# SANPAOLO IMI


# QUARTERLY REPORT 30 SEPTEMBER 2006

SANPAOLO IMI GROUP

# Quarterly Report 30 September 2006

## 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 5,400,089,095.68 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

# Contents

# Key figures

| | 30/9/2006 | 30/9/2005 | Change 30/9/2006 - 30/9/2005 (%) | 31/12/2005 |
|---|---|---|---|---|
| **CONSOLIDATED BALANCE SHEET (€/mil)** | | | | |
| Total assets | 274,523 | 276,344 | -0.7 | 263,258 |
| Loans to customers (excluding NPLs) | 149,140 | 137,169 | +8.7 | 138,427 |
| Equity shareholdings | 1,015 | 813 | +24.8 | 819 |
| Group net shareholders' equity | 14,539 | 13,052 | +11.4 | 13,483 |
| **CUSTOMER FINANCIAL ASSETS (€/mil)** | | | | |
| Total financial assets (1) | 426,424 | 401,135 | +6.3 | 401,838 |
| - direct deposits | 175,222 | 167,877 | +4.4 | 165,230 |
| - indirect deposits | 276,767 | 258,245 | +7.2 | 262,232 |
| - asset management | 158,877 | 155,538 | +2.1 | 157,990 |
| - asset administration | 117,890 | 102,707 | +14.8 | 104,242 |
| **LOAN RISK RATIOS (%)** | | | | |
| Doubtful loans / Loans to customers | 2.1 | 2.4 | | 2.4 |
| Non-performing financing / Loans to customers | 0.7 | 0.8 | | 0.8 |
| Problem and restructured financing / Loans to customers | 0.8 | 0.9 | | 0.8 |
| Financing due/overdue by more than 180 days / Loans to customers | 0.6 | 0.7 | | 0.8 |
| **EQUITY SOLVENCY RATIOS (%)** (2) | | | | |
| Core tier 1 ratio | 6.9 | n.d. | | 6.8 |
| Tier 1 ratio | 7.5 | n.d. | | 7.4 |
| Total risk ratio | 10.2 | n.d. | | 9.4 |
| **SHARES** | | | | |
| Number of shares (thousands) | 1,874,961 | 1,869,922 | +0.3 | 1,871,151 |
| Listing for the period (€) | | | | |
| - average | 14.534 | 11.549 | +25.8 | 11.836 |
| - low | 12.986 | 10.201 | +27.3 | 10.201 |
| - high | 16.902 | 12.924 | +30.8 | 13.420 |
| Market capitalization (€/mil) | 31,218 | 24,167 | +29.2 | 24,719 |
| Dividend per share (€) | | | | 0.57 |
| Dividend per share / Average annual listing (%) | | | | 4.82 |
| Book value per share (€) (3) | 7.77 | 7.00 | +11.0 | 7.22 |
| **OPERATING STRUCTURE** | | | | |
| Employees (4) | 42,872 | 41,991 | +2.1 | 42,326 |
| Domestic branches | 3,202 | 3,139 | +2.0 | 3,172 |
| Foreign branches and representative offices | 153 | 135 | +13.3 | 136 |
| Financial planners | 4,222 | 4,190 | +0.8 | 4,151 |

| | First nine months 2006 | First nine months 2005 | Change first nine months 2006 / First nine months 2005 (%) | 2005 |
|---|---|---|---|---|
| **CONSOLIDATED STATEMENT OF INCOME (€/mil)** | | | | |
| Net interest income | 3,058 | 2,818 | +8.5 | 3,798 |
| Net commissions | 2,534 | 2,423 | +4.6 | 3,284 |
| Total operating income | 6,472 | 6,112 | +5.9 | 8,201 |
| Net adjustments to loans | -359 | -357 | +0.6 | -492 |
| Net adjustments to other financial assets | -1 | -4 | -75.0 | -1 |
| Net operating income | 6,112 | 5,751 | +6.3 | 7,708 |
| Operating costs | -3,471 | -3,351 | +3.6 | -4,656 |
| Pre-tax operating profit | 2,577 | 2,328 | +10.7 | 2,954 |
| Net profit | 1,638 | 1,509 | +8.5 | 1,983 |
| Net profit per share (€) (5) | 0.88 | 0.81 | +8.6 | 1.06 |
| Diluted net profit per share (€) (5) | 0.88 | 0.81 | +8.6 | 1.06 |
| **MAIN RATIOS (%)** | | | | |
| Annualized RoE (6) | 16.9 | 17.4 | | 17.2 |
| Cost / Income ratio (7) | 53.6 | 54.8 | | 56.8 |

*(1) Includes netting between direct deposits and asset management.*

*(2) Values as at 30 September 2006 are estimates. Solvency ratios as at 31 December 2005 have been reworked compared to figures from the 2005 Financial Statements in order to take into account the introduction of definitive provisions and specific regulations for transition to IAS/IFRS published by the Bank of Italy in April 2006.*

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

*(4) Includes atypical contracts.*

*(5) Calculated on the basis of IAS 33.*

*(6) Annualized net profit / Net shareholders' equity at period-end (excluding profit).*

*(7) Personnel costs, other administrative costs and amortization / Total operating income.*

# Group Structure

## SANPAOLO IMI GROUP

### CENTRAL FUNCTIONS

**SANPAOLO IMI**

- Governance, support and control functions
- Equity shareholdings
  - Sanpaolo IMI International *(Luxembourg)*
    - Santander Central Hispano *(Spain; 2.2%)*
    - Ixis Asset Management Group *(France; 9.3%)*
    - Ixis Corporate & Investment Bank *(France; 2.5%)*
  - Banque Palatine *(France; 37.3%)*
  - Cassa di Risparmio di Firenze *(18.7%)*
  - Cassa dei Risparmi di Forlì *(38.3%)*
  - Banca delle Marche *(7%)*
  - Other equity shareholdings
- Finance
- Macchina Operativa Integrata (Integrated Operating Vehicle)

### BANKING

**RETAIL & PRIVATE**

- Sanpaolo IMI-Retail & Private
- Cassa di Risparmio di Padova e Rovigo-Retail & Private
- Cassa di Risparmio in Bologna-Retail & Private
- Cassa di Risparmio di Venezia-Retail & Private
- Friulcassa-Retail & Private
- Sanpaolo Banca dell'Adriatico-Retail & Private
- Sanpaolo Banco di Napoli-Retail & Private
- Neos Banca *(99.5%)*
- Farbanca *(19.3%)*

**CORPORATE**

- Sanpaolo IMI-Companies
- Cassa di Risparmio di Padova e Rovigo-Companies
- Cassa di Risparmio in Bologna-Companies
- Cassa di Risparmio di Venezia-Companies
- Friulcassa-Companies
- Sanpaolo Banca dell'Adriatico-Companies
- Sanpaolo Banco di Napoli-Companies
- Sanpaolo Leasint

**WHOLESALE**

- Sanpaolo IMI-Large Groups
- Sanpaolo IMI-International Network
  - Sanpaolo IMI Bank Ireland *(Ireland)*
  - Sanpaolo IMI Internazionale
- Banca IMI
- Banca OPI
  - FIN.OPI

**OTHER ACTIVITIES**

- IMI Investimenti
- Sanpaolo Bank *(Luxembourg)*
  - Sanpaolo Bank Suisse *(Switzerland)*
  - Sanpaolo Immobiliere
- Sanpaolo Fiduciaria

### SAVINGS AND ASSURANCE

#### EURIZON FINANCIAL GROUP

**EURIZONVITA**

- Sanpaolo Life *(Ireland)*
- EurizonTutela
- Universo Servizi

**BANCA FIDEURAM** *(73.4%)* (1)

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

**SANPAOLO IMI ASSET MANAGEMENT** (2)

- Sanpaolo IMI Asset Management Luxembourg (2)
- Sanpaolo IMI Alternative Investments (2)

*(1) On 25 October 2006, at the end of the subscription period for the Public Offer on ordinary shares of Banca Fideuram, Eurizon held (directly and indirectly) 92.5% of the total share capital of Banca Fideuram.*

*(2) Starting from 1 November 2006, Sanpaolo IMI Asset Management SGR, Sanpaolo IMI Asset Management Luxembourg and Sanpaolo IMI Alternative Investments changed their names into Eurizon Capital SGR, Eurizon Capital S.A. and Eurizon Alternative Investments, respectively.*

# Reclassified Consolidated Financial Statements

# Reclassified Consolidated Statement of Income (1)

| | First nine months 2006 (€/mil) | First nine months 2005 (€/mil) | Change first nine months 2006 / First nine months 2005 (%) | 2005 (€/mil) |
|---|---|---|---|---|
| A. Net interest income | 3,058 | 2,818 | +8.5 | 3,798 |
| B. Net commissions | 2,534 | 2,423 | +4.6 | 3,284 |
| C. Income from credit disposals, financial assets held to maturity and repurchase of non-hedged financial liabilities | 48 | 56 | -14.3 | 58 |
| D. Dividends and income from other financial assets and liabilities | 460 | 424 | +8.5 | 526 |
| E. Profits (losses) on equity shareholdings | 76 | 89 | -14.6 | 104 |
| F. Income from insurance business | 296 | 302 | -2.0 | 431 |
| **TOTAL OPERATING INCOME** | **6,472** | **6,112** | **+5.9** | **8,201** |
| G. Net adjustments to loans | -359 | -357 | +0.6 | -492 |
| H. Net adjustments to other financial assets | -1 | -4 | -75.0 | -1 |
| **NET OPERATING INCOME** | **6,112** | **5,751** | **+6.3** | **7,708** |
| I. Personnel costs | -2,122 | -2,015 | +5.3 | -2,769 |
| L. Other administrative costs | -1,075 | -1,030 | +4.4 | -1,452 |
| M. Net adjustments to tangible and intangible assets | -274 | -306 | -10.5 | -435 |
| **- Operating costs (I+L+M)** | **-3,471** | **-3,351** | **+3.6** | **-4,656** |
| N. Other net income (expenses) | 34 | 49 | -30.6 | 74 |
| O. Impairment of goodwill | - | -1 | n.s. | -47 |
| P. Profits (losses) from disposals of investments | 1 | 13 | -92.3 | 16 |
| Q. Net provisions for risks and charges | -99 | -133 | -25.6 | -141 |
| **PRE-TAX OPERATING PROFIT** | **2,577** | **2,328** | **+10.7** | **2,954** |
| R. Taxes for the period | -940 | -787 | +19.4 | -919 |
| S. Profits (losses) on discontinued operations | 49 | 16 | n.s. | 5 |
| T. Profit attributable to minority interests | -48 | -48 | - | -57 |
| **NET PROFIT** | **1,638** | **1,509** | **+8.5** | **1,983** |
| Net profit per share (€) | 0.88 | 0.81 | +8.6 | 1.06 |
| Diluted net profit per share (€) | 0.88 | 0.81 | +8.6 | 1.06 |

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

# Quarterly trend in the Reclassified Consolidated Statement of Income (1)

| | 2006 | | | 2005 | | | | |
|---|---|---|---|---|---|---|---|---|
| | Third quarter (€/mil) | Second quarter (€/mil) | First quarter (€/mil) | Fourth quarter (€/mil) | Third quarter (€/mil) | Second quarter (€/mil) | First quarter (€/mil) | Average Quarters (€/mil) |
| A. Net interest income | 1,039 | 1,026 | 993 | 980 | 954 | 943 | 921 | 949 |
| B. Net commissions | 825 | 856 | 853 | 861 | 860 | 816 | 747 | 821 |
| C. Income from credit disposals, financial assets held to maturity and repurchase of non-hedged financial liabilities | 9 | 29 | 10 | 2 | 13 | 38 | 5 | 15 |
| D. Dividends and income from other financial assets and liabilities | 135 | 181 | 144 | 102 | 207 | 166 | 51 | 132 |
| E. Profits (losses) on equity shareholdings | 17 | 44 | 15 | 15 | 11 | 66 | 12 | 26 |
| F. Income from insurance business | 93 | 103 | 100 | 129 | 120 | 118 | 64 | 108 |
| **TOTAL OPERATING INCOME** | **2,118** | **2,239** | **2,115** | **2,089** | **2,165** | **2,147** | **1,800** | **2,051** |
| G. Net adjustments to loans | -126 | -137 | -96 | -135 | -128 | -142 | -87 | -123 |
| H. Net adjustments to other financial assets | -1 | - | - | 3 | -1 | -2 | -1 | - |
| **NET OPERATING INCOME** | **1,991** | **2,102** | **2,019** | **1,957** | **2,036** | **2,003** | **1,712** | **1,928** |
| I. Personnel costs | -724 | -705 | -693 | -754 | -682 | -653 | -680 | -692 |
| L. Other administrative costs | -342 | -371 | -362 | -422 | -336 | -353 | -341 | -363 |
| M. Net adjustments to tangible and intangible assets | -92 | -98 | -84 | -129 | -105 | -103 | -98 | -109 |
| - Operating costs (I+L+M) | -1,158 | -1,174 | -1,139 | -1,305 | -1,123 | -1,109 | -1,119 | -1,164 |
| N. Other net income (expenses) | 8 | 15 | 11 | 25 | 7 | 32 | 10 | 19 |
| O. Impairment of goodwill | - | - | - | -46 | -1 | - | - | -12 |
| P. Profits (losses) from disposals of investments | 1 | - | - | 3 | - | 13 | - | 4 |
| Q. Net provisions for risks and charges | -34 | -27 | -38 | -8 | -23 | -75 | -35 | -35 |
| **PRE-TAX OPERATING PROFIT** | **808** | **916** | **853** | **626** | **896** | **864** | **568** | **740** |
| R. Taxes for the period | -301 | -318 | -321 | -132 | -280 | -280 | -227 | -230 |
| S. Profits (losses) on discontinued operations | 5 | 38 | 6 | -11 | 20 | -10 | 6 | 1 |
| T. Profit attributable to minority interests | -14 | -15 | -19 | -9 | -21 | -13 | -14 | -14 |
| **NET PROFIT** | **498** | **621** | **519** | **474** | **615** | **561** | **333** | **497** |

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

# Reclassified Consolidated Balance Sheet

| | 30/9/2006 (€/mil) | 30/9/2005 (€/mil) | Change 30/9/2006-30/9/2005 (%) | 31/12/2005 (€/mil) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| A. Cash and cash equivalents | 951 | 870 | +9.3 | 1,107 |
| B. Financial assets (other than credit and assets held to maturity) | 77,251 | 90,678 | -14.8 | 77,402 |
| C. Financial assets held to maturity | 2,356 | 2,175 | +8.3 | 2,535 |
| D. Loans to banks | 30,785 | 29,937 | +2.8 | 28,836 |
| E. Loans to customers | 150,184 | 138,289 | +8.6 | 139,507 |
| F. Hedging derivatives | 434 | 653 | -33.5 | 435 |
| G. Fair value changes of generically hedged financial assets (+/-) | - | - | - | - |
| H. Equity shareholdings | 1,015 | 813 | +24.8 | 819 |
| I. Insurance reserves attributable to reinsurers | 40 | 25 | +60.0 | 29 |
| L. Tangible assets | 2,723 | 2,221 | +22.6 | 2,177 |
| M. Goodwill | 794 | 761 | +4.3 | 756 |
| N. Other intangible assets | 231 | 256 | -9.8 | 252 |
| O. Tax assets | 2,330 | 3,188 | -26.9 | 2,728 |
| P. Non-current assets and discontinued operations | 332 | - | n.s. | 220 |
| Q. Other assets | 5,097 | 6,478 | -21.3 | 6,455 |
| **Total assets** | **274,523** | **276,344** | **-0.7** | **263,258** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| A. Due to banks | 39,656 | 44,193 | -10.3 | 35,682 |
| B. Due to customers | 98,385 | 95,499 | +3.0 | 92,306 |
| C. Securities issued | 50,966 | 47,005 | +8.4 | 46,985 |
| D. Financial liabilities held for trading | 9,818 | 13,561 | -27.6 | 11,342 |
| E. Financial liabilities designated as at fair value | 25,871 | 25,373 | +2.0 | 25,939 |
| F. Hedging derivatives | 527 | 1,103 | -52.2 | 730 |
| G. Fair value changes of generically hedged financial liabilities (+/-) | -82 | 11 | n.s. | -35 |
| H. Tax liabilities | 1,149 | 1,412 | -18.6 | 860 |
| I. Liabilities on discontinued operations | 265 | - | n.s. | 164 |
| L. Other liabilities | 7,999 | 10,162 | -21.3 | 10,573 |
| M. Provisions for risks and charges | 2,620 | 2,620 | - | 2,883 |
| N. Technical reserves | 22,603 | 22,135 | +2.1 | 22,113 |
| O. Minority interests | 207 | 218 | -5.0 | 233 |
| P. Group net shareholders' equity | 14,539 | 13,052 | +11.4 | 13,483 |
| **Total liabilities and net shareholders' equity** | **274,523** | **276,344** | **-0.7** | **263,258** |

