chosen to apply the following exemptions from retrospective application in the first-time adoption of IAS/IFRS.

- Business combinations: SANPAOLO IMI has not applied IFRS 3 retrospectively to business combinations that occurred before 1 January 2004. Therefore, goodwill included in the IAS/IFRS-compliant financial statements is recorded on the basis of accounting principles previously in force;

- Revaluation of the book value of tangible assets to fair value as "deemed cost": SANPAOLO IMI has adopted to keep tangible assets at historical cost, as of the transition date of 1 January 2004. The sole exception being land and cultural heritage which have been aligned to their fair value established on the basis of suitable appraisals by independent experts;

- Employee benefits: in order to value employee termination indemnities and defined benefit pension funds, SANPAOLO IMI has chosen not to apply retrospectively what is known as the corridor method as required by IAS 19 "Employee benefits". Therefore actuarial gains and losses relating to the period before 1 January 2004 have been recorded in full;

- Designation of financial instruments recorded in prior years: financial instruments designated at fair value or available for sale are classified assuming they were purchased on the date of transition to IAS 39 (1 January 2005);

- Share based payments: SANPAOLO IMI has chosen not to apply IFRS 2 "Share based payments" to equity instruments assigned before 7 November 2002.

# Reconciliation statements and notes

Reconciliation statements are provided below, in accordance with the provisions of IFRS 1, with regard to shareholders' equity as of 1 January 2004, 30 June 2004, 31 December 2004 and 1 January 2005 as well as the economic results for the first six months of 2004 and the previous financial year.

The reconciliation statements show separately the impact of the transition to IAS/IFRS, taking into account the different level of availability of the equity reserves as changed following the adjustments entries made, as required by D.Lgs 38/2005.

Moreover, for a better understanding of comparative results included in the financial statements schedules, reconciliations are provided for each caption of the statement of income for the first six months of 2004 and for the balance sheet as of 31 December 2004.

It should be noted that, as already mentioned in the Notes, the values shown in the aforementioned statements may be subject to some changes before the 2005 year end financial statements are published, following the introduction of the new international accounting standards or in the event of changes to or different interpretation of the principles already applied.

Notes are provided below for the various reconciliations of the captions included under shareholders' equity. These reveal that the impact of IAS 32 and 39 on financial assets is effective from 1 January 2005, while other adjustments refer to the application of IAS/IFRS with effect from 1 January 2004.

The amounts shown refer to the opening balances resulting from the accounting transition to IAS/IFRS, therefore they relate to 1 January 2005. The changes shown in the statements in respect of 30 June 2004 and 31 December 2004 are attributable to the adjustments to the statement of income which would have occurred if IAS/IFRS had been applied in the 2004 financial year.

## RECONCILIATION OF PARENT BANK SHAREHOLDERS' EQUITY IN ACCORDANCE WITH IFRS 1

*(€/mil)*

| | 1/1/2004 | 30/6/2004 | 31/12/2004 | 1/1/2005 (including IAS 32 and 39) |
|---|---|---|---|---|
| Shareholders' equity applying Italian GAAP | 10,346 | 9,904 | 11,090 | 11,090 |
| Effect on available income reserves (Art. 7, c. 3, 4, 5 of D.Lgs 38/2005) | | | | |
| Net result from securities dealings | | | | |
| - valuation of reclassified derivatives held for dealing | n.a. | n.a. | n.a. | -336 |
| - valuation of derivatives for trading to full fair value | n.a. | n.a. | n.a. | -3 |
| - Not IAS compliant covered | n.a. | n.a. | n.a. | 8 |
| - valuation of unlisted securities | n.a. | n.a. | n.a. | 1 |
| Available-for-sale investments | | | | |
| - reclassification of AFS securities to specific reserve | n.a. | n.a. | n.a. | -128 |
| Loans to customers | n.a. | n.a. | n.a. | -8 |
| Tangible assets | | | | |
| - elimination of amortization of fixed assets | 18 | 18 | 19 | 19 |
| - assets purchased in leasing | 8 | 8 | 8 | 8 |
| - costs carried at fair value | -22 | -22 | -22 | -22 |
| Intangible assets | | | | |
| - elimination of 2004 goodwill | n.a. | 36 | 72 | 72 |
| - elimination of amortization on intangible assets | 58 | 49 | 42 | 42 |
| - adjustment to other long term costs | -23 | -23 | -21 | -21 |
| Other assets/liabilities | | | | |
| - elimination of disallowed tax assets | -55 | -52 | -48 | -48 |
| - elimination of assets for dividents held to maturity | -754 | -61 | -695 | -695 |
| Employee termination indemnities | - | -4 | -8 | -8 |
| Provisions for risks and charges | | | | |
| - actuarial recalculation of reserves for employees for IAS 19 | 90 | 86 | 81 | 81 |
| - discounting of expected future cash flows | 63 | 56 | 47 | 47 |
| - elimination of disallowed reserves in accordance with IAS 37 | 13 | 13 | 13 | 13 |
| Securities issued | | | | |
| - own shares annulled | n.a. | n.a. | n.a. | -25 |
| Tax effect on adjustments | -65 | -74 | -82 | 56 |
| Total effect on available income reserves | -669 | 30 | -594 | -947 |
| Effect on unavailable reserves (Art. 7, c. 2, 6 and 7 of D.Lgs 38/2005) | | | | |
| Financial assets designated as at fair value | n.a. | n.a. | n.a. | 2 |
| Available-for-sale investments | | | | |
| - valuation of equities | n.a. | n.a. | n.a. | 246 |
| - valuation of debt securities | n.a. | n.a. | n.a. | 90 |
| Hedging derivatives | | | | |
| - valuation of cash flow hedging derivatives | n.a. | n.a. | n.a. | -38 |
| Tangible assets | | | | |
| - costs carried at fair value | 268 | 268 | 268 | 268 |
| Own shares | n.a. | n.a. | n.a. | -43 |
| Tax effect on adjustments | -100 | -100 | -100 | -116 |
| Total effect on unavailable reserves | 168 | 168 | 168 | 409 |
| Net equity applying IAS/IFRS | 9,845 | 10,102 | 10,664 | 10,552 |

## RECONCILIATION OF THE PARENT BANK'S PROFIT RESULTS IN ACCORDANCE WITH IFRS 1

| | 30/6/2004 (€/mil) | 31/12/2004 (€/mil) |
|---|---|---|
| Net income applying Italian GAAP | 271 | 1,036 |
| Net interest income | | |
| - effect of discounting provision for risks and charges | -12 | -20 |
| Dividends and similar revenues | | |
| - approval of dividends from subsidiaries | 693 | 59 |
| Personnel costs | | |
| - costs for stock option calculated on an accruals basis | -1 | -2 |
| - actuarial adjustments to employee termination indemnities | -4 | -8 |
| - recalculation of social contributions calculated on an actuarial basis | -5 | -9 |
| Other administrative expenses - adjustments to the value of tangible assets | | |
| - adjustments to costs for the purchase of leased assets - IAS 17 | - | 1 |
| Adjustments to the net value of intangible assets | | |
| - deduction of amortization on goodwill | 36 | 72 |
| - recalculation of amortization on fixed assets | - | 1 |
| - recalculation of amortization on software developed internally and other long-term charges | -5 | -14 |
| Net accruals to provision for risks and charges | | |
| - discounting of expected future cash flows | 3 | 5 |
| Income taxes | -6 | -9 |
| Total adjustments | 699 | 76 |
| Net profit applying IAS/IFRS | 970 | 1,112 |

## 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 dealing assets and liabilities, resulted in a 336 million euro decrease in net equity.

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).

The valuation of cash flow hedges resulted in a decrease in net equity of 38 million euro, equal to the negative fair value of the contracts.

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 3 million euro 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 an example, investment securities 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 unquoted securities from the restructuring of exposures, acquired on subscription or issued by other Group companies; the fair value option, instead, has been adopted for structured or hedged securities, applying the rules set out in the relevant accounting principle approved by IASB and currently being endorsed by the European Commission, Except for what has been stated above about hedged securities previously included under investment portfolio, the classification of securities under available for sale investments was made where it was the only suitable category left.

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 for an accounting treatment similar to elimination (-25 million euro, recorded under securities issued); the revaluations of unquoted securities previously recorded in the financial statements at the lower of cost and market price (+1 million euro for dealing activities; +2 million euro for activities object of fair value option) and the valuation of available for sale investments which were previously recorded at cost (+74 million euro).

Minority shareholdings: non-controlling shareholdings, 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 and in Borsa Italiana.

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

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 (+229 million euro). As already mentioned, such fair value represents the new book value that replaces cost. Works of art have also been subject to fair value adjustments on the basis of independent appraisals; such value gave rise to a 36 million euro increase in shareholders' equity of which 19 million euro refers to the reversal of amortization charged in previous years.

The international accounting standards impose a review of the criteria adopted for the amortization of tangible 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 21 million euro 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 relating to the recalculation of the amortization charges on internally-developed software.

Since the transition to IAS/IFRS for such items is effective from 1 January 2004, any related adjustments to the statement of income with respect to the first half of 2004 and the full year 2004 are duly shown.

Purchase of assets under lease contracts: international accounting standards provide that assets acquired under a lease contract be accounted for according to the "capitalisation" method. The adoption of this method as opposed to the 'non-capitalisation' method used according to Italian accounting principles resulted in an 8 million euro increase in shareholders' equity and 1 million euro increase in the 2004 statement of income.

Dividends from subsidiaries: according to international accounting standards these cannot to be recorded on an accruals basis, as it has been done 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 in assets of 695 million euro, equal to the amount receivable for dividends matured recorded in the 2004 financial statements.

The effect of reconciliation on the statement of income for the prior year refers instead to the application of the principle of recording dividends from subsidiaries for 2003 on a cash basis rather than on an accruals basis.

Provisions: 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.

The above changes have also had an impact on the reconciliation of the economic results for 2004.

Own shares: 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, it only led to the reclassification of some of its components; however in the reconciliation of the 2004 statement of income the accrued cost for the period was considered.

<u>Tax effects:</u> prepaid and deferred taxation in relation to the above adjustments have been recorded applying the corresponding tax rates.