# Quarterly trend in the Reclassified Consolidated Balance Sheet

| | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | 30/9 (€/mil) | 30/6 (€/mil) | 31/3 (€/mil) | 31/12 (€/mil) | 30/9 (€/mil) | 30/6 (€/mil) |
| **ASSETS** | | | | | | |
| A. Cash and cash equivalents | 951 | 962 | 967 | 1,107 | 870 | 1,016 |
| B. Financial assets (other than credit and assets held to maturity) | 77,251 | 73,033 | 75,068 | 77,402 | 90,678 | 91,190 |
| C. Financial assets held to maturity | 2,356 | 2,433 | 2,429 | 2,535 | 2,175 | 1,660 |
| D. Loans to banks | 30,785 | 31,094 | 34,724 | 28,836 | 29,937 | 26,165 |
| E. Loans to customers | 150,184 | 147,330 | 144,170 | 139,507 | 138,289 | 132,443 |
| F. Hedging derivatives | 434 | 522 | 324 | 435 | 653 | 855 |
| G. Fair value changes of generically hedged financial assets (+/-) | - | - | - | - | - | - |
| H. Equity shareholdings | 1,015 | 985 | 847 | 819 | 813 | 796 |
| I. Insurance reserves attributable to reinsurers | 40 | 35 | 29 | 29 | 25 | 23 |
| L. Tangible assets | 2,723 | 2,697 | 2,153 | 2,177 | 2,221 | 2,248 |
| M. Goodwill | 794 | 794 | 756 | 756 | 761 | 762 |
| N. Other intangible assets | 231 | 232 | 239 | 252 | 256 | 259 |
| O. Tax assets | 2,330 | 2,447 | 2,529 | 2,728 | 3,188 | 3,299 |
| P. Non-current assets and discontinued operations | 332 | 798 | 220 | 220 | - | - |
| Q. Other assets | 5,097 | 6,881 | 6,151 | 6,455 | 6,478 | 6,910 |
| **Total assets** | **274,523** | **270,243** | **270,606** | **263,258** | **276,344** | **267,626** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | |
| A. Due to banks | 39,656 | 36,376 | 39,385 | 35,682 | 44,193 | 39,963 |
| B. Due to customers | 98,385 | 98,009 | 94,516 | 92,306 | 95,499 | 89,907 |
| C. Securities issued | 50,966 | 48,509 | 48,290 | 46,985 | 47,005 | 48,072 |
| D. Financial liabilities held for trading | 9,818 | 9,608 | 11,535 | 11,342 | 13,561 | 14,214 |
| E. Financial liabilities designated as at fair value | 25,871 | 25,386 | 25,955 | 25,939 | 25,373 | 25,096 |
| F. Hedging derivatives | 527 | 354 | 541 | 730 | 1,103 | 874 |
| G. Fair value changes of generically hedged financial liabilities (+/-) | -82 | -98 | -79 | -35 | 11 | 34 |
| H. Tax liabilities | 1,149 | 950 | 1,028 | 860 | 1,412 | 1,261 |
| I. Liabilities on discontinued operations | 265 | 585 | 164 | 164 | - | - |
| L. Other liabilities | 7,999 | 11,835 | 10,121 | 10,573 | 10,162 | 11,378 |
| M. Provisions for risks and charges | 2,620 | 2,575 | 2,801 | 2,883 | 2,620 | 2,627 |
| N. Technical reserves | 22,603 | 22,000 | 21,893 | 22,113 | 22,135 | 21,709 |
| O. Minority interests | 207 | 205 | 245 | 233 | 218 | 196 |
| P. Group net shareholders' equity | 14,539 | 13,949 | 14,211 | 13,483 | 13,052 | 12,295 |
| **Total liabilities and net shareholders' equity** | **274,523** | **270,243** | **270,606** | **263,258** | **276,344** | **267,626** |

# Report on Group Operations

# Action Points and Initiatives in the Quarter

On 12 October 2006, the Board of Directors of SANPAOLO IMI approved the plan of the merger between SANPAOLO IMI and Banca Intesa. The start-up of the new bank will take effect as from 1 January 2007, following the approval of the respective Extraordinary Shareholders' Meetings and after the necessary authorization. The Bank of Italy approved the operation on 25 October 2006.

The Group resulting from the merger will be among the leading banking groups in the euro-area, with a market capitalization of approximately 70 billion euro. It will be a leader in Italy with an average market share of 20% in all sectors of activity and a network of over 5,500 branches across the country.

Moreover, the new Group will have an important role in Central-Eastern Europe through the approximately 1,400 branches and six million customers (including on-going purchases) of the controlled banks. The international network specialized in supporting corporate customers will also be strengthened and will supervise, in particular, the Mediterranean countries, the United States, Russia, China and India where Italian companies are most active.

The future organizational model will be based on a Parent Bank that carries out operational activities, directly or through subsidiaries, with clear management responsibilities over the new integrated Group and over the five business units/divisions, built upon a concept of specialization in relations with various customer segments.

- Territorial Bank, responsible for retail and private customers and SME (small and medium-sized enterprises);
- Corporate and Investment Banking, responsible for the corporate and financial institutions customer segment;
- Public Entities and Infrastructures, responsible for customers within government, public entities, local authorities, public utilities, healthcare structures and general contractors;
- Foreign Banks, assigned to oversee and coordinated the activities of the new Group on foreign markets in which it is present through subsidiary commercial banks, as well as to define the strategies with respect to the direct presence on foreign markets in order to identify new growth opportunities;
- Eurizon Financial Group, operating in the following markets: asset management, life insurance, and protection of individuals and capital, as well as asset gathering and financial consulting.

This organizational model confirms and enhances the "national territorial bank" model, integrating the networks of SANPAOLO IMI and Banca Intesa creating a single brand and competencies which do not overlap with that of local banks.

In relation to corporate governance, the merger plan introduces the adoption of a dualistic administration and control system, comprising:

- a Supervisory Board, elected by the Shareholders' Meeting, through the list vote mechanism. The powers assigned pursuant to the articles of association, in addition to matters set forth by law, include approval of the industrial and financial plans, the company and Group budgets prepared by the Management Board, as well as approval of strategic operations and particularly significant economic-financial transactions;
- a Management Board, appointed by the Supervisory Board, which is assigned the management of the company in compliance with the strategic guidelines approved by the Supervisory Board. To this end, it carries out all operations of ordinary and extraordinary management which are required for achieving the company goal.

***

As far as the SANPAOLO IMI Group is concerned, there follows a description of the initiatives and actions taken in the third quarter of 2006.

With reference to banking, the "national territorial bank" model was strengthened through the opening of operating points and geographical reorganization aimed at reinforcing supervision of local structures. Furthermore, new, flexible credit and deposit products have been developed, capable of meeting the specific needs of various customer segments.

Initiatives also continued on foreign markets, aimed at favoring the internationalization of Italian companies, specifically through the purchase of equity shareholdings in areas with high potential for development.

New projects have been defined aimed at implementing the synergies between Banca IMI and the network banks, increasing the integration of investment banking activities within the Group.

As regards the Savings and Assurance sector, the stock market listing process for Eurizon Financial Group has been postponed until 2007, maintaining the current scope and, where possible and opportune, the plan already defined. Actions continued regarding the definition of an organizational structure in line with its role as a listed holding.

## Banking

During the third quarter of 2006, the activities set forth in the branch plan 2006-2008 continued, focused on the opening of new operating points as well as the territorial reorganization project. In particular, nine branches were opened during the quarter, which join the 18 branches opened during the first half of 2006.

### Retail & Private

During the period in question, within the Retail and Private business line, new products were offered aimed at meeting needs for financing, both for investment and consumer spending.

In July, a new medium/long-term credit product was offered, called "financing for investment", targeted at the various types of small businesses. This product is characterized by modularity and reliability in meeting specific company needs. This product joins the other financing products of equal duration which were developed during the first half of the current year, and which are aimed at improving the financial structure of companies with suitable prospectives for development and profitability, or provided through partnerships with credit consortia.

In the mortgages compartment, in response to the new economic context of increased interest rates, customers were offered a new type of financing which is highly flexible in terms of duration, interest rate structure and options for the protection of the borrower. To the same end, borrowers holding indexed financing were offered the possibility to change that financing into fixed-rate or balanced-rate mortgages.

In September, a promotional campaign was launched aimed at developing consumer credit. This campaign, following the successful one carried out last spring, is based on the offer of a streamlined, flexible fiduciary loan product aimed at facilitating the purchase of goods and services for private use as well as a revolving credit card. This product is matched with an insurance policy to protect the household using the financing.

On the deposit side, several initiatives were undertaken to strengthen or improve the range of insurance products offers, favoring the compartment focused on meeting customers' social security needs.

The range of mutual funds was broadened in the multimanager compartment, through the extension of the offer also to households due to a contained access threshold.

In October, two new accounts were introduced: Sanpaolo Zerotondo, an account without management costs for transactions carried out through direct channels, and Sanpaolo Contutto, which rewards customers with high levels of transactions, reducing the annual fee and granting additional advantages depending on the services used and financial assets held.

## Corporate

During the quarter, the most significant initiative within the Corporate business line was SANPAOLO IMI's involvement in the operation of the “Fondo Rotativo per il sostegno alle imprese e agli investimenti in ricerca” (Turnover Fund to support businesses and investment in research). This Fund, created to support the competitiveness and growth of the Italian industrial system, was founded at the Cassa Depositi e Prestiti (Bank for Loans and Deposits), and is partially reserved for the Ministry of Economic Development to promote research and development projects. On one hand, SANPAOLO IMI provides assistance to businesses applying for subsidized financing by granting complementary bank loans to those provided by the Fund, and, on the other hand, manages financing in relation to the Ministry. The objective is to increase business opportunities in the corporate customer segment, as well as to develop services and consulting provided to public entities.

## Wholesale

The Group continued to support the international development of Italian businesses in direct investment and commercial trade.

Following the purchase of 80% of Banca Italo Albanese (BIA) from the Capitalia group and the Albanian ministry of finance, on 5 July 2006, SANPAOLO IMI signed a contract to cede 3.9% of BIA capital to Simest, the Italian company for businesses abroad, to further ease Italian investments and promote relations between the two countries. Furthermore, in October, SANPAOLO IMI came to a preliminary agreement with the Albanian American Enterprise Fund, the sole shareholder of the American Bank of Albania, to purchase an 80% share of the bank, with put/call options on the remaining 20%.

On 28 July 2006, SANPAOLO IMI subscribed to an agreement to acquire an 87.4% share of Panonska Banka from the Serbian finance ministry at the price of 122 million euro. At the end of 2005, the bank had overall assets for 154 million euro and a net shareholders' equity of 29 million euro. Following the closing of the operation, subordinate to the required authorization from the relevant regulatory body, SANPAOLO IMI may purchase the remaining shares at the same price paid to the ministry of finance for the majority stake, through a voluntary Public Offer.

In addition, on 17 October 2006, SANPAOLO IMI was chosen by the Egyptian government for the privatization of 80% of the Bank of Alexandria, the third largest bank in the country in terms of distribution structure and total assets. The operation, subordinate to the required authorization of the competent regulatory body, will be finalized within the year, for a value of 1.6 billion dollars. As at 30 June 2006, the bank had overall assets for 4.7 billion euro and net shareholders' equity of approximately 400 million euro.

On 13 September, the Central Bank of Slovakia authorized the full exercise of SANPAOLO IMI's voting rights in Banka Koper, which were previously formally subject to a limit under 50%.

As regards investment banking, initiatives were started during the quarter aimed at broadening the customer base and extending the range of financial products for businesses from large customers to small- and medium- sized customers. More specifically, projects have been initiated which involve closer interaction between Banca IMI and the commercial bank branches, in order to guarantee an integrated approach which combines the distinctive customer relations competencies of the network with the specialist capacity of Banca IMI. Organizational initiatives benefited from technological development which, due to increased automation of standardized processes, allowed for the reduction in transaction costs, offering financial products for businesses also suitable for small- and medium-sized enterprises.

During the quarter Banca OPI, the company in charge of the Public Authorities and Entities segment, continued its commercial policy of strict selection of operations in terms of pricing, quality of assets and concentration of the loans portfolio. Alongside the domestic activities, which were carried out in a context of continuing restrictive public finance policies, the company pursued its operational and commercial development on international markets, confirming the strategic value of this action.

### Other Banking Initiatives

On 30 September 2006, the merger by incorporation of Sanpaolo IMI Private Equity into IMI Investimenti took effect. This merger creates a single pole for the management of the Group's equity investment business, which becomes a single, qualified center dedicated to identifying, managing and monitoring investments in the capital of industrial businesses and service companies.

### Savings and Assurance

In the third quarter of 2006, the activities focused on the stock market listing of Eurizon Financial Group (Eurizon) continued. The formal start-up of these activities was resolved by the Board of Directors of SANPAOLO IMI on 25 July 2006. Nonetheless, due to the changes deriving from the project of integration of SANPAOLO IMI and Banca Intesa, it was more convenient to delay the deadline originally set for the listing, which will be performed by the end of 2007, maintaining the current scope and, where possible and opportune, the plan already defined, except for further valuations of the scope of business due to the reorganization resulting from the merger.

Following the concentration of Sanpaolo IMI Asset Management (Eurizon Capital as from 1 November 2006) into Eurizon at the end of June 2006, on 4 July the rationalization of the shareholding structure of Banca Fideuram (directly controlled by Eurizon with a share of 73.4% of the capital) was approved through the launch of a voluntary and total Public Offer by Eurizon for shares in Banca Fideuram held by third parties, at a price of five euro per share. The Public Offer was successfully concluded on 25 October 2006, resulting in Eurizon owning directly and indirectly 92.5% of the share capital of the subsidiary. It will be followed by a mandatory take-over bid for the remainder of the shares and, subsequently, by the delisting of Banca Fideuram.

On 31 July 2006, the merger by incorporation of Fideuram Assicurazioni, a company operating in the casualty branch and totally controlled by EurizonVita, into Egida, the Group company operating in the same insurance sector, which changed its name to EurizonTutela, was stipulated with legal effect from 1 September. The merger of the two companies is aimed at:

- obtaining cost synergies through a rationalization of the structures;
- allowing economies of scope through the sharing of competencies and know-how of the two companies;
- rationalizing and simplifying the product portfolio, as well as the management of sales channels, the development of products and risk assumption.

### Central Functions

Activity continued regarding the realization of the new management center of the Group: following the choice at the end of June of the project put forward by Renzo Piano for the construction of the center, during the quarter activities were undertaken for the creation of the new building and the related activities.

On 28 September 2006, a definitive contract was stipulated, with legal effect from 30 September, to cede 70% of the capital of GEST Line, a company active in tax collection on behalf of the state and local authorities, in which the Group held overall control. The move was taken under law 248/2005 which regulates the reorganization of the national tax collection service and provided for the acquisition by 30 September 2006 on the part of the newly-constituted Riscossione S.p.A. public company of control of all national tax collection concessionary companies. Similar agreements were subscribed to for the disposal of all minority shares held by the Group in another two companies engaged in tax collection. The sales will be settled with shares of Riscossione S.p.A. for a value corresponding to pro-quota adjusted shareholders' equity of the company as at 30 September 2006. These shares will be repurchased by the public partners of Riscossione S.p.A. by 31 December 2010.

Finally, it should be noted that on 5 July 2006 Standard & Poor's raised SANPAOLO IMI's rating from A+/A-1 to AA-/A-1+ with an outlook of stable. The promotion reflects the improvement in profitability over the last three years with a parallel maintenance of a low risk profile and a good level of shareholders' equity. A similar rise in rating was awarded to the main companies controlled by the Group evaluated by the ratings agency.

# Consolidated Results

### International Scenario

In the third quarter of 2006, the rate at which the world's main developed economies were growing decreased moderately compared to the pace recorded in the first half of the year. The cyclical downturn in the United States, mainly due to the cooling off of the real estate market, is expected to lead the Federal Reserve (Fed) to relax its currently tight monetary policy over the next few months. At the end of two years in which rates gradually climbed, Fed Funds rates have been standing still at 5.25% since June 2006. The economic cycle in the euro-area, although down from the peak reached in the first half of the year, is still on the upswing, and entails the risk of inflation in the medium term. The European Central Bank's (ECB) policy rates continued their gradual rise, reaching 3% in August and 3.25% at the beginning of October, with further hikes on the horizon. The reduction in growth forecast for the last quarter of the year seems to have been of limited relevance for Italy, which registered a trend towards increasing exports to Germany in the third quarter as well. Stock markets posted strong rises due to the stabilization of the prices of raw materials, accompanied by a dip in petroleum prices, and continuation of the trend towards growth of company earnings.

### Summary of Results

In this general market context, the SANPAOLO IMI Group's income margins posted a growth trend compared to the first nine months of 2005, although at a slower pace than recorded in March and June. It should be noted that the slowdown of the annual trend is partly due to the extraordinary results achieved in the third quarter of 2005 in connection with the disposal of Italenergia Bis.

Total operating income increased by 5.9% over the first nine months of 2005, buoyed mainly by increased net interest income and commission revenues. Net operating income increased by 6.3% with net adjustments largely unchanged in the two periods under comparison. An increase in revenues allowed operating profit to absorb increased operating costs (+3.6%) and record a rise of 10.7%.

Net profit totaled 1,638 million euro, up 8.5% over the first nine months of 2005. Annualized RoE (calculated as the ratio of the net profit to shareholders' equity at the end of the period, not including profit) stood at 16.9%, compared with 17.4% for the corresponding period of 2005. This drop may be ascribed to the increase in valuation reserves.