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

The transition to IAS/IFRS has led to the reorganization of the Bank's net equity in compliance with the rules of D.Lgs 38/2005. Taking into account the nature of the adjustments made, the transition process gives rise to a reduction in "available" income reserves of 947 million euro and an increase in the restricted reserves of 409 million euro. Considering that the total amount of the Bank's extraordinary reserve at 31 December 2004 was equal to more than 2 billion euro, the impact made by the above adjustments on the Bank's net equity was not critical. Refer to the statement of changes in consolidated shareholders' equity for further details.

## Notes on the main reclassifications of 2004 data

In order to provide a clear picture of the method followed for the restatement of the balances of the 2004 financial statements presented in the Half Year Report, a summary of the main reclassifications of the captions used up to 31 December 2004 has been provided to make them consistent with those used for the 2005 financial year since transition.

First of all it should be noted that for the definition of the accounting reclassifications, the Bank has applied the criteria arising from the draft instructions issued by the Bank of Italy in July 2005.

It should also be noted that the reclassifications were made solely for the purpose of realigning the financial statement captions of the schedules required by D.Lgs. 87/92 to the captions provided for by IAS/IFRS, without modifying prior year figures.

### Balance sheet reclassifications

Securities: considering the classification of the investment portfolio adopted for the transition to IAS/IFRS, the Bank's securities have been consistently reclassified to the categories provided by IAS 39 (dealing securities, valued at fair value, available for sale, held-to-maturity, loans to banks and loans to customers).

Accruals, prepayments and deferrals: these have been reclassified to the relevant asset and liability captions.

Derivatives: the reclassifications refer to the other asset/liability captions of accruals, prepayments and deferrals. These captions have been reclassified to the relevant captions relating to hedging derivatives taking into account the positive or negative valuations of each contract.

Tax assets and liabilities: pursuant to the provisions of international accounting standards, tax assets represented by prepayments, withholding taxes suffered and prior year tax credits applied against future tax liabilities have been offset to the respective current tax liabilities.

Accruals made for fiscal disputes, previously included under tax reserve (this should be Provision for taxation, have been reclassified to other provisions for risks and charges.

Loans to/from banks and customers captions referring to receivables or payables for services rendered, guarantee deposits, assets/liabilities arising on sales with postponed settlement, have been reclassified from other assets/liabilities to the relevant captions under receivables/payables (depending on the counterparty).

Securities issued: this caption has been restated to take into account the bifurcation of derivatives implied in structured-yield issues (classified as dealing liabilities).

Subordinated liabilities these have been reclassified to the relevant captions, namely amounts due to customers and securities issued.

Technical exposures on securities: these have been reclassified from other liabilities to dealing liabilities.

Provisions for risks and charges: in addition to the reclassifications made to the tax reserve, also items relating to the 'provision for guarantees and commitments' and those relating to the 'provision set up to balance the technical deficit of the Bank's employee pension fund' have been reclassified, the former to 'other liabilities' and the latter to the 'provision for pensions and similar commitments'.

### Statement of income reclassifications

Extraordinary income and expenses: given that the new schedules do not require extraordinary items to be separately identified, any such items so classified in the previous financial year have been allocated to new captions according to their nature.

Profits and losses from financial transactions: taking into consideration the new classification of financial instruments, the economic components referring to profits or losses on securities, exchange rates and derivative instruments have been allocated to the appropriate captions of the new statement of income.

Personnel costs: accruals made in respect of amounts due to personnel, previously recorded under provisions for risks and charges have been reclassified to personnel costs. Such costs have been reduced (against other operating income) to take into account personnel on secondment, as such costs are reimbursed by the third party where the personnel is seconded and have been increased (against other administrative costs) to take into consideration costs incurred for third party's personnel on secondment with the Bank.

Other administrative costs: the reclassifications relate mainly to set-offs carried out between charges incurred and reimbursements from third parties.

Adjustments for impairment: write-downs recorded in the previous financial year are reallocated to the relevant new captions according to the classification of the underlying instruments.

Adjustments to tangible assets: the reclassifications refer to finance lease liabilities. The lease rentals incurred in the previous financial year have been reclassified as part of the adjustments of tangible assets and interest payable.

## RECONCILIATION BETWEEN THE BALANCE SHEET AS OF 31.12.2004 PREPARED IN ACCORDANCE WITH ITALIAN GAAP AND IAS/IFRS

(€)