Ignoring the effects of non-recurring events that took place in 2005, most importantly the disposal of Italenergia Bis and the conversion of the FIAT loan, income margins showed greater annual growth, reaching around 10% for revenues and 20% for net profit.

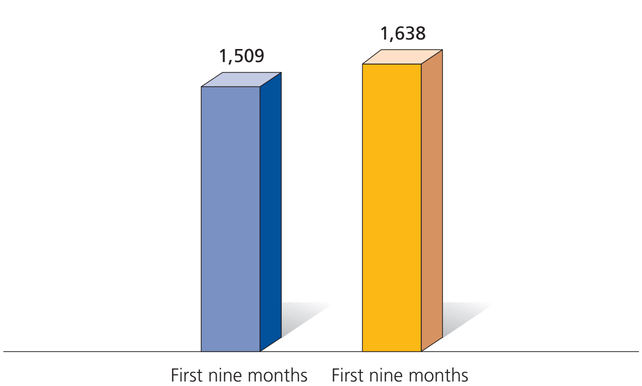
### Net Interest Income

In the first nine months of 2006, net interest income increased 8.5% over the figure for the same period of 2005 to reach 3,058 million euro, signaling an acceleration of the growth rate over that recorded for the first half of 2006.

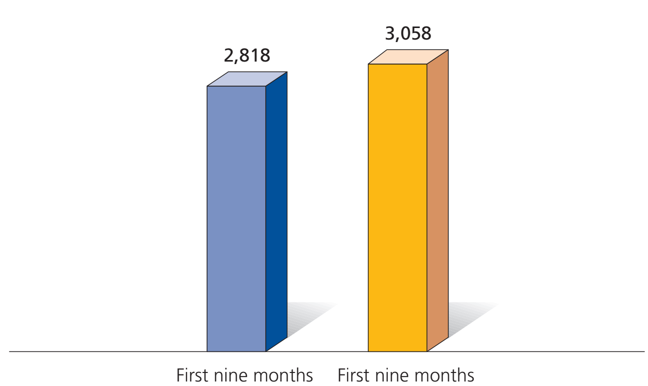
In order to identify the factors determining net interest income for the core banking business, an analysis of average amounts and interest rates was carried out, excluding investment banking activities. Net of the latter component, the annual change in net interest income stands at 8.7%. The positive trend in net interest income derives from the increase in trading volumes with ordinary customers, which more than made up for the erosion of spreads.

The total average spread was 2.06%, 10 basis points less than the figure for the first nine months of 2005. The spread on total customer transactions decreased by 13 basis points; in particular, the short-term spread decreased due to the gradual erosion of the mark-up on loans, only partially offset by the increased mark-down on sight deposits, which benefited from the ECB's raising rates at the end of 2005. The shift in the balance of assets toward interbank loans also had a negative impact on spreads.

**Net profit** (€/mil)




**Net interest income** (€/mil)



In terms of average amounts, the Group's interest-earning assets increased by 11.5% compared to the first nine months of 2005. The main contributors to this development were financing to customers, which represents about three-quarters of interest-earning assets, and other interest-earning assets, which consist mainly of loans to banks and repurchase agreements. Average amounts of interest-bearing liabilities grew 10.2%, caused by the increase in both customer deposits, which was driven by the deposit component, and other interest-bearing liabilities, made up mainly of loans to banks and reverse repurchase agreements.

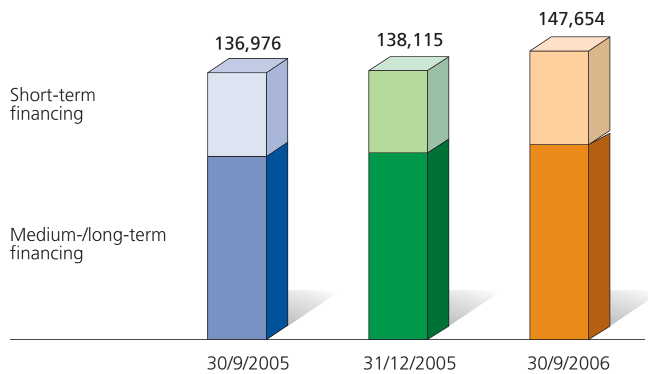
Monetary market rates showed a recovery: the average three-month Euribor for the first nine months of 2006 was up 77 basis points from the first nine months of 2005, reaching 2.90%.

Expectations of further increases in interest rates have stimulated demand for credit from both families and companies: as at 30 September 2006, loans to customers, including debt securities and NPLs, totaled 150.2 billion euro, up 8.6% over the 12-month period and 7.7% for the first nine months of the year. Financing to customers (excluding NPF) reached 147.7 billion euro, a 7.8% increase over a 12-month period and 6.9% since end-December 2005. There was a positive trend in both medium-/long-term and short-term financing, although short-term financing grew more rapidly than medium-/long-term financing, which was impacted by the less dynamic performance of the public works and infrastructure sector in which Banca OPI operates.

Regarding financing for retail customers, disbursements amounted to 7.5 billion euro. Specifically, mortgages showed sustained growth: the flow for the first nine months of 2006 amounted to 3.8 billion euro, an increase of 12% compared to the same period of the previous year.

In the company compartment, in the first nine months of 2006 financing was issued for around six billion euro, an increase of more than 30% on the flow in the same period of 2005, due chiefly to growth in business credit.

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




*Analysis of average amounts and interest rates*

| | First nine months 2006 | | First nine months 2005 | | Change first nine months 2006 / First nine months 2005 | |
|---|---|---|---|---|---|---|
| | Average amounts (€/mil) | Annualized average rates (%) | Average amounts (€/mil) | Annualized average rates (%) | Change in average amounts (%) | Difference in rates (% points) |
| Interest-earning assets | 214,744 | n.s. | 197,816 | n.s. | +8.6 | n.s. |
| - interest-earning assets excluding investment banking | 185,444 | 4.51 | 166,308 | 4.19 | +11.5 | +0.32 |
| *- financing to customers (excluding repurchase agreements)* | *137,035* | *4.96* | *124,168* | *4.72* | *+10.4* | *+0.24* |
| *- securities* | *14,544* | *3.36* | *17,406* | *2.95* | *-16.4* | *+0.41* |
| *- other interest-earning assets* | *33,865* | *3.16* | *24,734* | *2.38* | *+36.9* | *+0.78* |
| - interest-earning assets from investment banking | 29,300 | n.s. | 31,508 | n.s. | -7.0 | n.s. |
| Non interest-bearing assets | 55,207 | | 68,208 | | -19.1 | |
| **Total assets** | **269,951** | | **266,024** | | **+1.5** | |
| Interest-bearing liabilities | 204,552 | n.s. | 191,056 | n.s. | +7.1 | n.s. |
| - interest-bearing liabilities excluding investment banking | 176,302 | 2.45 | 159,990 | 2.03 | +10.2 | +0.42 |
| *- direct customer deposits (excluding repurchase agreements)* | *130,622* | *2.25* | *123,662* | *1.88* | *+5.6* | *+0.37* |
| *- due to customers* | *81,370* | *1.43* | *75,433* | *1.01* | *+7.9* | *+0.42* |
| *- securities issued* | *49,252* | *3.59* | *48,229* | *3.24* | *+2.1* | *+0.35* |
| *- other interest-bearing liabilities* | *45,680* | *3.04* | *36,328* | *2.55* | *+25.7* | *+0.49* |
| - interest-bearing liabilities from investment banking | 28,250 | n.s. | 31,066 | n.s. | -9.1 | n.s. |
| Non-interest-bearing liabilities | 51,388 | | 62,424 | | -17.7 | |
| Net shareholders' equity | 14,011 | | 12,544 | | +11.7 | |
| **Total liabilities and net shareholders' equity** | **269,951** | | **266,024** | | **+1.5** | |

As far as the trend in loans to the public works and infrastructure sector issued by Banca OPI is concerned, the stock at the end of September amounted to 20.1 billion euro, a decrease of 3% from the beginning of the year. The weak dynamism in the reference market was influenced by the continuation of tight public financial policy during the period in question.

The division of loans by Group Business Sector posted a sharp increase in both loans to households, which took the form of increased mortgages and consumer credit, and loans to corporate customers, due to the increased production that influenced the demand for circulating capital. Loans in the Wholesale business line, on the other hand, decreased due to two opposing trends: the drop in the public sector and investment banking and the sharp growth in the foreign compartment. Loans on Central Functions also improved due to repurchase agreements linked to treasury transactions and in the form of debt securities.

Direct customer deposits showed a positive trend, reaching 175.2 billion euro at the end of September 2006, a rise of 4.4% over the 12-month period and 6% for the first nine months of the year. The increase for the first nine months of the year is mainly due to repurchase agreements by the Parent Bank, which were made more cost-effective by the increase in rates, subordinated liabilities, issued to strengthen equity ratios, and certificates of deposit; bond figures and commercial paper were also on the rise, although at slower rates, while current accounts and deposits were more or less stable.

*Loans to customers (1)*

| | 30/9/2006 | | 30/9/2005 | | Change 30/9/06-30/9/05 (%) | 31/12/2005 | | Change 30/9/06-31/12/05 (%) |
|---|---|---|---|---|---|---|---|---|
| | (€/mil) | (%) | (€/mil) | (%) | | (€/mil) | (%) | |
| Short-term financing | 47,932 | 31.9 | 42,964 | 31.1 | +11.6 | 42,228 | 30.3 | +13.5 |
| Medium-/long-term financing | 99,722 | 66.4 | 94,012 | 68.0 | +6.1 | 95,887 | 68.7 | +4.0 |
| **Financing to customers excluding NPF** | **147,654** | **98.3** | **136,976** | **99.1** | **+7.8** | **138,115** | **99.0** | **+6.9** |
| Non-performing financing | 1,044 | 0.7 | 1,120 | 0.8 | -6.8 | 1,080 | 0.8 | -3.3 |
| **Financing to customers** | **148,698** | **99.0** | **138,096** | **99.9** | **+7.7** | **139,195** | **99.8** | **+6.8** |
| Debt securities held in the portfolio | 1,486 | 1.0 | 193 | 0.1 | n.s. | 312 | 0.2 | n.s. |
| Defaulted debt securities | - | 0.0 | - | 0.0 | - | - | 0.0 | - |
| **Debt securities** | **1,486** | **1.0** | **193** | **0.1** | **n.s.** | **312** | **0.2** | **n.s.** |
| **Loans to customers** | **150,184** | **100.0** | **138,289** | **100.0** | **+8.6** | **139,507** | **100.0** | **+7.7** |

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

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

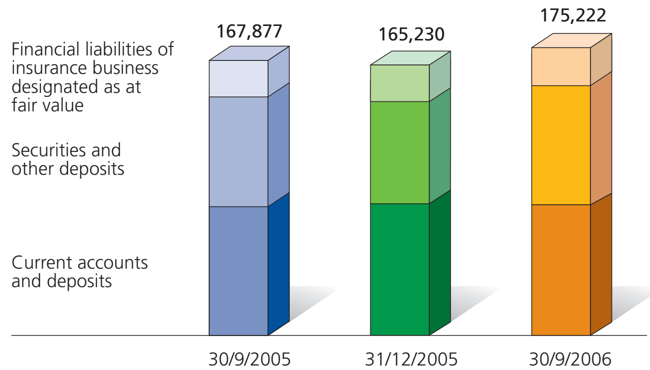
| | 30/9/2006 (€/mil) | 30/9/2005 pro forma (€/mil) | Change 30/9/06-30/9/05 pro forma (%) | 31/12/2005 pro forma (€/mil) | Change 30/9/06-31/12/05 pro forma (%) |
|---|---|---|---|---|---|
| Banking | 141,172 | 132,269 | +6.7 | 133,375 | +5.8 |
| - Retail & Private | 48,921 | 42,664 | +14.7 | 44,028 | +11.1 |
| *- Retail & Private-Commercial banks* | *43,700* | *38,276* | *+14.2* | *39,325* | *+11.1* |
| *- Other companies* | *5,221* | *4,388* | *+19.0* | *4,703* | *+11.0* |
| - Corporate | 51,049 | 46,354 | +10.1 | 47,801 | +6.8 |
| *- Companies-Commercial banks* | *45,138* | *41,103* | *+9.8* | *42,192* | *+7.0* |
| *- Other companies* | *5,911* | *5,251* | *+12.6* | *5,609* | *+5.4* |
| - Wholesale | 39,213 | 40,945 | -4.2 | 39,176 | +0.1 |
| *- International* | *8,713* | *6,636* | *+31.3* | *7,455* | *+16.9* |
| *- Large Groups* | *6,510* | *7,318* | *-11.0* | *7,574* | *-14.0* |
| *- Public Authorities and Entities* | *20,132* | *20,816* | *-3.3* | *20,757* | *-3.0* |
| *- Investment banking* | *3,858* | *6,175* | *-37.5* | *3,390* | *+13.8* |
| - Other Activities | 1,989 | 2,306 | -13.7 | 2,370 | -16.1 |
| Savings and Assurance | 1,206 | 977 | +23.4 | 1,122 | +7.5 |
| Central Functions (1) | 6,762 | 3,923 | +72.4 | 3,930 | +72.1 |
| **Loans to customers excluding NPLs** | **149,140** | **137,169** | **+8.7** | **138,427** | **+7.7** |

*(1) Including loans of Group Finance.*

In the analysis of the Group by Business Sector, Banking deposits, which make up more than 60% of the total aggregate, increased by 3.4% over the 12-month period, buoyed by the results of the Retail & Private (+8%) and Corporate (+6.4%) business lines. A drop in Wholesale deposits was recorded due to the negative performance of investment banking and public authorities and entities, whereas the foreign compartment posted a positive performance. The increase in Central Functions can be attributed mainly to deposits through securities issued by the Treasury and the funding vehicle companies which it controls.

At the end of September 2006, the Group's domestic market share (calculated using harmonized figures established for euro-

**Direct customer deposits** (€/mil)




*Direct customer deposits (1)*

| | 30/9/2006 | | 30/9/2005 | | Change 30/9/06-30/9/05 (%) | 31/12/2005 | | Change 30/9/06-31/12/05 (%) |
|---|---|---|---|---|---|---|---|---|
| | (€/mil) | (%) | (€/mil) | (%) | | (€/mil) | (%) | |
| Current accounts and deposits | 79,853 | 45.6 | 78,641 | 46.8 | +1.5 | 80,424 | 48.7 | -0.7 |
| Certificates of deposit | 5,066 | 2.9 | 2,895 | 1.7 | +75.0 | 4,338 | 2.5 | +16.8 |
| Commercial paper | 6,647 | 3.8 | 3,712 | 2.2 | +79.1 | 6,297 | 3.8 | +5.6 |
| Bonds | 34,156 | 19.5 | 36,890 | 22.0 | -7.4 | 32,656 | 19.8 | +4.6 |
| *of which: designated as at fair value* | *3,602* | *2.1* | *3,183* | *1.9* | *+13.2* | *3,524* | *2.1* | *+2.2* |
| Subordinated liabilities | 7,991 | 4.6 | 6,161 | 3.7 | +29.7 | 6,221 | 3.8 | +28.5 |
| Repurchase agreements and securities lending | 16,560 | 9.5 | 15,028 | 9.0 | +10.2 | 10,545 | 6.4 | +57.0 |
| Financial liabilities of insurance business designated as at fair value | 22,265 | 12.7 | 22,190 | 13.2 | +0.3 | 22,413 | 13.6 | -0.7 |
| Other deposits | 2,684 | 1.5 | 2,360 | 1.4 | +13.7 | 2,336 | 1.4 | +14.9 |
| **Direct customer deposits** | **175,222** | **100.0** | **167,877** | **100.0** | **+4.4** | **165,230** | **100.0** | **+6.0** |

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

*Direct customer deposits by Business Sector*

| | 30/9/2006 (€/mil) | 30/9/2005 pro forma (€/mil) | Change 30/9/06-30/9/05 pro forma (%) | 31/12/2005 pro forma (€/mil) | Change 30/9/06-31/12/05 pro forma (%) |
|---|---|---|---|---|---|
| Banking | 108,157 | 104,649 | +3.4 | 103,431 | +4.6 |
| - Retail & Private | 62,517 | 57,865 | +8.0 | 60,122 | +4.0 |
| *- Retail & Private-Commercial banks* | *62,209* | *57,551* | *+8.1* | *59,800* | *+4.0* |
| *- Other companies* | *308* | *314* | *-1.9* | *322* | *-4.3* |
| - Corporate | 16,583 | 15,584 | +6.4 | 15,829 | +4.8 |
| *- Companies-Commercial banks* | *14,484* | *13,485* | *+7.4* | *13,631* | *+6.3* |
| *- Other companies* | *2,099* | *2,099* | - | *2,198* | *-4.5* |
| - Wholesale | 22,085 | 23,811 | -7.2 | 19,883 | +11.1 |
| *- International* | *5,610* | *5,119* | *+9.6* | *5,601* | *+0.2* |
| *- Large Groups* | *1,293* | *1,283* | *+0.8* | *1,071* | *+20.7* |
| *- Public Authorities and Entities* | *4,594* | *4,710* | *-2.5* | *4,747* | *-3.2* |
| *- Investment banking* | *10,588* | *12,699* | *-16.6* | *8,464* | *+25.1* |
| - Other Activities | 6,972 | 7,389 | -5.6 | 7,597 | -8.2 |
| Savings and Assurance | 28,836 | 27,283 | +5.7 | 28,184 | +2.3 |
| Central Functions (1) | 38,229 | 35,945 | +6.4 | 33,615 | +13.7 |
| **Direct customer deposits** | **175,222** | **167,877** | **+4.4** | **165,230** | **+6.0** |

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

area countries) was 10.1% in terms of loans, in line with the figure for the end of 2005, and 10.6% for direct deposits, up one-tenth of a percentage point over the figure for 31 December 2005.

## Net Commissions

Net commissions for the first nine months of 2006 totaled 2,534 million euro, up 4.6% from the corresponding period of 2005.

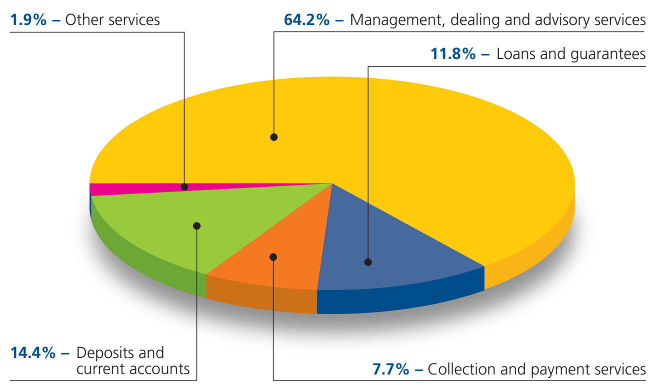
The performance of this aggregate was driven by trends in commissions from management, dealing and advisory services, which were up 6.8% from the same period in 2005. The sharpest growth was recorded for commissions on asset management, which make up more than half of total commissions, whereas commissions on dealing and safekeeping of securities and foreign currency transactions posted slower growth. The 9.9% rise of the Comit index since the beginning of the year, despite considerable fluctuation during the period of analysis, led to a revaluation of stocks. The performance effect was lessened by the upswing in monetary rates, which had a negative impact on the performance of fixed-rate bonds . Customers preferred instruments able to resist market volatility, such as flexible funds and portfolio management, able to give greater remuneration.

Loans and guarantees increased by 5.3%, due to the growth in transactions aimed at businesses and households, as well as related services. Commissions on collection and payment services underwent more moderate change, whereas the trend towards a decrease in deposits and current accounts that was already clear at the beginning of the year continued. The performance of the latter aggregate was influenced by the preference of commercial bank customers for accounts that include a series of standardized services and are characterized by limited outlay compared to traditional accounts.

Indirect deposits were up 7.2% over the 12-month period and 5.5% since the beginning of the year, mainly attributable to asset administration, which increased its impact on customer financial assets to 27.6% from the 25.6% at the end of September 2005. This change occurred largely to the detriment of asset management, which decreased 1.5 percentage points as a percentage of the overall aggregate figure.

Asset management reached 158.9 billion euro at the end of September 2006, up 2.1% for the 12-month period, more or less in line with the figure for the beginning of the year and recovering the loss recorded in the first half. Net flows for the period were slightly negative since flows in portfolio management and

**Break-down of commissions in the first nine months of 2006**



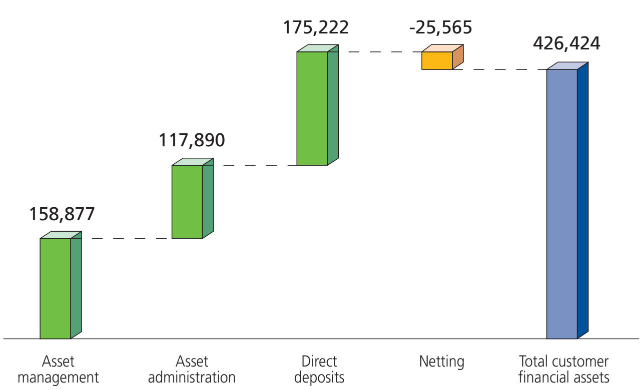

*Total operating income*

| | First nine months 2006 (€/mil) | First nine months 2005 (€/mil) | Change first nine months 2006 / First nine months 2005 (%) | 2005 (€/mil) |
|---|---|---|---|---|
| Net interest income | 3,058 | 2,818 | +8.5 | 3,798 |
| Net commissions | 2,534 | 2,423 | +4.6 | 3,284 |
| - management, dealing and advisory services | 1,626 | 1,522 | +6.8 | 2,062 |
| *- asset management* | *1,440* | *1,342* | *+7.3* | *1,800* |
| *- securities dealing and safekeeping, and foreign currency transactions* | *186* | *180* | *+3.3* | *262* |
| - loans and guarantees | 298 | 283 | +5.3 | 375 |
| - collection and payment services | 196 | 192 | +2.1 | 256 |
| - deposits and current accounts | 366 | 383 | -4.4 | 520 |
| - other services | 48 | 43 | +11.6 | 71 |
| Income from credit disposals, financial assets held to maturity and repurchase of non-hedged financial liabilities | 48 | 56 | -14.3 | 58 |
| Dividends and income from other financial assets and liabilities | 460 | 424 | +8.5 | 526 |
| Profits (losses) on equity shareholdings | 76 | 89 | -14.6 | 104 |
| Income from insurance business | 296 | 302 | -2.0 | 431 |
| **Total operating income** | **6,472** | **6,112** | **+5.9** | **8,201** |

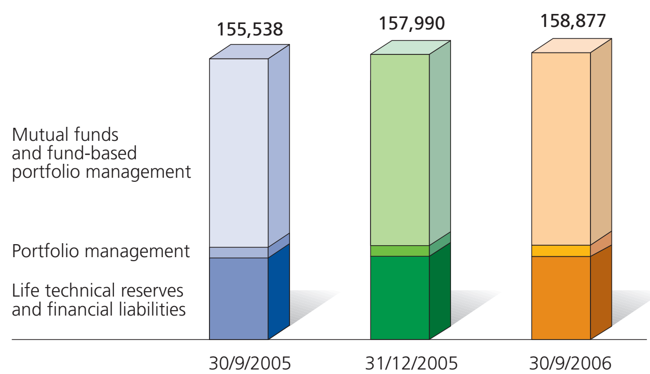
life insurance policies did not fully offset redemptions of mutual funds. More specifically:

- amounts of mutual funds and fund-based portfolio management totaled 106.5 billion euro, up 2.5% over the 12-month period and on the same levels as the end of 2005. In the period under analysis, there was an outflow of funds influenced by expectations of further rises in interest rates, which had a negative effect on net flows of bond funds in particular, and by the volatility of stock market indices, which also had an impact on the equity fund compartment. Net flows in fund-based portfolio management, on the other hand, were positive, totaling 0.5 billion euro. In addition, 1.3 billion euro in structured bonds issued by Banca IMI (0.5 billion) and third parties (0.8 billion) were placed in funds. At the end of September 2006, fund composition was more heavily weighted towards equity funds (including hedge funds and flexible funds) both on an annual basis and since the end of December 2005. This result benefited from the increased weight of flexible funds, which were up three percentage points over a 12-month period due to the placement of the new Absolute Return funds, which registered around 3.2 billion euro of net subscriptions for the period. Bond funds, on the other hand, were down to 41.4% from the 45.6% at the end of September 2005. The changes in the weight of balanced and liquidity funds were less significant. Net flows in the latter type of fund became positive again over the last few months, supported by the instability of financial markets. At the end of the first nine months of 2006, the Group continued to hold first place on the domestic market, with a market share of 18.1% calculated on the new field of reference enlarged by Assogestioni to include some foreign funds promoted in Italy by Sicav with foreign rights;

**Break-down of customer financial assets as at 30/9/2006** (€/mil)




**Asset management** (€/mil)



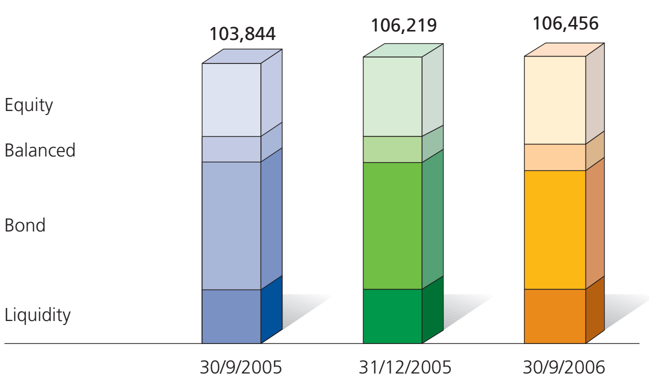

*Customer financial assets*

| | 30/9/2006 | | 30/9/2005 | | Change 30/9/06-30/9/05 (%) | 31/12/2005 | | Change 30/9/06-31/12/05 (%) |
|---|---|---|---|---|---|---|---|---|
| | (€/mil) | (%) | (€/mil) | (%) | | (€/mil) | (%) | |
| Asset management | 158,877 | 37.3 | 155,538 | 38.8 | +2.1 | 157,990 | 39.3 | +0.6 |
| Asset administration | 117,890 | 27.6 | 102,707 | 25.6 | +14.8 | 104,242 | 26.0 | +13.1 |
| Direct deposits | 175,222 | 41.1 | 167,877 | 41.8 | +4.4 | 165,230 | 41.1 | +6.0 |
| Netting | -25,565 | -6.0 | -24,987 | -6.2 | +2.3 | -25,624 | -6.4 | -0.2 |
| **Customer financial assets** | **426,424** | **100.0** | **401,135** | **100.0** | **+6.3** | **401,838** | **100.0** | **+6.1** |

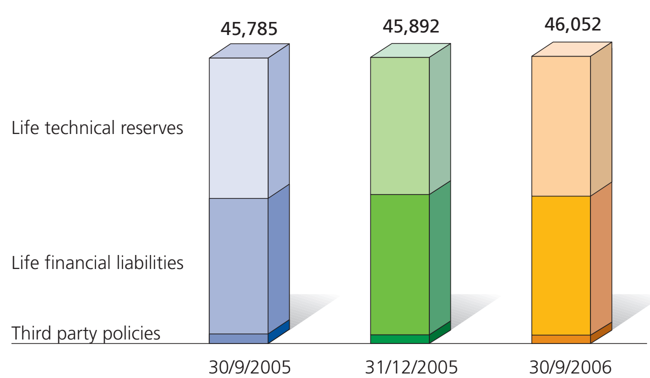
*Asset management*

| | 30/9/2006 | | 30/9/2005 | | Change 30/9/06-30/9/05 (%) | 31/12/2005 | | Change 30/9/06-31/12/05 (%) |
|---|---|---|---|---|---|---|---|---|
| | (€/mil) | (%) | (€/mil) | (%) | | (€/mil) | (%) | |
| Mutual funds and fund-based portfolio management | 106,456 | 67.0 | 103,844 | 66.8 | +2.5 | 106,219 | 67.2 | +0.2 |
| Portfolio management | 6,369 | 4.0 | 5,909 | 3.8 | +7.8 | 5,879 | 3.7 | +8.3 |
| Life technical reserves and financial liabilities | 46,052 | 29.0 | 45,785 | 29.4 | +0.6 | 45,892 | 29.1 | +0.3 |
| **Asset management** | **158,877** | **100.0** | **155,538** | **100.0** | **+2.1** | **157,990** | **100.0** | **+0.6** |

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




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




- stocks of technical reserves and financial liabilities in the life insurance business were essentially stable both over the 12-month period (+0.6%) and since the beginning of the year (+0.3%). The progressive ageing of the policy portfolio increased the significance of the phenomenon of surrendering of policies, which almost entirely counterbalanced policies issued during the first nine months of 2006: net flows totaled 0.2 billion euro. Premiums issued during the first nine months of 2006 totaled 4.4 billion euro, around half of which was directed towards insurance policies, and the rest towards index- and unit-linked policies, primarily with financial content.

## Other Income Items

Income from credit disposals, financial assets held to maturity, and repurchase of non-hedged financial liabilities totaled 48 million euro, compared to 56 million in the first nine months of 2005. The figure for 2006 consists mainly of income from the disposal of non-performing loans in a company of the Enron group, and penalties collected for the early extinction of medium-/long-term financing involving the Parent Bank, Banca OPI and Neos Banca.

Dividends and income from other financial assets and liabilities totaled 460 million euro, up 8.5% over the figure for the first nine months of 2005, which had benefited from non-recurring income on the sale of Italenergia Bis (104 million euro). This trend may be attributed to the typical operations of Banca IMI, especially in the financial markets compartment, which focus on producing financial instruments. Other significant contributions in this area were provided by market-making activities on complex interest rate and equity derivatives to support the placement of structured and exotic products, structured finance and global brokerage activity. A significant contribution also came from brokerage of securities,

*Change in asset management*

| | First nine months 2006 (€/mil) | First nine months 2005 (€/mil) | 2005 (€/mil) |
|---|---|---|---|
| Net inflow for the period | -77 | 3,649 | 5,476 |
| - mutual funds and fund-based portfolio management | -686 | 930 | 2,561 |
| - portfolio management | 383 | -517 | -584 |
| - life policies | 226 | 3,236 | 3,499 |
| Performance effect | 964 | 7,076 | 7,701 |
| **Change in asset management** | **887** | **10,725** | **13,177** |

*Mutual funds by type*

| | 30/9/2006 (%) | 30/9/2005 (%) | 31/12/2005 (%) |
|---|---|---|---|
| Equity | 30.4 | 26.1 | 27.7 |
| Balanced | 9.3 | 9.1 | 9.3 |
| Bond | 41.4 | 45.6 | 44.1 |
| Liquidity | 18.9 | 19.2 | 18.9 |
| **Total Group mutual funds** | **100.0** | **100.0** | **100.0** |

exchange, and derivative contracts in commercial banks. In particular, interest rate and exchange rate derivatives aimed at companies generated 114 million euro in income on the consolidated level, compared to 70 million for all of 2005. The expansion of transactions in company derivatives is also confirmed by the number of operative customers in the first nine months of 2006 (around 5,500), up 47% over the same period of 2005. Lastly, the financial results for the period include dividends collected (88 million euro), profits from the sale of FIAT shares resulting from the convertible facility (12 million euro), and a capital gain of 38 million euro deriving from the disposal of some minority interests held in the available-for-sale portfolio.

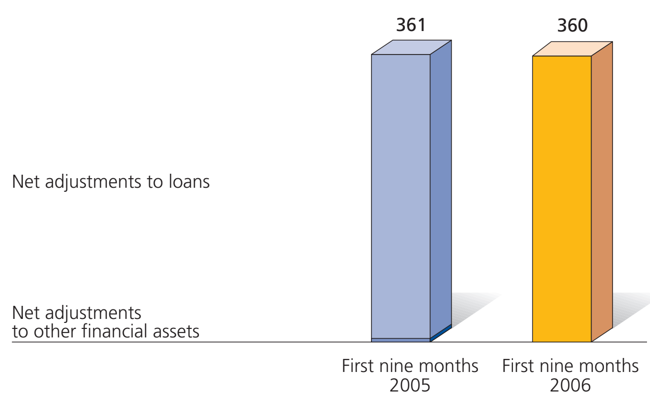
Profits on equity shareholdings totaled 76 million euro, 57 million euro of which is attributable to the valuation at net shareholders' equity of Cassa di Risparmio di Firenze, Banque Palatine, Synesis Finanziaria, Allfunds and other minority interests, and 19 million of which to the disposal of qualified shareholdings by Banka Koper and Banca IMI. This line item fell 14.6% compared to the first half of 2005 which had benefited from significant capital gains in the private equity compartment.

In the period under examination, income from insurance business, which contains the revenue items referring to the life and casualty companies reporting to the Eurizon subholding, reached 296 million euro, down slightly (-2%) from the same period in 2005. This performance was influenced by the updating of mortality tables to reflect new demographic data entailing greater provisions for reserves. It was also affected by the slowing-down of new production connected to the transition and re-launch phase of Eurizon, as well as the drop in the performance of assets hedging financial products. On the other hand, the performance of financial management was positive, due to traditional products and the free portfolio. More specifically, the improvement of margins on premiums and payments for insurance contracts was offset by the resizing of net income on financial instruments designated as at fair value. On the other hand, net income deriving from financial instruments not designated as at fair value posted an increase owing to greater average yields due to the increased duration of assets, the purchase of bonds with higher coupons, and greater dividends in the equity compartment. Lastly, other income and charges from the insurance business worsened due to the increase in commissions granted to networks on insurance and financial products in separated management. At the end of September 2006, the valuation reserve for available-for-sale financial assets in the insurance compartment reached 56 million euro, compared to 91 million at the beginning of the year, due to the reduction in capital gains on bond securities following the increase in interest rates.