| Assets captions | | Italian GAAP as of 31.12.2004 | Reclassifications | Post reclassifications to IAS as of 31.12.2004 (A) | Adjustments (B) | IAS/IFRS as of 31.12.2004 (A+B) (*) |
|---|---|---|---|---|---|---|
| 10. | Cash and liquid balances | | 750,300,526 | 750,300,526 | | 750,300,526 |
| *10.It* | *Cash and deposits with central banks and post offices* | *750,300,526* | *-750,300,526* | - | | |
| 20. | Financial assets held for trading | | 5,545,164,960 | 5,545,164,960 | | 5,545,164,960 |
| 30. | Financial assets designated as at fair value | | 1,526,901,488 | 1,526,901,488 | | 1,526,901,488 |
| 40. | Available-for-sale investments | | 2,552,918,510 | 2,552,918,510 | | 2,552,918,510 |
| 50. | Held-to-maturity investments | | 1,443,499,213 | 1,443,499,213 | | 1,443,499,213 |
| *20. It* | *Treasury bills and similar bills eligible for refinancing with central banks* | *1,011,312,946* | *-1,011,312,946* | - | | |
| *50. It* | *Subordinated bonds and other debt securities* | *10,230,138,333* | *-10,230,138,333* | - | | |
| *60. It* | *Shares, quotas and other equities* | *283,739,142* | *-283,739,142* | - | | |
| 60. | Due from banks | | 37,983,888,429 | 37,983,888,429 | | 37,983,888,429 |
| *30. It* | *Due from banks* | *34,938,873,311* | *-34,938,873,311* | - | | |
| 70. | Loans to customers | | 57,813,823,833 | 57,813,823,833 | | 57,813,823,833 |
| *40. It* | *Loans to customers* | *57,203,792,342* | *-57,203,792,342* | - | | |
| 80. | Hedging derivatives | | 345,130,482 | 345,130,482 | | 345,130,482 |
| 90. | Value adjustment of financial assets hedged against | | | - | | - |
| 100. | Investments | | 9,414,666,844 | 9,414,666,844 | | 9,414,666,844 |
| *70. It* | *Investments* | *2,046,428,318* | *-2,046,428,318* | - | | |
| *80. It* | *Investments in Group companies* | *8,603,832,763* | *-8,603,832,763* | - | | |
| 110. | Tangible assets | 1,236,816,576 | 25,848,000 | 1,262,664,576 | 299,663,721 | 1,562,328,297 |
| 120. | Intangible assets | 701,803,730 | | 701,803,730 | 91,998,532 | 793,802,262 |
| | *of which:* | | | | | |
| | *- goodwill* | *493,731,830* | | *493,731,830* | *71,513,386* | *565,245,216* |
| 130. | Income tax assets | | 2,126,225,500 | 2,126,225,500 | -79,809,078 | 2,046,416,422 |
| | *a) current* | | *1,423,802,500* | *1,423,802,500* | | *1,423,802,500* |
| | *b) deferred* | | *702,423,000* | *702,423,000* | *-79,809,078* | *622,613,922* |
| 140. | Non-current assets and groups of assets to be disposed of | | | - | | - |
| 150. | Other assets | | 3,559,614,171 | 3,559,614,171 | -743,441,194 | 2,816,172,977 |
| *120. It* | *Own shares or quotas* | *42,508,503* | *-42,508,503* | - | | |
| *130. It* | *Other assets* | *6,539,583,158* | *-6,539,583,158* | - | | |
| *140. It* | *Accrued income and prepaid expenses* | *2,305,977,327* | *-2,305,977,327* | - | | |
| Total assets | | 125,895,106,975 | -868,504,713 | 125,026,602,262 | -431,588,019 | 124,595,014,243 |

*(*) Reconstructed on the basis of IAS/IFRS with the exception of IAS 32 and 39 where the date of transition is 1 January 2005.*

(€)

| Liability and net equity captions | | Italian GAAP as of 31.12.2004 | Reclassifications | Post reclassifications to IAS as of 31.12.2004 (A) | Adjustments (B) | IAS/IFRS as of 31.12.2004 (A+B) (*) |
|---|---|---|---|---|---|---|
| 10. | Due to banks | | 37,076,748,091 | 37,076,748,091 | | 37,076,748,091 |
| *10. It* | *Due to banks* | *37,028,879,091* | *-37,028,879,091* | - | | |
| 20. | Due to customers | | 44,107,672,757 | 44,107,672,757 | 25,848,000 | 44,133,520,757 |
| *20. It* | *Due to customers* | *42,848,738,957* | *-42,848,738,957* | - | | |
| 30. | Securities issued | | 24,273,444,651 | 24,273,444,651 | | 24,273,444,651 |
| 40. | Financial dealing liabilities | | 2,042,424,263 | 2,042,424,263 | | 2,042,424,263 |
| *30. It* | *Debiti rappresentati da titoli* | *18,847,173,296* | *-18,847,173,296* | - | | |
| 50. | Financial liabilities designated as at fair value | | | - | | - |
| 60. | Hedging derivatives | | 671,280,915 | 671,280,915 | | 671,280,915 |
| 70. | Adjustment to financial liabilities covered by general hedges | | | - | | - |
| *110. It* | *Subordinated liabilities* | *6,588,319,755* | *-6,588,319,755* | - | | |
| 80. | Tax liabilities | | | | | 153,592,668 |
| | *a) current* | | *42,000,000* | *42,000,000* | | *42,000,000* |
| | *b) deferred* | | *11,615,000* | *11,615,000* | *99,977,668* | *111,592,668* |
| 90. | Liabilities associated with discontinued assets | | | - | | - |
| 100. | Other liabilities | | 4,185,672,162 | 4,185,672,162 | | 4,185,672,162 |
| *50. It* | *Other liabilities* | *5,894,568,114* | *-5,894,568,114* | - | | |
| *60. It* | *Accrued expenses and deferred income* | *1,538,005,133* | *-1,538,005,133* | - | | |
| *40. It* | *Public funds administered* | *27,198,203* | *-27,198,203* | - | | |
| 110. | Employee termination indemnities | 467,725,106 | | 467,725,106 | 7,946,339 | 475,671,445 |
| 120. | Provision for risks and charges: | 1,564,734,724 | -463,971,500 | 1,100,763,224 | -139,827,960 | 960,935,264 |
| | *a) pension and similar commitments* | | *124,512,000* | *124,512,000* | *-108,710,000* | *15,802,000* |
| | *b) other funds* | *1,564,734,724* | *-588,483,500* | *976,251,224* | *-31,117,960* | *945,133,264* |
| 130. | Valuation reserves | | 4,164,891 | 4,164,891 | 168,418,756 | 172,583,647 |
| 140. | Share reimbursements | | | - | | - |
| 150. | Capital instruments | | | - | | - |
| 160. | Reserves | | 4,107,282,807 | 4,107,282,807 | -670,135,542 | 3,437,147,265 |
| *140. It* | *Reserves* | *4,111,447,698* | *-4,111,447,698* | - | | |
| 170. | Share premium reserves | 724,718,927 | | 724,718,927 | | 724,718,927 |
| 180. | Capital | 5,217,679,141 | | 5,217,679,141 | | 5,217,679,141 |
| 190. | Own shares (-) | | -42,508,503 | -42,508,503 | | -42,508,503 |
| 200. | Profit (Loss) for the period | 1,035,918,830 | | 1,035,918,830 | 76,184,720 | 1,112,103,550 |
| Total liabilities | | 125,895,106,975 | -868,504,713 | 125,026,602,262 | -431,588,019 | 124,595,014,243 |