### Adjustments to Loans and Other Financial Assets

Net adjustments were more or less in line in the two periods under comparison. Valuation of the inherent credit risk in the per-

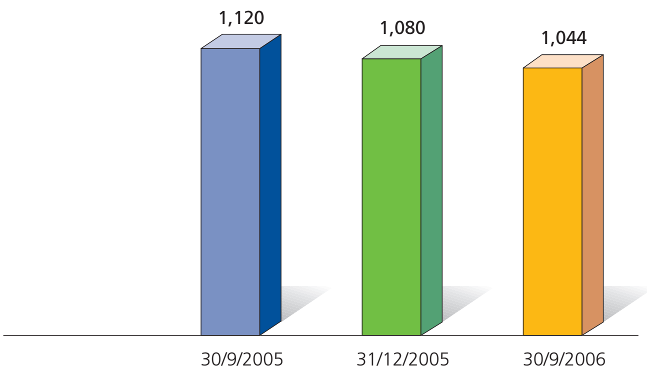
**Net adjustments to loans and other financial assets** (€/mil)



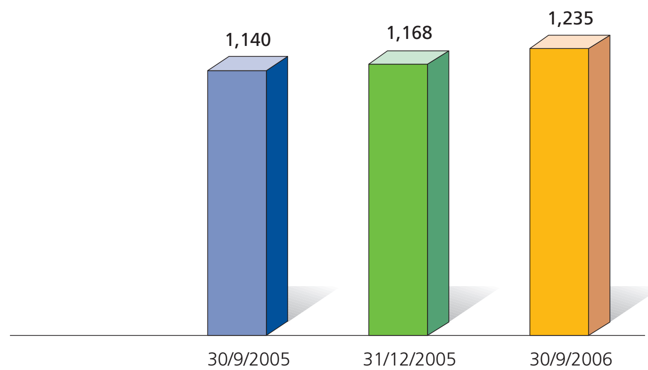

*Income from insurance business*

| | First nine months 2006 (€/mil) | | | First nine months 2005 (€/mil) | | | Change first nine months 2006 / First nine months 2005 (%) | 2005 (€/mil) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Life | Casualty | Total | Life | Casualty | Total | Total | Life | Casualty | Total |
| Premiums and payments | -327 | 20 | -307 | -615 | 12 | -603 | -49.1 | -695 | 17 | -678 |
| - net premiums | 2,176 | 36 | 2,212 | 2,938 | 22 | 2,960 | -25.3 | 3,568 | 31 | 3,599 |
| - net charges for losses | -1,890 | -16 | -1,906 | -1,334 | -10 | -1,344 | +41.8 | -1,966 | -14 | -1,980 |
| - net charges for changes in technical reserves | -613 | - | -613 | -2,219 | - | -2,219 | -72.4 | -2,297 | - | -2,297 |
| Net income from financial instruments designated as at fair value shown in the statement of income | 197 | - | 197 | 489 | - | 489 | -59.7 | 479 | - | 479 |
| Net commissions | 55 | - | 55 | 55 | -1 | 54 | +1.9 | 55 | - | 55 |
| Net income from financial instruments not designated as at fair value shown in the statement of income | 680 | 1 | 681 | 595 | 2 | 597 | +14.1 | 879 | 3 | 882 |
| Other income/charges from insurance business | -319 | -11 | -330 | -233 | -2 | -235 | +40.4 | -303 | -4 | -307 |
| **Income from insurance business** | **286** | **10** | **296** | **291** | **11** | **302** | **-2.0** | **415** | **16** | **431** |

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




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




forming portfolio led to the quantification of 143 million in lump-sum adjustments, down from 186 million in the first nine months of 2005, confirming the satisfactory risk profile of the Group's loan portfolio. Net analytical adjustments to doubtful loans increased from 171 million euro to 216 million, mainly due to decreased write-backs on valuation and collection.

Net doubtful loans totaled 3,134 million euro as at 30 September 2006, down 4% over the 12-month period and 5.9% since the beginning of the year, confirming the Group's good credit quality and its careful monitoring of the creditworthiness of the counterparties to which it offered new loans. More specifically, with regard to loans to customers:

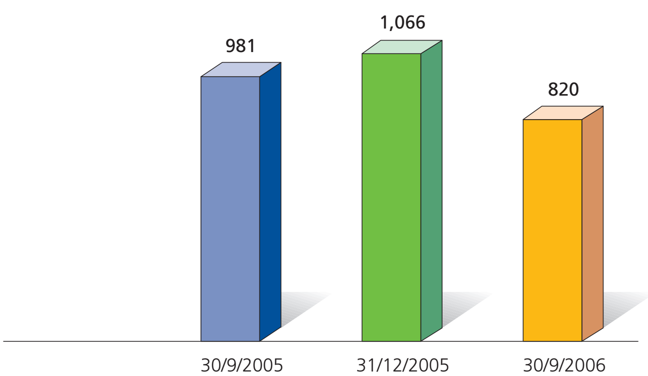
- net non-performing financing reached 1,044 million euro, a decrease of 6.8% over the 12-month period and 3.3% since the beginning of the year. The ratio of non-performing financing to loans to customers was 0.7%, a reduction of a tenth of a point since the beginning of the year. Hedging of non-performing loans increased to 76.4% from 75.6% as at 30 September 2005 and 75% as at 31 December 2005;
- net problem and restructured financing totaled 1,235 million euro, up 8.3% over the 12-month period and 5.7% since the beginning of the year. The weight of adjusted funds reached 30.7%;

*Qualitative analysis of the loan portfolio (1)*

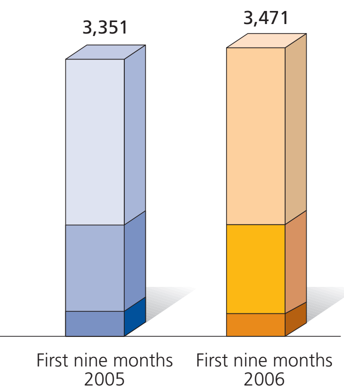
| | 30/9/2006 | | 30/9/2005 | | Change 30/9/06-30/9/05 (%) | 31/12/2005 | | Change 30/9/06-31/12/05 (%) |
|---|---|---|---|---|---|---|---|---|
| | (€/mil) | (%) | (€/mil) | (%) | | (€/mil) | (%) | |
| Non-performing financing | 1,044 | 0.7 | 1,120 | 0.8 | -6.8 | 1,080 | 0.8 | -3.3 |
| Problem and restructured financing | 1,235 | 0.8 | 1,140 | 0.9 | +8.3 | 1,168 | 0.8 | +5.7 |
| Financing to countries at risk | 35 | 0.0 | 24 | 0.0 | +45.8 | 17 | 0.0 | +105.9 |
| Financing due/overdue by more than 180 days | 820 | 0.6 | 981 | 0.7 | -16.4 | 1,066 | 0.8 | -23.1 |
| Defaulted securities held in the portfolio | - | 0.0 | - | 0.0 | - | - | 0.0 | - |
| **Doubtful loans - customers** | **3,134** | **2.1** | **3,265** | **2.4** | **-4.0** | **3,331** | **2.4** | **-5.9** |
| Performing financing | 145,564 | 96.9 | 134,831 | 97.5 | +8.0 | 135,864 | 97.4 | +7.1 |
| Performing debt securities held in the portfolio | 1,486 | 1.0 | 193 | 0.1 | n.s. | 312 | 0.2 | n.s. |
| **Loans to customers** | **150,184** | **100.0** | **138,289** | **100.0** | **+8.6** | **139,507** | **100.0** | **+7.7** |
| Non-performing and problem financing - banks | - | | - | | - | - | | - |
| Financing due/overdue by more than 180 days - banks | - | | - | | - | - | | - |
| Financing to countries at risk - banks | 5 | | 25 | | -80.0 | 47 | | -89.4 |
| Defaulted securities held in the portfolio | - | | - | | - | 5 | | n.s. |
| **Total doubtful loans - customers and banks** | **3,139** | | **3,290** | | **-4.6** | **3,383** | | **-7.2** |

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

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




**Operating costs** (€/mil)




- net financing due/overdue by more than 180 days totaled 820 million euro, a drop of 16.4% over the twelve months and 23.1% since the beginning of the year, with a coverage ratio of 16.9%;
- net non-guaranteed financing to countries at risk amounted to 35 million euro, compared to 24 million recorded at the end of September 2005, with 31.4% coverage.

At the end of September 2006, the amount of lump-sum adjustments to the performing portfolio reached 1,225 million euro, corresponding to 0.8% of performing loans, in line with the figures from the end of 2005 and June 2006.

Net adjustments to other financial assets were not significant, confirming the trend observed in 2005. The performance of the fair value of the securities portfolio did not register any significant losses of value.

## Operating Costs and Other Components of Pre-Tax Operating Profit

Operating costs for the first nine months of 2006 totaled 3,471 million euro, up 3.6% from the corresponding period of 2005. This increase may be attributed to personnel costs and other administrative costs, only partly offset by the drop in net adjustments to tangible and intangible assets.

More specifically, personnel costs, totaling 2,122 million euro, increased 5.3% compared to the same period in 2005, against an average increase of 1.6% in the workforce due to investments in the banking network and consumer banking and a strengthening of the operational and governance structures of Eurizon. The trend in personnel costs was also influenced by the continuing effects of the rises resulting from the national collective labor contracts (CCNL) renewed in February 2005, the provisions for the possible renewal of the CCNL which expired at the end of 2005, and the increase in the variable component of retribution. This last component increased due to charges related to employee incentives for the medium-term in support of the three-year Plan and the employee share plan initiative involving commercial banks, as well as increased provisions in relation to the projected closure of incentive systems due to the Group's positive performance in 2006.

Other administrative costs totaled 1,075 million euro, up 4.4%. The analysis by type of cost shows the increase in property costs, which was mainly influenced by expenses for the maintenance of

*Other administrative costs (1)*

| | First nine months 2006 (€/mil) | First nine months 2005 (€/mil) | Change first nine months 2006 / First nine months 2005 (%) | 2005 (€/mil) |
|---|---|---|---|---|
| IT costs | 216 | 208 | +3.8 | 285 |
| Property costs | 276 | 255 | +8.2 | 355 |
| General expenses | 188 | 192 | -2.1 | 257 |
| Professional and insurance fees | 136 | 138 | -1.4 | 201 |
| Promotion, advertising and marketing expenses | 80 | 76 | +5.3 | 128 |
| Indirect personnel costs | 84 | 73 | +15.1 | 106 |
| Charges for services provided by third parties | 55 | 57 | -3.5 | 74 |
| Indirect duties and taxes | 40 | 31 | +29.0 | 46 |
| **Other administrative costs** | **1,075** | **1,030** | **+4.4** | **1,452** |

*(1) Expenses are expressed net of their recoveries.*

property related to the implementation of the branch plan and by energy expenses in relation to higher oil prices. Indirect personnel costs also increased due to the expansion of the workforce and higher training expenses; indirect duties and taxes and IT expenses, influenced by the cost of maintaining software and telephone costs; lastly, promotional, advertising and marketing expenses increased in relation to initiatives launched in the Savings and Assurance sector. General expenses, professional and insurance fees, and charges for third-party services, on the other hand, registered a drop, despite the outsourcing of certain activities.

Net adjustments to tangible and intangible assets totaled 274 million euro, down 10.5% from the first nine months of 2005. This reduction was driven by the completion at the end of last year of the amortization of major investments in software for the Parent Bank and Banca Fideuram.

The Group’s cost/income ratio fell to 53.6%, an improvement of 1.2 percentage points.

The drop in other operating income, which fell from 49 million for the first nine months of 2005 to 34 million at the end of September 2006, may be attributed to reduced recovery of tax credits booked by the Parent Bank and EurizonVita.

Net provisions for risks and charges fell by 25.6% to 99 million euro. This decrease may be attributed to the lack of non-recurring provisions made in the first nine months of last year to cover risks related to defaulting bonds placed in previous years and to the legal dispute surrounding the disposal of an equity investment. In the first nine months of 2006, the Parent Bank made provisions for legal disputes and risks related to guarantees given on collection disputes, and Banca Fideuram made provisions for charges related to indemnities and risks inherent in the activity of financial planners. With regard to the passive legal dispute in the tax collection branch, it should be mentioned that, on the basis of the clarifications made by the interpreters of the law (art. 26 quater of Law no. 248 of 4 August 2006) in relation to the applicability of the correction introduced by Law no. 311/2004, the majority of the risks connected to the sentences, for which requests for payment were made by the Financial Administration, are nullified.

### Taxes and Profits on Discontinued Operations

With a tax charge of 940 million euro, the tax rate of the SANPAOLO IMI Group for the first nine months of 2006 was 36.5%, slightly higher than the 33.8% recorded in the same period of last year. This increase is mainly due to the decreased weight of profits eligible for the “participation exemption”.

Profits on discontinued operations consist mainly of the profits earned by GEST Line, the Group's collection agency, control of which was transferred to the public holding company Riscossione S.p.A. effective as of 30 September 2006, pursuant to Law 248/2005.

### Developments in the Third Quarter of 2006

In the third quarter of 2006 profits fell compared to the first two quarters of the year. This trend may be attributed mainly to commissions, which were impacted by a drop in the placement of financial products in the third quarter, and income from other financial assets and liabilities, which had benefited from non-recurring events in the second quarter of the year consisting of the collection of dividends on minority interest shareholdings and capital gains on the disposal of equity shareholding investments. Nonetheless, it should be pointed out that quarterly revenue posted in 2006 is greater than that for the corresponding periods of 2005 if the non-recurring events mentioned above are ignored.

Personnel costs for the period increased in line with the projected trend for the year; other administrative costs, on the other hand, were lower than the figures for previous quarters.

Net profit for the third quarter totaled 498 million euro.

As regards operational aggregates, after the stability registered in the second quarter, the third quarter saw a significant recovery of customer financial assets, mainly due to the contribution made by asset administration, followed by direct deposits and asset management; financing to customers registered a positive flow, although not as high as in previous quarters.

# Group Capital and Reserves

### Net shareholders' equity

Group net shareholders' equity, equal to 14,539 million euro as of 30 September 2006, showed the following changes during the period:

| *Movements in Group net shareholders' equity* | | *(€/mil)* |
|---|---|---|
| **Group net shareholders' equity at 31 December 2005** | | **13,483** |
| **Decreases** | | **-1,180** |
| - Dividends on ordinary shares | | -905 |
| - Dividends on preference shares | | -162 |
| - Decrease in the consolidation reserve due to the acquisition of the share of minority interest shareholders in Fideuram and EurizonTutela | | -109 |
| - Changes in own shares | | -4 |
| **Increases** | | **2,236** |
| - Net profit for the period | | 1,638 |
| - Net change in valuation reserves | | 275 |
| AFS reserve | 387 | |
| *- corresponding to equities* | *481* | |
| *- corresponding to debt securities* | *-94* | |
| Reserve for the recognition of actuarial gains/losses | 118 | |
| Other valuation reserves | 10 | |
| Conversion of valuation reserve into capital | -240 | |
| - Increase in share capital due to the conversion of valuation reserves | | 240 |
| - Stock option accounting | | 73 |
| - Other changes | | 10 |
| **Group net shareholders' equity at 30 September 2006** | | **14,539** |

Variations were basically determined from end-of-period income, net of dividends paid out of the net profit for 2005, the change in valuation reserves, the repurchase of minority shares (including the Banca Fideuram S.p.A. shares delivered through the Public Offer until 30 September) and accounting for stock options.

In particular, the change in valuation reserves, which went from 1,286 million euro to 1,561 million, was impacted by:

- the revaluation as at fair value of some minority equity shareholdings classified in the available-for-sale portfolio for a total of 481 million euro (including investments in Santander Central Hispano for 187 million euro, Ixis Asset Management Group for 171 million euro, Ixis Corporate & Investment Bank for 28 million euro and FIAT for 44 million euro);
- the recognition, attributable to the rise in interest rates, of 118 million euro of lower actuary capital losses on defined benefit employee funds and employee termination indemnities (TFR), whose valuation is recorded in a direct corresponding item under shareholders' equity reserves;
- the decrease in the valuation reserves of debt securities for 94 million euro, linked to the aforementioned rise in interest rates;
- the decrease in the reserves following the use of reserves deriving from special revaluation laws for 240 million euro to service the scrip increase of the capital of the Parent Bank (150 million euro) and it subsidiaries (90 million euro).

### Own shares

As of 30 September 2006, SANPAOLO IMI shares held by the Group totaled 3,110,843 (nominal value of nine million euro, taking into account the increase of nominal unit value from 2.8 to 2.88 euro), equal to 0.17% of the share capital, and they were recorded on the basis of the new IAS/IFRS criteria as a negative component of the net shareholders' equity, for a total of 34.8 million euro. These shares were held by the Parent Bank and by the subsidiary Banca IMI, as well as collective investment entities within the context of the Group's insurance sector and consolidated on a line-by-line basis in accordance with international accounting standards.