*(*) Reconstructed on the basis of IAS/IFRS with the exception of IAS 32 and 39 where the date of transition is 1 January 2005.*

## RECONCILIATION BETWEEN THE STATEMENT OF INCOME FOR THE FIRST HALF OF 2004 PREPARED IN ACCORDANCE WITH ITALIAN GAAP AND IAS/IFRS

*(€)*

| | **Statement of income captions** | Italian GAAP as of 30.6.2004 | Reclassifications | Reclassification to IAS 30.6.2004 (A) | Adjustments (B) | IAS/IFRS as of 30.6.2004 (A+B) (*) |
|---|---|---|---|---|---|---|
| 10. | Interest income and similar revenue | 1,757,353,124 | | 1,757,353,124 | | 1,757,353,124 |
| 20. | Interest expense and similar charges | -1,037,202,656 | -480,000 | -1,037,682,656 | -11,300,000 | -1,048,982,656 |
| 30. | Net interest income | 720,150,468 | -480,000 | 719,670,468 | -11,300,000 | 708,370,468 |
| 40. | Commissions receivable | 740,172,550 | | 740,172,550 | | 740,172,550 |
| 50. | Commissions payable | -44,200,055 | | -44,200,055 | | -44,200,055 |
| 60. | Net commissions | 695,972,495 | - | 695,972,495 | - | 695,972,495 |
| 70. | Dividends and similar revenues | 52,958,015 | 1,500,000 | 54,458,015 | 692,914,305 | 747,372,320 |
| 80. | Net dealing income | | 45,840,445 | 45,840,445 | | 45,840,445 |
| 90. | Net result of hedging transactions | | | - | | - |
| 100. | Profit (loss) from the disposal or repurchase of: | | 3,194,766 | 3,194,766 | | 3,194,766 |
| | *a) loans* | | *766,509* | *766,509* | | *766,509* |
| | *b) financial assets available for sale* | | *1,680,257* | *1,680,257* | | *1,680,257* |
| | *c) financial assets held to maturity* | | | - | | - |
| | *d) financial liabilities* | | *748,000* | *748,000* | | *748,000* |
| 110. | Net change in financial assets designated as at fair value | | -1,111,629 | -1,111,629 | | -1,111,629 |
| 120. | Net change in financial liabilities designated as at fair value | | | - | | - |
| *60. It* | *Profit (loss) from financial transactions* | *46,356,302* | *-46,356,302* | - | | |
| 130. | Net interest and other banking income | 1,515,437,280 | 2,587,280 | 1,518,024,560 | 681,614,305 | 2,199,638,865 |
| 140. | Adjustments for impairment in values of: | | | | | |
| | *a) loans* | | *-74,766,660* | *-74,766,660* | | *-74,766,660* |
| | *b) financial assets available for sale* | | *-17,696,915* | *-17,696,915* | | *-17,696,915* |
| | *c) financial assets held to maturity* | | | - | | - |
| | *d) other financial instruments* | | *41,210* | *41,210* | | *41,210* |
| *120. It* | *Adjustments to loans and provisions for guarantees and commitments* | *-157,180,892* | *157,180,892* | - | | |
| *130. It* | *Adjustments to loans and provisions for guarantees and commitments* | *82,455,442* | *-82,455,442* | - | | |
| *150. It* | *Adjustments to financial fixed assets* | *-251,064,063* | *251,064,063* | - | | |
| *160. It* | *Writebacks of adjustments to financial fixed assets* | *32,961,236* | *-32,961,236* | - | - | |
| 150. | Net result from financial transactions | 1,222,609,003 | 202,993,192 | 1,425,602,195 | 681,614,305 | 2,107,216,500 |
| 160. | Administrative costs: | -1,198,748,583 | 50,713,947 | -1,148,034,636 | -7,158,546 | -1,155,193,182 |
| | *a) personnel costs* | *-737,097,131* | *-615,000* | *-737,712,131* | *-9,693,392* | *-747,405,523* |
| | *b) other administrative costs* | *-461,651,452* | *51,328,947* | *-410,322,505* | *2,534,846* | *-407,787,659* |
| 170. | Provisions for risks and charges | -26,437,756 | 10,422,733 | -16,015,023 | 2,300,000 | -13,715,023 |
| 180. | Net adjustments to tangible assets | | -84,226,937 | -84,226,937 | 1,023,021 | -83,203,916 |
| 190. | Net adjustments to intangible assets | | -95,916,433 | -95,916,433 | 27,138,414 | -68,778,019 |
| *90. It* | *Adjustments to tangible and intangible fixed assets* | *-180,342,423* | *180,342,423* | - | | - |
| 200. | Other operating charges/income | 230,173,859 | -60,325,523 | 169,848,336 | | 169,848,336 |
| 210. | Operating costs | -1,175,354,903 | 1,010,210 | -1,174,344,693 | 23,302,889 | -1,151,041,804 |
| 220. | Profits (Losses) from shareholdings | | 82,457,965 | 82,457,965 | | 82,457,965 |
| 230. | Net result of tangible and intangible assets at fair value | | | - | | - |
| 240. | Adjustments to the value of goodwill | | | - | | - |
| 250. | Profits (Losses) from disposals of investments | | -180,021 | -180,021 | | -180,021 |
| *180. It* | *Extraordinary income* | *368,428,149* | *-368,428,149* | - | | |
| *190. It* | *Extraordinary expenses* | *-10,635,345* | *10,635,345* | - | | |
| 230. | Net Profit (Loss) for the period | 405,046,904 | -71,511,458 | 333,535,446 | 704,917,194 | 1,038,452,640 |
| 240. | Income taxes for the period | -133,998,995 | | -133,998,995 | -6,130,774 | -140,129,769 |
| 250. | Net Profit (Loss) for the period | 271,047,909 | -71,511,458 | 199,536,451 | 698,786,421 | 898,322,872 |
| 260. | Profits (losses) on discontinued operations | | 71,511,458 | 71,511,458 | | 71,511,458 |
| 270. | Profit (Loss) for the period | 271,047,909 | 0 | 271,047,909 | 698,786,421 | 969,834,330 |