Transactions on SANPAOLO IMI shares over the first nine months of 2006 were as follows:

- as at 31 December 2005, the Parent Bank held 4,015,919 own shares in its portfolio (nominal value 11.2 million euro), representing 0.21% of the share capital and equal to 42,5 million euro. During the first nine months, it purchased 1,406,638 SANPAOLO IMI shares (nominal value 4.1 million euro) to the value of 19.3 million euro and sold 3,056,638 shares (nominal value 8.8 million euro) for 36.7 million euro. Consequently, as at 30 September 2006, the Parent Bank held 2,365,919 SANPAOLO IMI shares (nominal value 6.8 million euro), equal to 0.13% of the share capital, to the value of 25.1 million euro;
- in relation to its institutional trading activities, as at 31 December 2005, Banca IMI held 216,270 SANPAOLO IMI shares in its portfolio (nominal value 0.6 million euro), equal to 0.01% of the share capital of the Parent Bank and for a value of 2.7 million euro. During the nine months, it acquired 53,131 shares (0.2 million euro nominal value) for a cost of around 0.8 million euro and sold 63,562 shares (0.2 million euro nominal value) for a total cost of 0.8 million euro. Consequently, as at 30 September 2006, the company held 205,839 SANPAOLO IMI shares in its portfolio (nominal value 0.6 million euro), representing 0.01% of the share capital of the Parent Bank and for a value of 2.7 million euro;
- the collective investment entities, whose controlling stakes are held by the insurance subsidiary EurizonVita, held a total of 542,585 SANPAOLO IMI shares as at 31 December 2005 (nominal value 1.5 million euro), equal to 0.03% of the share capital of the Parent Bank, to the value of 5.8 million euro. Over the first nine months of 2006, the collective investment entities carried out transactions for the purchase of 362,000 SANPAOLO IMI shares (with a nominal value of one million euro) for a total value of 5.1 million euro, and the sale of 365,500 shares (with a nominal value of 1.1 million euro) for a total of 3.9 million. As a result, at 30 September 2006, the SANPAOLO IMI shares held by the collective investment entities totaled 539,085 (with a nominal value of 1.6 million euro), representing 0.03% of the share capital of the Parent Bank and equal to seven million euro.

During the third quarter of 2006, the network banks of the Group reduced the number of SANPAOLO IMI shares in portfolio as at 30 June 2006 to zero, following the use of these shares in stock option plans for their employees.

As required by laws in force, the Parent Bank and Banca IMI have the same amount in the undisposable reserve as the own shares held in portfolio.

Own shares held by subsidiary companies refer to Banca Fideuran S.p.A held in the portfolio of the bank.

As at 31 December 2005, Banca Fideuran held 12,655,273 own shares in its portfolio (nominal value 2.4 million euro), representing 1.3% of the share capital and equal to 54.4 million euro. These shares were not subject to any movements during the first nine months of the year.

## Regulatory Capital and Solvency Ratios

In April 2006, the Bank of Italy began definitive application of the new rules of "prudential filters", with which the Regulatory Body intends to regulate the effects of the introduction of IAS/IFRS on the amount and quality of the regulatory capital, lessening potential volatility deriving from the application of the new accounting standards.

The updating of the regulations also takes into account guidelines for the treatment for the supervision of financial conglomerates, introducing the obligation of deducting from basic and supplementary equity shareholdings in insurance companies and companies with insurance holdings, as well as their related subordinated loans.

In this context, and with specific reference to the treatment of companies in the Savings and Assurance Pole, it should be noted that ISVAP has identified the subsidiary Eurizon Financial Group S.p.A. as the company with insurance holdings according to the code of insurance companies. Application of the above-mentioned regulations would imply the obligation of the integral deduction from basic and supplementary consolidated equity shareholdings of the banking Group of the subsidiaries Banca Fideuram and Sanpaolo IMI Asset Management (Eurizon Capital as from 1 November 2006) as they are controlled by Eurizon Financial Group, despite Eurizon and the two companies being ascribed to the SANPAOLO IMI banking Group and sharing with the Parent Bank the nature of risks and the same Regulatory Body.

In the light of this regulation, which is still being finalized by the two Regulatory Bodies, and on the basis of the methodologies examined with the Bank of Italy, the consolidated regulatory capital of the Group as at 30 September 2006 has been calculated by reincorporating the contributions of Banca Fideuram and Sanpaolo IMI Asset Management into the banking compartment.

As at 30 September 2006, the ratio of regulatory capital to total weighted assets deriving from credit and market risks resulted in an estimated Total risk ratio of 10.2%. The ratio of the Group's Tier 1 capital to total weighted assets was 7.5%, whilst the Core tier 1 ratio (calculated on the basis of Tier 1 capital net of preferred shares) was estimated at 6.9%.

# Risk Management and Control

### Market risk of the Non-Trading Portfolio

A large part of the market risk arising from the non-trading portfolio concerns the exposure of the Parent Bank and the other main companies in the Group that carry out retail and corporate banking.

Interest rate risk arising from the Group's non-trading portfolio in the first nine months of 2006 reached higher levels than those observed on average over the previous year. Variations in the market value of the banking book, measured via a shift sensitivity analysis on the assumption of a 100 basis point fall in the interest rate curve, resulted in an average value of 23 million euro for the nine months, compared to the average 12 million euro recorded for the previous year.

Value at Risk (VaR), measured as the maximum potential "unexpected" loss in the portfolio's market value that could be recorded over a ten day holding period with a statistical confidence interval of 99%, was recorded at an average of 63 million euro for the third quarter of the year (compared to an average 33 million for the previous year).

Sensitivity in net interest income, on the assumption of a 25 point rise in rates, amounted to 43 million euro as at the end of September, in line with year-end figures for 2005 (-34 million euro in the case of a fall in interest rates).

The non-trading portfolio also comprises market exposures arising from equity shareholdings held by the Parent Bank and the companies Sanpaolo IMI International, FIN.OPI, IMI Investimenti, and Sanpaolo IMI Internazionale in listed companies which are not fully consolidated or accounted for under the equity method. Price risk is measured via the VaR method (using a confidence interval of 99% over a 10 day holding period). The Value at Risk method recorded an average risk of 128 million euro for the first nine months of 2006, in line with the 127 million euro recorded at the end of December 2005.

### Market risk of the Trading Portfolio

Market risk arising from the trading portfolio relates to trading activities carried out by Banca IMI and its subsidiaries. Trading activities, mainly in securities, both fixed-income and shares, and foreign exchange and derivative contracts are all subject to measurement.

The Value at Risk of a trading portfolio is calculated based on the historical simulation method (Historical VaR), which involves the revaluation of the portfolio based on the trend in market prices over the last 12 months. This results in a daily profit/loss distribution, where the value corresponding to the most unfavorable percentile (with a confidence level set at 99%) represents the VaR, with a holding period of one day.

During the first nine months of 2006, the Historical VaR of trading activities, carried out by Banca IMI and its subsidiaries, averaged 2.3 million euro, fluctuating between a minimum of 1 million euro and a maximum of 3.8 million euro. At the end of September, the VaR stood at 1.5 million euro.

Backtesting showed the prudential nature of the internal measurement techniques adopted. Indeed, during the first nine months of 2006, the daily losses effectively realized never exceeded the risk measures expressed in terms of ex-ante daily VaR.

# Shareholders and Ratings

### Shareholders

On the basis of the information available to date, the shareholder breakdown for SANPAOLO IMI is as follows:

*Shareholders of SANPAOLO IMI*

| | % of capital | |
|---|---|---|
| | total | ordinary |
| Compagnia di San Paolo | 14.19 | 6.83 |
| Banco Santander Central Hispano | 8.43 | 9.93 |
| Fondazione Cassa di Risparmio di Padova e Rovigo | 7.02 | 3.99 |
| Fondazione Cassa di Risparmio in Bologna | 5.54 | 2.84 |
| Giovanni Agnelli e C. | 4.96 | 5.85 |
| Assicurazioni Generali | 2.11 | 2.49 |
| Morgan Stanley & Co. International | 1.75 | 2.06 |
| Mediobanca | 1.72 | 2.03 |
| Banca Monte dei Paschi di Siena | 1.51 | 1.77 |
| Società Reale Mutua di Assicurazioni | 1.50 | 1.77 |
| Caisse Nationale des Caisses d'Epargne (CNCE) | 1.50 | 1.77 |
| Other shareholders (1) | 49.77 | 58.67 |
| **Total** | **100.00** | **100.00** |

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

### Ratings

The following table shows the main debt ratings assigned to 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) | AA- |

## Performance of Share Prices

At the end of September 2006, SANPAOLO IMI's share price was 16.65 euro, up 28.8% compared to 30 September 2005, against an increase of 27.4% in the MIB index. At the same date, SANPAOLO IMI shares recorded a price/book value of 2.1.

On 7 November 2006, the listed share price was 16.888 euro, representing an increase of 27.8% over the beginning of the year.

*SANPAOLO IMI share price and dividends*

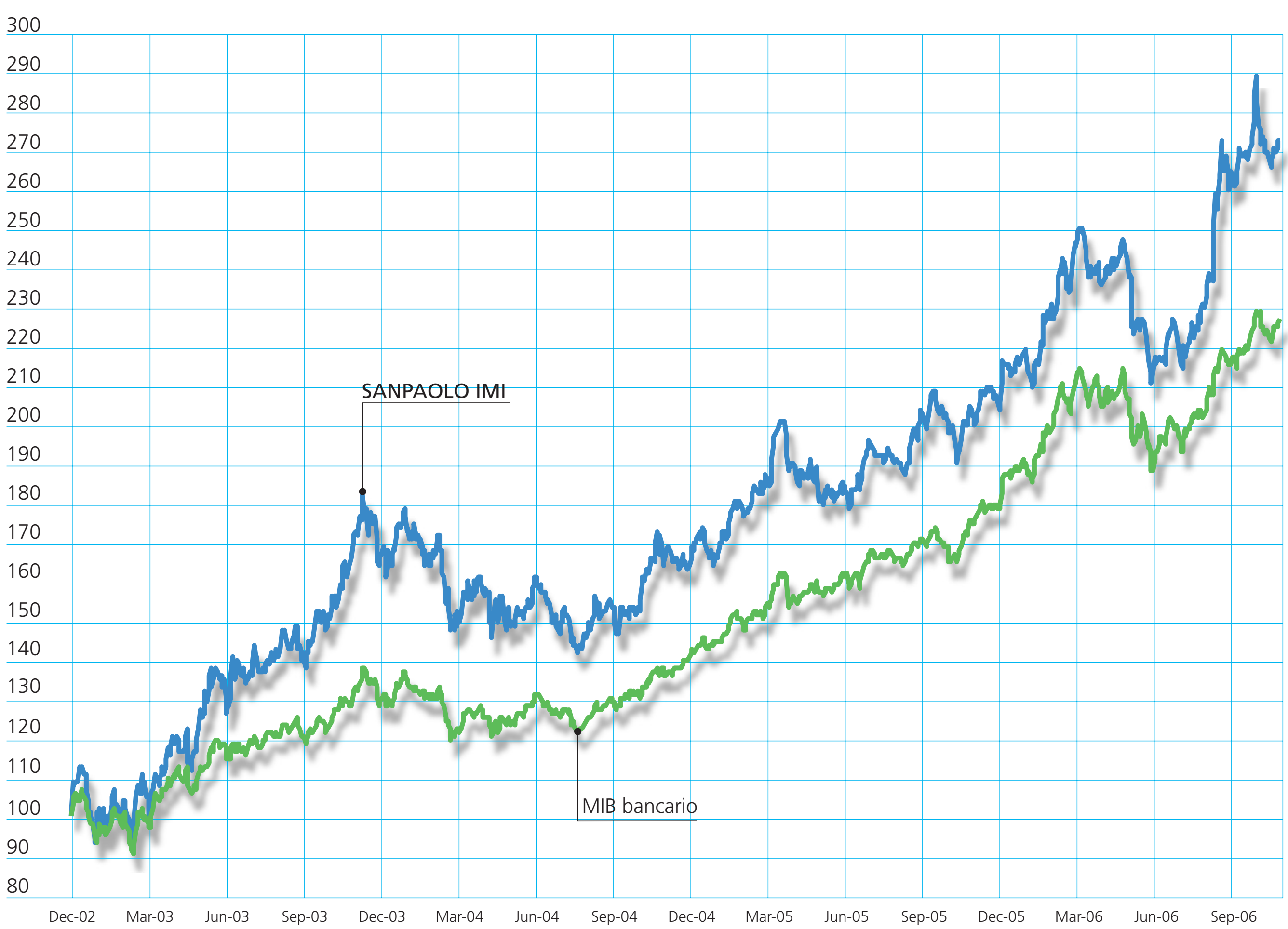
| Year | High (€) | Low (€) | Average (€) | Unit dividend (€) | Dividend yield (1) % | Payout ratio (2) % |
|---|---|---|---|---|---|---|
| 1997 | 8.800 | 4.564 | 6.275 | 0.06 | 0.91 | 53.4 |
| 1998 | 16.274 | 8.717 | 12.429 | 0.46 | 3.74 | 71.7 |
| 1999 | 16.071 | 10.970 | 13.192 | 0.52 | 3.91 | 69.0 |
| 2000 | 20.800 | 11.483 | 16.612 | 0.57 | 3.42 | 61.7 |
| 2001 | 18.893 | 8.764 | 14.375 | 0.57 | 3.97 | 66.5 |
| 2002 | 13.702 | 5.231 | 9.439 | 0.30 | 3.18 | 62.0 |
| 2003 | 11.346 | 5.796 | 8.158 | 0.39 | 4.78 | 73.7 |
| 2004 | 11.072 | 8.799 | 9.826 | 0.47 | 4.78 | 62.9 |
| 2005 | 13.420 | 10.201 | 11.836 | 0.57 | 4.82 | 53.8 |
| 2006 (3) | 17.928 | 12.986 | 14.830 | | | |

*Market comparison*

| | 7/11/2006 | 29/9/2006 | 30/9/2005 | Change 29/09/06-30/09/05 (%) |
|---|---|---|---|---|
| SANPAOLO IMI share price (€) | 16.888 | 16.650 | 12.924 | +28.8 |
| Historical MIB bancario index | 3,922 | 3,801 | 2,984 | +27.4 |

| | 29/9/2006 | 30/9/2005 | 31/12/2005 |
|---|---|---|---|
| Book value per share (€) | 7.77 | 7.00 | 7.22 |

*(1) Calculated on annual average price.*
*(2) On consolidated income.*
*(3) Until 7/11/2006.*




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

# Group Business Structure

## Business Sectors

In the first nine months of 2006, SANPAOLO IMI Group operations were structured into the Business Sectors of "Banking" and "Savings and Assurance", which are accompanied by the Central Functions of governance, support and control.

In line with provisions in IAS 14 regarding Segment Reporting, a management approach has been taken with primary reporting based on the segmentation into Business Sectors, as this reflects the operating structure and responsibilities introduced with the restructuring launched on 5 July 2005 and subsequent organizational initiatives.

The table below reports the main information summarizing performance in the Business Sectors.

The detailed analysis of the Business Sectors and the main business lines illustrates the initiatives introduced over the third quarter, statement of income data, operating structure, and the main profitability ratios, including figures which express the contribution of the Business Sectors to Group income.

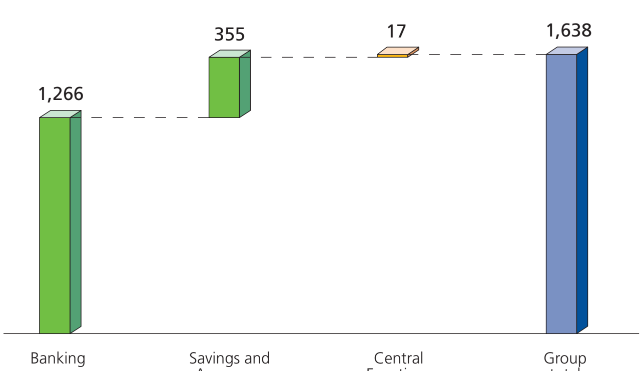
Where necessary, economic data relating to the first nine

| | Banking | Savings and Assurance | Central Functions (1) | Group total |
|---|---|---|---|---|
| **TOTAL OPERATING INCOME** (€/mil) | | | | |
| First nine months 2006 | 5,209 | 959 | 304 | 6,472 |
| First nine months 2005 | 4,916 | 915 | 281 | 6,112 |
| Change first nine months 2006 / First nine months 2005 (%) | +6.0 | +4.8 | +8.2 | +5.9 |
| **PRE-TAX OPERATING PROFIT** (€/mil) | | | | |
| First nine months 2006 | 2,133 | 529 | -85 | 2,577 |
| First nine months 2005 | 1,877 | 509 | -58 | 2,328 |
| Change first nine months 2006 / First nine months 2005 (%) | +13.6 | +3.9 | +46.6 | +10.7 |
| **NET PROFIT** (€/mil) | | | | |
| First nine months 2006 | 1,266 | 355 | 17 | 1,638 |
| First nine months 2005 | 1,212 | 338 | -41 | 1,509 |
| Change first nine months 2006 / First nine months 2005 (%) | +4.5 | +5.0 | n.s. | +8.5 |
| **TOTAL INTEREST-EARNING ASSETS** (€/mil) (2) | | | | |
| 30/9/2006 | 154,533 | 8,553 | 42,718 | 205,804 |
| 30/9/2005 | 143,072 | 7,014 | 27,124 | 177,210 |
| Change 30/9/2006-30/9/2005 (%) | +8.0 | +21.9 | +57.5 | +16.1 |
| **TOTAL INTEREST-BEARING LIABILITIES** (€/mil) (2) | | | | |
| 30/9/2006 | 132,946 | 7,704 | 54,993 | 195,643 |
| 30/9/2005 | 124,885 | 6,152 | 36,905 | 167,942 |
| Change 30/9/2006-30/9/2005 (%) | +6.5 | +25.2 | +49.0 | +16.5 |
| **ALLOCATED CAPITAL** (€/mil) | | | | |
| First nine months 2006 | 7,576 | 1,399 | 3,926 | 12,901 |
| First nine months 2005 | 6,795 | 1,318 | 3,430 | 11,543 |
| Change first nine months 2006 / First nine months 2005 (%) | +11.5 | +6.1 | +14.5 | +11.8 |
| **ANNUALIZED PROFITABILITY** (%) | | | | |
| First nine months 2006 | 22.3 | 33.8 | n.s. | 16.9 |
| First nine months 2005 | 23.8 | 34.2 | n.s. | 17.4 |
| **EMPLOYEES** | | | | |
| 30/9/2006 | 34,497 | 2,760 | 5,615 | 42,872 |
| 30/9/2005 | 33,818 | 2,576 | 5,597 | 41,991 |
| Change 30/9/2006-30/9/2005 (%) | +2.0 | +7.1 | +0.3 | +2.1 |

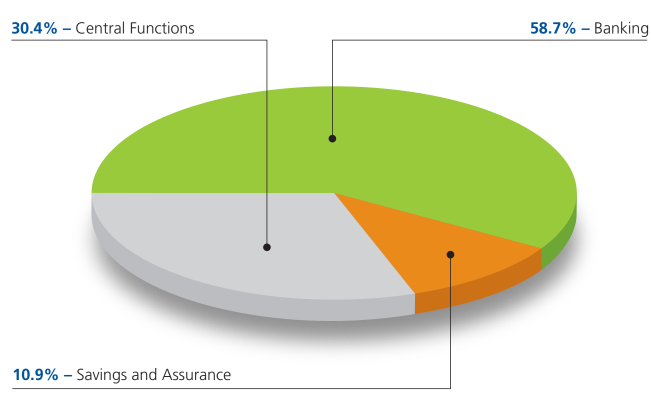
*(1) Includes netting and consolidation entries.*
*(2) Excluding Banca IMI group.*

months of 2005 and operating data as at 30 September 2005 were reworked for the purposes of uniformity, in order to take into account regulatory changes related to IAS/IFRS and provisions governing financial statements issued by the Bank of Italy subsequent to the publication of the Quarterly Report as at 30 September 2005, and the business structure.

**Net profit first nine months 2006 by Business Sector** (€/mil)




**First nine months 2006 allocated capital by Business Sector**



## Initiatives and Results of the Business Sectors

### Banking

Banking constitutes the core business of the Group and the reference point for the definition, development and coordination of the commercial strategies of the entire Group network. Banking is divided into the Retail & Private, Corporate, and Wholesale business lines, and also includes the companies IMI Investimenti, charged with private equity activity and the management of large industrial equity shareholdings, Sanpaolo Bank (Luxembourg), which operates in international private banking, and Sanpaolo Fiduciaria.

The current organizational structure is distributed across 20 territorial areas/directorates of the network banks, responsible for the coordination of Market operations and branches, and improving the effectiveness of initiatives targeting customers on the basis of the specific needs of the territory of reference, by taking advantage of the direct relationship with the customer base.

Employing 80% of the Group's workforce, Banking generated 82% of total intermediary funds and 80% of consolidated revenues. In terms of absorption of capital, Banking's share remained stable at 59% over the first nine months of 2006, in line with the figure for the corresponding period of 2005. Banking produced 77% of consolidated profits, up 4.5% over the first nine months of 2005, which had benefited from non-recurring income from the Italenergia Bis transaction, which was executed in the third quarter. This performance is associated with an 11.5% increase in absorbed capital, leading to a decrease in annualized RORAC to 22.3% (from 23.8% in the first nine months of 2005). The cost/income ratio fell 1.3 percentage points, proof of the improvements in efficiency achieved through a growth in revenues coupled with contained growth in operating costs.

A more detailed analysis of these figures is provided below under the business lines in which the Sector is organized. It should be highlighted that customer financial assets and net loans to customers rose by 6.1% and 6.7% respectively on an annual basis. Net interest income increased by 9.1%, which, along with the recovery in other income from typical operations of commercial banks and increased revenues earned by Wholesale, led to a 6% increase in total operating income, which, as mentioned above, was impacted by the extraordinary nature of some of the income items in the comparative base. This performance led to a 13.6% increase in pre-tax operating profit, as a result of decreased adjustments made to loans and despite the 3.5% growth in operating costs compared to the first nine months of 2005. Net of taxation accruing to the period, net profits totaled 1,266 million euro, compared to the 1,212 million recorded for the first nine months of 2005, as reworked pro forma.

*Banking*

| | First nine months 2006 | First nine months 2005 pro forma | Change first nine months 2006 / First nine months 2005 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 2,864 | 2,626 | +9.1 |
| Net commissions | 1,936 | 1,887 | +2.6 |
| Income from credit disposals, financial assets held to maturity and repurchase of non-hedged financial liabilities | 31 | 19 | +63.2 |
| Dividends and income from other financial assets and liabilities | 351 | 333 | +5.4 |
| Profits (losses) on equity shareholdings | 27 | 51 | -47.1 |
| Income from insurance business | - | - | - |
| **Total operating income** | **5,209** | **4,916** | **+6.0** |
| Net adjustments to loans | -352 | -384 | -8.3 |
| Net adjustments to other financial assets | - | -2 | n.s. |
| **Net operating income** | **4,857** | **4,530** | **+7.2** |
| Personnel costs | -1,640 | -1,557 | +5.3 |
| Other administrative costs | -1,054 | -1,041 | +1.2 |
| Net adjustments to tangible and intangible assets | -17 | -22 | -22.7 |
| *Operating costs* | *-2,711* | *-2,620* | *+3.5* |
| Other net income (expenses) | 17 | 28 | -39.3 |
| Impairment of goodwill | - | -1 | n.s. |
| Profits (losses) from disposals of investments | - | 1 | n.s. |
| Net provisions for risks and charges | -30 | -61 | -50.8 |
| **Pre-tax operating profit** | **2,133** | **1,877** | **+13.6** |
| Taxes for the period | -865 | -663 | +30.5 |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | -2 | -2 | - |
| **Net profit** | **1,266** | **1,212** | **+4.5** |
| **REVENUES FROM THE SECTOR** (€/mil) | **5,209** | **4,916** | **+6.0** |
| **INCOME FROM THE SECTOR** (€/mil) | **2,133** | **1,877** | **+13.6** |
| **ALLOCATED CAPITAL** (€/mil) | **7,576** | **6,795** | **+11.5** |
| **RATIOS** (%) | | | |
| Annualized profitability | 22.3 | 23.8 | |
| Cost / Income ratio | 52.0 | 53.3 | |
| | 30/9/2006 | 30/9/2005 pro forma | Change 30/9/06-30/9/05 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Intermediary funds | 473,286 | 445,170 | +6.3 |
| Customer financial assets | 332,114 | 312,901 | +6.1 |
| - direct deposits | 108,157 | 104,649 | +3.4 |
| - asset management | 104,598 | 102,308 | +2.2 |
| *- mutual funds and fund-based portfolio management* | *68,733* | *67,763* | *+1.4* |
| *- portfolio management* | *5,749* | *5,225* | *+10.0* |
| *- life technical reserves and financial liabilities* | *30,116* | *29,320* | *+2.7* |
| - asset administration | 122,659 | 108,850 | +12.7 |
| - netting (1) | -3,300 | -2,906 | +13.6 |
| Net asset management flows | 73 | 4,685 | |
| Net loans to customers excluding NPLs | 141,172 | 132,269 | +6.7 |
| Total interest-earning assets (2) | 154,533 | 143,072 | +8.0 |
| Total interest-bearing liabilities (2) | 132,946 | 124,885 | +6.5 |
| **OPERATING STRUCTURE** | | | |
| Employees | 34,497 | 33,818 | +2.0 |
| Domestic branches | 3,109 | 3,048 | +2.0 |
| Foreign branches and representative offices | 149 | 130 | +14.6 |

*(1) Relating to Banca IMI fund-based structured bonds.*
*(2) Excluding Banca IMI group.*

## Retail & Private

The Retail & Private business line provides services targeting a customer base comprised of families, small businesses and private clients, and is supported by direct channels such as Internet, 'phone and mobile banking for retail customers and the Links Sanpaolo remote banking station for small businesses. The business line also includes Neos Banca, specialized in consumer credit, and Farbanca, the on-line bank for the pharmaceutical and health-care sector. Neos Banca's product portfolio for consumer credit is characterized by personal loans, revolving credit cards and loans backed by assignment of one-fifth of salary, in addition to classic targeted loans. The group also operates in the leasing sector through Neos Finance.

Total operating income for Retail & Private rose by 9.9% over the same period of the previous year, mainly due to a rise in net interest income which benefited from an extension of the mark-down on deposits as a result of the rise in money market rates, as well as the growth in the volumes of loans and sight deposits. The increase in net commissions was more moderate (+1.7%) as a result of commercial policy, which was less focused on the placement of products that generate up-front commissions.

Operating costs, in particular personnel costs (which make up over half of the business line's costs) and other administrative costs, rose in comparison to the same period of 2005 in relation to investments in support of the sales network. Retail & Private employs 23,043 people, representing 54% of the Group's workforce. The performance of income, combined with a more moderate growth of costs, resulted in a 23.5% increase in net profit, which reached 667 million euro.

Intermediary funds, making up almost half those of the Group, rose by 5.5% compared to end-September 2005, thanks to the growth in customer loans (+14.7%) and, to a lesser degree, in financial assets (+3.8%). The trend in the latter is mainly attributable to direct deposits, which grew 8% over the twelve months. On the other hand, indirect deposits performed more moderately in both its asset management and asset administration components. The best-selling product was fund-based portfolio management, which increased at a rate of more than 10%.

Retail & Private absorbed 16% of the Group's capital, a relative fall compared with the same period of last year. In absolute terms, the increase in absorbed capital may be attributed to the growth in loan transactions, although characterized by a moderate risk profile. Annualized profitability, up to 43.7% from the 36.5% of the first nine months of 2005, benefited from the rise in net profit.

Retail & Private operates through 3,030 branches and a further 170 operating points of the Group's commercial banks spread across 43 Markets. More specifically, Northern and Central regions and the Islands are covered by 1,417 Sanpaolo operating points, Southern Italy by 721 Sanpaolo Banco di Napoli operating points and the North East, Emilia and the Adriatic area by 1,062 operating points of Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Cassa di Risparmio di Venezia, Friulcassa and Sanpaolo Banca dell'Adriatico. Added to these are the 27 branches of Neos Banca and the headquarters of Farbanca.

Retail branches are divided into service-based modules for personal, family and small business customers, dedicated respectively to customers with significant financial resources, to households and customers comprising self-employed professionals, small companies, shopkeepers and craftsmen. As a result of the new level of segmentation introduced as of 1 January 2006, the small business segment now includes business concerns with a turnover of less than 2.5 million euro and with loan facilities of less than one million euro. The larger retail branches also operate private customer service modules designed to improve and extend the territorial coverage of the network of operating points specifically targeting the private banking segment.

Implementation of the service model for various customer sectors was completed in the third quarter. This model is aimed at improving customer relations by strengthening network specialization policies through significant investment in service coverage and a differentiated sales approach.

In the Market structures of the area/bank network, the Group continued to train and insert employees to fill the position of personal area officer (supporting personal customer managers), banking area officer for personal and family customers (supporting managers of small branches), and small business area manager (assigned to a district of small branches with the role of working to support managers in developing and managing small business customers). In order to improve coverage of this last sector, the presence of small business managers was extended to branches with at least 70 trusted relations.

As part of the project to restyle operating points, the first pilot branches were set up, involving the installation of new signs and the modernization of window arrangements to offer better communication.

As part of the implementation of the Commercial Plan for the third quarter, 14 central and local campaigns (planned marketing initiatives) focusing on offers of savings, assurance and financing products. Cross-selling initiatives were reinforced by the notification system and the customer base was increased through acquisition and retention activities; the net increase in customers for the first nine months of 2006 exceeded 64,000.

The initiative to renegotiate variable-rate mortgages produced especially significant results; this initiative allows mortgage holders to convert their remaining mortgage payment schedule to a fixed rate without additional charges, and, when applicable, to extend the duration of the loan.

Additional product-related initiatives were conducted in relation to: establishment and commercialization of the "Sanpaolo Manager Selection Fund", the new multi-compartment Luxembourg fund, which includes four new multi-manager sectors differentiated according to risk level and taking the form of funds of funds; placement of the two fund-based bonds in the "Strategia Dinamica" line issued by Dexia Crediop; the launch of

*Retail & Private*

| | First nine months 2006 | First nine months 2005 pro forma | Change first nine months 2006 / First nine months 2005 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 1,739 | 1,480 | +17.5 |
| Net commissions | 1,474 | 1,450 | +1.7 |
| Income from credit disposals, financial assets held to maturity and repurchase of non-hedged financial liabilities | 8 | - | n.s. |
| Dividends and income from other financial assets and liabilities | 28 | 25 | +12.0 |
| Profits (losses) on equity shareholdings | - | - | - |
| Income from insurance business | - | - | - |
| **Total operating income** | **3,249** | **2,955** | **+9.9** |
| Net adjustments to loans | -139 | -145 | -4.1 |
| Net adjustments to other financial assets | - | - | - |
| **Net operating income** | **3,110** | **2,810** | **+10.7** |
| Personnel costs | -1,071 | -1,026 | +4.4 |
| Other administrative costs | -842 | -818 | +2.9 |
| Net adjustments to tangible and intangible assets | -3 | -5 | -40.0 |
| *Operating costs* | *-1,916* | *-1,849* | *+3.6* |
| Other net income (expenses) | 1 | 17 | -94.1 |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | - | - |
| Net provisions for risks and charges | -14 | -19 | -26.3 |
| **Pre-tax operating profit** | **1,181** | **959** | **+23.1** |
| Taxes for the period | -513 | -418 | +22.7 |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | -1 | -1 | - |
| **Net profit** | **667** | **540** | **+23.5** |
| **ALLOCATED CAPITAL** (€/mil) | **2,036** | **1,973** | **+3.2** |
| **RATIOS** (%) | | | |
| Annualized profitability | 43.7 | 36.5 | |
| Cost / Income ratio | 59.0 | 62.6 | |
| | 30/9/2006 | 30/9/2005 pro forma | Change 30/9/06-30/9/05 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Intermediary funds | 276,395 | 261,909 | +5.5 |
| Customer financial assets | 227,474 | 219,245 | +3.8 |
| - direct deposits | 62,517 | 57,865 | +8.0 |
| - asset management | 103,996 | 101,776 | +2.2 |
| *- mutual funds and fund-based portfolio management* | *68,282* | *67,356* | *+1.4* |
| *- portfolio management* | *5,598* | *5,100* | *+9.8* |
| *- life technical reserves and financial liabilities* | *30,116* | *29,320* | *+2.7* |
| - asset administration | 60,961 | 59,604 | +2.3 |
| Net asset management flows | 16 | 4,607 | |
| Net loans to customers excluding NPLs | 48,921 | 42,664 | +14.7 |
| Total interest-earning assets | 49,874 | 43,267 | +15.3 |
| Total interest-bearing liabilities | 67,577 | 62,121 | +8.8 |
| **OPERATING STRUCTURE** | | | |
| Employees | 23,043 | 22,832 | +0.9 |
| Domestic branches | 3,058 | 3,003 | +1.8 |

the “Domus variable-rate” mortgage, which complements the company’s line of credit solutions for the purchase of residential property and involves constant rates with durations that vary based on the performance of the interest rate; widespread adoption of the "Sanpaolo Business Financing Policy", which protects the company’s "key" figures from events that might compromise the company’s ability to meet its own debt obligations; the release of a new offer aimed at professionals, with two sets of special current account conditions for each customer target, more favorable conditions for the main business banking services, and the possibility of having a personal current account with a no-cost operating plafond; improvement in the efficiency of the self-banking sector through the widespread implementation of MTA Web ATMs and Web ATMs.

## Corporate

The Corporate business line, which serves business customers, comprises the Companies Division, charged with the managing companies with a turnover of more than 2.5 million euro or overall loan facilities of over one million that are not part of large nationwide groups, and Sanpaolo Leasint, which operates in the leasing compartment.