*(*) Reconstructed on the basis of IAS/IFRS with the exception of IAS 32 and 39 where the date of transition is 1 January 2005.*

## RECONCILIATION OF THE BALANCE SHEET AS OF 1.1.2005 INCLUDING IAS 32 AND 39

*(€)*

| **ASSETS** | Balance as of 31/12/2004 according to IAS/IFRS (*) (A) | Application of IAS 32 and 39 and IFRS (B) | Balance as of 1/1/2005 according to IAS/IFRS including IAS 32 and 39 (C=A+B) |
|---|---|---|---|
| 10. Cash and liquid balances | 750,300,526 | | 750,300,526 |
| 20. Financial assets held for trading | 5,545,164,960 | -898,717,993 | 4,646,446,967 |
| 30. Financial assets designated as at fair value | 1,526,901,488 | 1,670,660 | 1,528,572,148 |
| 40. Available-for-sale investments | 2,552,918,510 | 206,312,394 | 2,759,230,904 |
| 50. Held-to-maturity investments | 1,443,499,213 | 108,824 | 1,443,608,037 |
| 60. Due from banks | 37,983,888,429 | 2,009,880 | 37,985,898,309 |
| 70. Loans to customers | 57,813,823,833 | 213,949,405 | 58,027,773,238 |
| 80. Hedging derivatives | 345,130,482 | 578,609,000 | 923,739,482 |
| 90. Value adjustment of financial assets hedged against | | | |
| 100. Investments | 9,414,666,844 | | 9,414,666,844 |
| 110. Tangible assets | 1,562,328,297 | | 1,562,328,297 |
| 120. Intangible assets | 793,802,262 | | 793,802,262 |
| *of which:* | | | |
| *- goodwill* | *565,245,216* | | *565,245,216* |
| 130. Tax assets | 2,046,416,422 | 155,081,309 | 2,201,497,731 |
| *a) current* | *1,423,802,500* | | *1,423,802,500* |
| *b) deferred* | *622,613,922* | *155,081,309* | *777,695,231* |
| 140. Non-current assets and groups of assets to be disposed of | | | |
| 150. Other assets | 2,816,172,977 | -8,863,000 | 2,807,309,977 |
| **Total assets** | **124,595,014,243** | **250,160,479** | **124,845,174,722** |

*(*) Reconstructed on the basis of IAS/IFRS with the exception of IAS 32 and 39 where the date of transition is 1 January 2005.*

(€)

| LIABILITIES | | Balance as of 31/12/2004 according to IAS/IFRS (*) (A) | Application of IAS 32 and 39 and IFRS (B) | Balance as of 1/1/2005 according to IAS/IFRS including IAS 32 and 39 (C=A+B) |
|---|---|---|---|---|
| 10. | Due to banks | 37,076,748,091 | 53,535,000 | 37,130,283,091 |
| 20. | Due to customers | 44,133,520,757 | 124,357,000 | 44,257,877,757 |
| 30. | Securities issued | 24,273,444,651 | -478,750,050 | 23,794,694,601 |
| 40. | Financial dealing liabilities | 2,042,424,263 | 387,590,500 | 2,430,014,763 |
| 50. | Financial liabilities designated as at fair value | | | |
| 60. | Hedging derivatives | 671,280,915 | 213,587,000 | 884,867,915 |
| 70. | Adjustment to financial liabilities covered by general hedges | | 10,455,000 | 10,455,000 |
| 80. | Tax liabilities | 153,592,668 | 30,158,762 | 183,751,430 |
| | *a) current* | *42,000,000* | | *42,000,000* |
| | *b) deferred* | *111,592,668* | *30,158,762* | *141,751,430* |
| 90. | Liabilities associated with discontinued assets | | | |
| 100. | Other liabilities | 4,185,672,162 | -21,488,000 | 4,164,184,162 |
| 110. | Provisions for employee termination indemnities | 475,671,445 | | 475,671,445 |
| 120. | Provision for risks and charges: | 960,935,264 | | 960,935,264 |
| | *a) pension and similar commitments* | *15,802,000* | | *15,802,000* |
| | *b) other funds* | *945,133,264* | | *945,133,264* |
| 130. | Valuation reserves | 172,583,647 | 283,108,805 | 455,692,452 |
| 140. | Redeemable shares | | | |
| 150. | Capital instruments | | | |
| 160. | Reserves | 3,437,147,265 | -352,393,538 | 3,084,753,727 |
| 170. | Share premium reserves | 724,718,927 | | 724,718,927 |
| 180. | Capital | 5,217,679,141 | | 5,217,679,141 |
| 190. | Own shares (-) | -42,508,503 | | -42,508,503 |
| 200. | Profit (loss) for the period | 1,112,103,550 | | 1,112,103,550 |
| Total liabilities | | 124,595,014,243 | 250,160,479 | 124,845,174,722 |

*(*) Reconstructed on the basis of IAS/IFRS with the exception of IAS 32 and 39 where the date of transition is 1 January 2005.*

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## AUDITORS' REPORT ON THE IFRS RECONCILIATION SCHEDULES ILLUSTRATING THE IMPACT OF THE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

To the Board of Directors of
Sanpaolo IMI SpA

1. We have audited the accompanying reconciliation schedules, consisting of the reconciliation schedule between the unconsolidated balance sheet prepared in accordance to the Law Decree n° 87/92 and the one prepared in accordance to the IFRS as of 31 December 2004 and 1 January 2005, the "Reconciliation of shareholders' equity in accordance with IFRS 1" at 1 January 2004, 31 December 2004 and 1 January 2005, and the "Reconciliation of the net result in accordance with IFRS1" for the year ended 31 December 2004 (hereinafter the "IFRS Reconciliation Schedules") of Sanpaolo IMI SpA and related explanatory notes, as presented in the section "Sanpaolo IMI SpA transaction to international accounting standards" of the Half Year Report as of 30 June 2005. The aforementioned IFRS Reconciliation Schedules derive from the unconsolidated financial statements of Sanpaolo IMI SpA as of 31 December 2004 prepared in compliance with the laws governing the criteria for the preparation of financial statements, which we audited and on which we issued our report on 8 April 2005. The IFRS Reconciliation Schedules have been prepared in connection with the process of transition to the International Financial Reporting Standards (IFRS) endorsed by the European Commission. The IFRS Reconciliation Schedules are the responsibility of Sanpaolo IMI SpA's directors. Our responsibility is to express an opinion on the IFRS Reconciliation Schedules based on our audit.

2. We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the IFRS Reconciliation Schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS Reconciliation Schedules. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   The audit of the financial statements as of 31 December 2004 of certain subsidiaries, representing 5 percent and 0.3 percent, respectively, of the captions "Investment in Group Companies" and "Total assets" of the unconsolidated financial statements as of 31 December 2004 prepared in

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

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accordance to the Law Decree No. 87/92 and presented in the IFRS Reconciliation Schedules, is the responsibility of other auditors.

3. In our opinion, the IFRS Reconciliation Schedules identified in paragraph 1 of this report, taken as a whole, have been prepared in compliance with the criteria and standards set out in article 81 of Regulation for Issuers No. 11971/1999 adopted by Consob with its Resolution No. 14990 dated 14 April 2005.

4. We draw to your attention that the IFRS Reconciliation Schedules, having been prepared solely for the purpose of the transition project for the preparation of the first unconsolidated financial statements at 31 December 2005 compliant with the IFRS endorsed by the European Commission, do not include the comparative unconsolidated financial information and explanatory notes that would be required in order to fairly present the unconsolidated financial position and the unconsolidated result of operations of Sanpaolo IMI SpA in compliance with IFRS.

   Furthermore, as described in the explanatory notes to the Sanpaolo IMI SpA transaction to international accounting standards, the IFRS Reconciliation Schedules will represent the published comparative data in the first unconsolidated financial statements compliant with the IFRS; these figures might be modified due to the issue of new principles or interpretation by the relevant standard setters, amendments of existing principles, or future directions of the European Commission in respect of the endorsement of the international accounting standards before the publication of the first unconsolidated financial statements compliant with the IFRS.

Turin, 25 October 2005

PricewaterhouseCoopers SpA

Signed by
Sergio Duca
(Partner)

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

# Attachments

INTERCOMPANY BALANCES BETWEEN THE PARENT BANK,
SUBSIDIARIES AND COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

# Intercompany balances between the Parent Bank, subsidiaries and companies subject to significant influence

*(€/mil)*

| Group companies | Assets (a) | Liabilities | Income (b) | Charges |
|---|---|---|---|---|
| Assicurazioni Internazionali di Previdenza S.p.A. | 65 | 870 | 44 | 1 |
| Banca Comerciala Sanpaolo Imi Bank Romania S.A. | 40 | 1 | - | - |
| Banca di Intermediazione Mobiliare Imi S.p.A. | 7,006 | 1,315 | 1,479 | 1,366 |
| Banca Fideuram S.p.A. | 4 | 927 | 3 | 3 |
| Banca Opi S.p.A. | 16,481 | 493 | 294 | 27 |
| Banca Popolare dell'Adriatico S.p.A. | 95 | 323 | 21 | 12 |
| Cassa di Risparmio di Padova e Rovigo S.p.A. | 1,552 | 2,986 | 60 | 42 |
| Cassa di Risparmio di Venezia S.p.A. | 30 | 1,242 | 22 | 19 |
| Cassa di Risparmio in Bologna S.p.A. | 2,615 | 598 | 74 | 25 |
| Farbanca S.p.A. | 12 | 2 | 1 | - |
| Fideuram Bank S.A. | 3 | - | - | - |
| Fin.Opi S.p.A. | - | 12 | - | - |
| Neos Banca S.p.A. | 1,859 | - | 27 | 2 |
| Neos Finance S.p.A. | 2,109 | 82 | 27 | - |
| Friulcassa S.p.A. | 39 | 775 | 17 | 13 |
| GEST Line S.p.A. | - | - | 3 | - |
| Imi Investimenti S.p.A. | 2 | 125 | 1 | 1 |
| Inter-Europa Bank Rt | 38 | 3 | 1 | - |
| Ldv Holding B.V. | - | 2 | - | - |
| Sanpaolo Banco di Napoli S.p.A. | 484 | 8,854 | 109 | 112 |
| Sanpaolo Bank (Suisse) S.A. | - | 1 | - | - |
| Sanpaolo Bank S.A. | 416 | 3,318 | 8 | 31 |
| Sanpaolo Fiduciaria S.p.A. | - | 8 | - | - |
| Sanpaolo Imi Alternative Investments Sgr S.p.A. | - | 2 | 1 | - |
| Sanpaolo Imi Asset Management Sgr S.p.A. | - | 109 | 211 | 1 |
| Sanpaolo Imi Bank (International) S.A. | 115 | 5,232 | 2 | 88 |
| Sanpaolo Imi Bank Ireland Plc. | 200 | 210 | 3 | 2 |
| Sanpaolo Imi Capital Company I LLC | - | 1,208 | 1 | 40 |
| Sanpaolo Imi Fondi Chiusi Sgr S.p.A. | - | 2 | - | - |
| Sanpaolo Imi Institutional Asset Management Sgr S.p.A. | - | 13 | - | - |
| Sanpaolo Imi Insurance Broker S.p.A. | - | 4 | - | - |
| Sanpaolo Imi International S.A. | - | 176 | - | - |
| Sanpaolo Imi Internazionale S.p.A. | 12 | 23 | 1 | - |
| Sanpaolo Imi Investimenti Per Lo Sviluppo | - | 2 | - | - |
| Sanpaolo Imi Private Equity S.p.A. | - | 8 | 1 | - |
| Sanpaolo Imi Us Financial Co. | - | 2,577 | - | 27 |
| Sanpaolo Imi Wm Luxembourg S.A. | - | - | 33 | - |
| Sanpaolo Immobiliere S.A. | 2 | - | - | - |
| Sanpaolo Leasint S.p.A. | 3,200 | 36 | 36 | 3 |

*(€/mil)*

| Group companies | Assets (a) | Liabilities | Income (b) | Charges |
|---|---|---|---|---|
| Sanpaolo Life Ltd. | - | 29 | - | - |
| Sep - Servizi e Progetti S.p.A. | - | 4 | - | 7 |
| Universo Servizi S.p.A. | - | 6 | - | - |
| Total Group companies | 36,379 | 31,578 | 2,480 | 1,822 |
| | | | | |
| *Jointly held subsidiaries* | | | | |
| All Funds Bank S.A. | - | 1 | - | - |
| Banka Koper D.D. | 181 | 4 | - | - |
| Cassa dei Risparmi di Forlì S.p.A. | 19 | 1 | - | - |
| Total | 36,579 | 31,584 | 2,480 | 1,822 |
| | | | | |
| *Other companies in which it holds considerable influence* | | | | |
| Banque Palatine S.A. | 678 | 303 | 7 | 1 |
| Cassa di Risparmio di Firenze S.p.A. | 57 | - | 1 | - |
| Esatri S.p.A. | 13 | - | 2 | - |
| Sinloc - Sistemi iniziative locali S.p.A. | - | 4 | - | 1 |
| Società Gestione per il Realizzo S.p.A. | 3 | - | - | - |
| Total | 751 | 307 | 10 | 2 |

*(a) Excluding the book value of the investment.*
*(b) Excluding dividends received.*

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