Corporate intermediary funds continued the upward trend of last year, with an increase of 10.5% on an annual base, attributable to both loan activity (+10.1%) and deposits (+6.4%). Driven by

*Corporate*

| | First nine months 2006 | First nine months 2005 pro forma | Change first nine months 2006 / First nine months 2005 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 756 | 710 | +6.5 |
| Net commissions | 213 | 196 | +8.7 |
| Income from credit disposals, financial assets held to maturity and repurchase of non-hedged financial liabilities | - | - | - |
| Dividends and income from other financial assets and liabilities | 90 | 58 | +55.2 |
| Profits (losses) on equity shareholdings | - | - | - |
| Income from insurance business | - | - | - |
| **Total operating income** | **1,059** | **964** | **+9.9** |
| Net adjustments to loans | -197 | -189 | +4.2 |
| Net adjustments to other financial assets | - | - | - |
| **Net operating income** | **862** | **775** | **+11.2** |
| Personnel costs | -201 | -199 | +1.0 |
| Other administrative costs | -211 | -209 | +1.0 |
| Net adjustments to tangible and intangible assets | -1 | -1 | - |
| *Operating costs* | *-413* | *-409* | *+1.0* |
| Other net income (expenses) | 10 | 8 | +25.0 |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | - | - |
| Net provisions for risks and charges | -19 | -25 | -24.0 |
| **Pre-tax operating profit** | **440** | **349** | **+26.1** |
| Taxes for the period | -188 | -152 | +23.7 |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | - | - | - |
| **Net profit** | **252** | **197** | **+27.9** |
| **ALLOCATED CAPITAL** (€/mil) | **2,998** | **2,637** | **+13.7** |
| **RATIOS** (%) | | | |
| Annualized profitability | 11.2 | 10.0 | |
| Cost / Income ratio | 39.0 | 42.4 | |
| | 30/9/2006 | 30/9/2005 pro forma | Change 30/9/06-30/9/05 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Intermediary funds | 100,723 | 91,185 | +10.5 |
| Direct deposits | 16,583 | 15,584 | +6.4 |
| Net loans to customers excluding NPLs | 51,049 | 46,354 | +10.1 |
| Total interest-earning assets | 52,233 | 47,554 | +9.8 |
| Total interest-bearing liabilities | 20,647 | 18,870 | +9.4 |
| **OPERATING STRUCTURE** | | | |
| Employees | 3,907 | 3,929 | -0.6 |
| Domestic branches | 46 | 42 | +9.5 |

commercial initiatives promoting loan facilities for business, the trend was a hard-earned success given the current glut in credit facility offers that has exacerbated competition in the reference market and reduced credit spreads.

Revenues were up 9.9% from the first nine months of 2005 due to the increase in the main income items: net interest income, driven by the positive contribution of operating volumes, which effectively offset the erosion of the mark-up on corporate counterparties; commissions and income on other financial assets and liabilities, which benefited from the development of interest and exchange rate derivatives aimed at business.

Net operating income rose 11.2%, despite the moderate growth of adjustments to loans. With operating costs up slightly, pre-tax operating profit grew to 440 million euro, compared to the 349 million recorded for the first nine months of 2005.

Net profit totaled 252 million euro, up 27.9% on the same period of last year.

Corporate absorbed 23% of the Group's capital, in line with the first nine months of 2005. In absolute values, allocated capital rose as a result of the growth in loan facilities to businesses recorded in the period. The growth in capital absorbed was fully offset by profit trends, which brought about a 1.2 percentage point improvement in annualized profitability, as expressed in terms of RORAC, which grew to 11.2%. The business line employs 3,907 people, representing 9% of the Group's workforce.

Improvement in efficiency was also significant: the cost/income ratio fell by 3.4 percentage points compared to the same period of 2005 to reach 39%.

Operations with the business sector are conducted through a distribution network of 251 operating points and 1,000 customer managers. The local presence maintained in various geographical areas is inspired by the objective of exploiting proximity to customers and the efficiency of decision-making processes. The branch network comprises 19 Market offices, to which report specialized structures with more than 200 product developers and specialists in the various business areas.

In the third quarter of 2006, business with companies was focused on:

- launching marketing initiatives aimed at maximizing the effectiveness of selling of products and services, especially for financing in support of internationalization and investments in research and development;
- honing the service model for business finance products.

The competitive position with regard to customers improved; the share of wallet on loans grew by around 40 basis points compared to December 2005, in part due to the positive trend in disbursement of medium-/long-term financing (around six billion euro in the first nine months of 2006), a growth of over 30% compared to the corresponding period of 2005.

As for high added-value products, a new distribution process for derivatives was introduced that results in more effective sales and a better match between financing solutions and the operating needs of counterparties. The customer base for the business sector increased by more than 40% in the first nine months of 2006 compared to the corresponding period of 2005.

Lastly, the initiative to expand the customer base continued successfully, resulting in the addition of more than 450 new companies since the beginning of the year.

## Wholesale

The Wholesale business line comprises: the Investment Banking Division, to which Banca IMI and the Structured Finance unit report; the Large Groups Division, responsible for managing relations with leading groups of national and international standing; the International Division, including the international network of the Parent Bank with regard to corporate lending activities, the

*Wholesale*

| | First nine months 2006 | First nine months 2005 pro forma | Change first nine months 2006 / First nine months 2005 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 310 | 301 | +3.0 |
| Net commissions | 146 | 164 | -11.0 |
| Income from credit disposals, financial assets held to maturity and repurchase of non-hedged financial liabilities | 22 | 19 | +15.8 |
| Dividends and income from other financial assets and liabilities | 205 | 131 | +56.5 |
| Profits (losses) on equity shareholdings | 20 | - | n.s. |
| Income from insurance business | - | - | - |
| **Total operating income** | **703** | **615** | **+14.3** |
| Net adjustments to loans | -15 | -49 | -69.4 |
| Net adjustments to other financial assets | - | - | - |
| **Net operating income** | **688** | **566** | **+21.6** |
| Personnel costs | -144 | -126 | +14.3 |
| Other administrative costs | -103 | -94 | +9.6 |
| Net adjustments to tangible and intangible assets | -10 | -13 | -23.1 |
| *Operating costs* | *-257* | *-233* | *+10.3* |
| Other net income (expenses) | 3 | 4 | -25.0 |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | 1 | n.s. |
| Net provisions for risks and charges | 1 | 2 | -50.0 |
| **Pre-tax operating profit** | **435** | **340** | **+27.9** |
| Taxes for the period | -146 | -79 | +84.8 |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | -1 | -1 | - |
| **Net profit** | **288** | **260** | **+10.8** |
| **ALLOCATED CAPITAL** (€/mil) | **2,195** | **1,764** | **+24.4** |
| **RATIOS** (%) | | | |
| Annualized profitability | 17.5 | 19.7 | |
| Cost / Income ratio | 36.6 | 37.9 | |
| | 30/9/2006 | 30/9/2005 pro forma | Change 30/9/06-30/9/05 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Intermediary funds | 67,531 | 70,147 | -3.7 |
| Direct deposits | 22,085 | 23,811 | -7.2 |
| Net loans to customers excluding NPLs | 39,213 | 40,945 | -4.2 |
| Total interest-earning assets (1) | 46,384 | 45,769 | +1.3 |
| Total interest-bearing liabilities (1) | 36,435 | 35,346 | +3.1 |
| **OPERATING STRUCTURE** | | | |
| Employees | 3,235 | 2,976 | +8.7 |
| Domestic branches | 5 | 3 | +66.7 |
| Foreign branches and representative offices | 148 | 130 | +13.8 |

*(1) Excluding Banca IMI group.*

Irish subsidiary Sanpaolo IMI Bank Ireland, and Sanpaolo IMI Internazionale, responsible for Group operations in Central-Eastern Europe; and the Public Authorities and Entities Division, concerned with the development of relations with the government offices and institutions of reference, operating through Banca OPI and the financial shareholding FIN.OPI.

Intermediary funds for the Wholesale business line decreased by 3.7% on an annual basis. This trend is due mainly to the drop in funding and financing in the investment banking and large groups compartment concomitant with expanded operations outside of Italy. Net loans to customers registered a decrease of 4.2% due to the drop in investment banking financing (especially repurchase agreements), and, to a lesser extent, the public sector, only partially offset by sharp growth in the foreign compartment.

Revenues rose 14.3% compared to the first nine months of 2005. Major contributions came from the investment banking and international compartments. The contribution to total operating income of the public authorities and entities compartment was in line with the values for the first nine months of 2005.

Net operating income, up 21.6%, benefited from a significant drop in adjustments to loans, mainly due to the recovery of structured finance positions and recovery on loans to foreign counterparties that had been written off in previous years. In spite of the rise in operating costs (+10.3%) linked to personnel and other administrative costs, operating profit was 435 million euro, higher than the 340 million recorded in the first nine months of 2005. Personnel grew by 8.7% over the twelve months, mainly in the foreign branches of the Parent Bank and the East European banks, bringing the number of employees in the business line to 3,235, equal to 7.5% of the Group's workforce.

Net profit totaled 288 million euro, up 10.8% over the same period of last year.

Capital absorbed by the Wholesale line, representing 17% of the Group's capital, grew 24.4% as a result of the rise in activities, which led to an increase in credit and operating risks. Profitability, expressed in terms of annualized RORAC, dropped from 19.7% for the first nine months of 2005 to 17.5%.

The cost/income ratio fell by 1.3 percentage points compared to the same period of 2005 to reach 36.6%.

### Investment Banking and Large Groups

The Investment Banking Division comprises the activities of Banca IMI, the Group's investment bank, and the Structured Finance unit, responsible for project financing and specialized structured lending; the Large Groups Division supervises larger customers.

In the first nine months of 2006, Investment Banking and Large Groups transactions were characterized by the highly positive performance of Banca IMI. Total operating income rose by 13.1% due to the increase in income on the other financial assets and liabilities of Banca IMI, which benefited from expanded activities with other Group companies, as a consequence of more highly integrated operations with the distribution networks and product companies, and by the simplification of trading activity, which focused on the customer-driven business sector. As far as the various compartments are concerned, the biggest contributions to the rise in revenues came from market-making in complex interest rate and equity derivatives and in support of the placement of structured and exotic products. Structured finance activity also made a significant contribution, in addition to global brokerage commissions, which continued to benefit from the positive performance of stock markets. The rise in operating costs, especially personnel costs, in connection with the increase in variable retribution, and other administrative costs was less than the rise in revenues, resulting in operating profit of 221 million euro (+24.2% compared to the first nine months of 2005). Net of taxes accrued for the period, net profit dropped by 13.2%.

Banca IMI is one of the leading Italian financial operators, with a strong presence in share and bond placements, in extraordinary financial operations, and in securities trading. The bank's mission is to offer specialized services to company and institutional customers, and develop structured products distributed through the Group's network also to retail customers.

With regard to activities on capital markets, in the third quarter of 2006 Banca IMI was joint lead manager, co-manager, and co-lead for 14 bond issues. As for bank issuers, it organized the placement of a subordinated bond issued by the Banca Popolare dell'Etruria e del Lazio and a senior floating-rate bond issue by SANPAOLO IMI with Italian and foreign institutional investors. Corporate issuers included AIG (floating-rate bonds), Arran Residential Mortgages, and Red & Black Consumer Plc (ABS). Banca IMI also acted as dealer for some private placements of structured equity-linked securities issued by SNS Bank, SNS Reaal Groep, Kfw, Dexia Crediop and SANPAOLO IMI.

Activity continued in support of Sanpaolo networks with regard to bonds aimed at retail customers; in the third quarter Banca IMI was responsible for the placement of the issue of two new "Strategia Dinamica" bonds by Dexia Crediop.

Activity in interest rate derivatives and commodities with the Group's corporate network remained lively. After the summer break, activity resumed at a brisk pace in September, driven partly by the implementation of the new IT and execution platform for interest rate derivatives ("IDEA": Intranet Derivatives Automatic Execution).

As for capital increases and the placement of shares, Banca IMI acted as financial advisor in Eurizon's Public Offer for Banca Fideuram, and advisor and sole manager for the Aeroporti Holding's Public Offer for Aeroporti di Firenze. The bank also confirmed its leadership as specialist and corporate broker on the Italian market in terms of number of mandates (22).

As regards its corporate finance advisory activity, Banca IMI assisted Veneto Banca with its plan to merge with Banca Popolare di Intra.

In terms of structured finance, which it carries out with the collaboration, and in support of, the Group network and banking

*Investment Banking and Large Groups*

| | First nine months 2006 | First nine months 2005 pro forma | Change first nine months 2006 / First nine months 2005 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 115 | 114 | +0.9 |
| Net commissions | 77 | 95 | -18.9 |
| Income from credit disposals, financial assets held to maturity and repurchase of non-hedged financial liabilities | - | - | - |
| Dividends and income from other financial assets and liabilities | 165 | 112 | +47.3 |
| Profits (losses) on equity shareholdings | 6 | - | n.s. |
| Income from insurance business | - | - | - |
| **Total operating income** | **363** | **321** | **+13.1** |
| Net adjustments to loans | -7 | -25 | -72.0 |
| Net adjustments to other financial assets | - | - | - |
| **Net operating income** | **356** | **296** | **+20.3** |
| Personnel costs | -72 | -61 | +18.0 |
| Other administrative costs | -60 | -53 | +13.2 |
| Net adjustments to tangible and intangible assets | -3 | -5 | -40.0 |
| *Operating costs* | *-135* | *-119* | *+13.4* |
| Other net income (expenses) | - | 1 | n.s. |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | - | - |
| Net provisions for risks and charges | - | - | - |
| **Pre-tax operating profit** | **221** | **178** | **+24.2** |
| Taxes for the period | -83 | -19 | n.s. |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | - | - | - |
| **Net profit** | **138** | **159** | **-13.2** |
| **ALLOCATED CAPITAL** (€/mil) | **1,082** | **934** | **+15.8** |
| **RATIOS** (%) | | | |
| Annualized profitability | 17.0 | 22.7 | |
| Cost / Income ratio | 37.2 | 37.1 | |
| | 30/9/2006 | 30/9/2005 pro forma | Change 30/9/06-30/9/05 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Intermediary funds | 27,866 | 32,476 | -14.2 |
| Direct deposits | 11,881 | 13,982 | -15.0 |
| Net loans to customers excluding NPLs | 10,368 | 13,493 | -23.2 |
| Banca IMI SpA trading volumes | | | |
| - trading | 352,446 | 423,923 | |
| - sales | 153,932 | 146,769 | |
| - repurchase agreements | 888,757 | 1,276,435 | |
| - placements | 5,743 | 5,474 | |
| **OPERATING STRUCTURE** | | | |
| Employees | 637 | 624 | +2.1 |
| Domestic branches | 1 | 1 | - |
| Foreign branches and representative offices | 1 | 1 | - |

customers, Banca IMI worked with the Parent Bank to finalize the acquisition finance deal for Torino Piemonte Automotive.

With regard to the Large Groups Division, the reference market was characterized by increasing commercial competition, especially concerning the traditional loans sector, also in relation to the rising liquidity of the loans system. At the end of September 2006, loans in this compartment amounted to 6.5 billion euro, a rise of 11% on an annual basis.

Activities in the third quarter were focused on defending profitability levels while maintaining portfolio quality. At the same time, in terms of its operations, the Division upped the intensity with which it offered its higher value-added risk-free services in order to balance out the drop in financial margins on lending activities.

### International Network

The International Network Division is responsible for the international banking activities of the Parent Bank and foreign subsidiary banks. It manages the segment relating to customers operating on foreign markets and develops services on foreign markets for national businesses, whilst promoting and managing relations with counterpart banks. Sanpaolo IMI Internazionale, controlling stakeholder in the Hungarian Inter-Europa Bank (85.9%) and in Sanpaolo IMI Bank Romania (98.6%), as well as being responsible for the operational controlling of the Slovene Banka Koper and Banca Italo Albanese, in which the Parent Bank holds a 66.2% and 76.1% share respectively, reports directly to the Division.

The distribution network directly covers 34 countries, constituting 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, together with the 115 branches of the subsidiary banks operating in Central-Eastern Europe.

The third quarter of 2006 saw the continuation of initiatives in line with the corporate mission, focused on supporting the internationalization of Italian businesses, promoting and assisting foreign multinationals in their investments and operations in European markets (with priority given to the Italian market), maximizing the opportunities for cross-selling with the Group's product factories, operating as a “domestic bank” in new, fast-growing markets, and extending relations with counterpart banks.

In July an agreement was signed for the acquisition of an 87.4% equity shareholding in Panonska Banka from the Serbian ministry of finance.

Furthermore, the procedures for the tender offer for the American Bank of Albania, a leading provider of banking services to Albanian businesses and private citizens, and the Egyptian Bank of Alexandria, the country’s third-largest bank, were launched during the period; the latter took concrete form in October.

These transactions are part of the Group’s larger strategic development plan for rapidly growing markets in Central-Eastern Europe and the Mediterranean Basin.

In the first nine months of 2006, international activities grew significantly in terms of all profit margins and operating volumes. Intermediary funds rose 23% on an annual basis thanks to the positive performance of both loans to customers and direct deposits. Revenues, up 28.3% over the same period of 2005, benefited from income from the disposal of non-performing loans “Hawaii 125” at the Nassau branch by the Parent Bank and profits from the disposal of equity shareholdings held by Banka Koper. In the light of these revenue trends, operating costs posted moderate growth compared to the first nine months of 2005. Net profit totaled 79 million euro (+88.1%) and profitability rose to 23.3% from the 17.5% in the corresponding period of last year.

### Public Authorities and Entities

The Public Authorities and Entities Division, operating through Banca OPI, is responsible for advisory activities and the medium-to long-term financing of public bodies and local public service agencies for the implementation of infrastructure projects.

In a context characterized by continuing tight public financial policy and increased competition on the Local Entities market, Banca OPI continued to gear its commercial policy towards careful selection of operations in terms of pricing, quality of assets, and concentration of the loan portfolio. Results in terms of revenues and pre-tax operating profit proved to be in line with those recorded for the same period of last year. Net profit amounted to 71 million euro, up 20.3%, due to the positive effects of the new treatment of loan adjustments for the purposes of IRAP.

In the first nine months of the year, the bank concluded new contracts for 3,446 million euro, and disbursed 3,920 million euro in financing, 1,160 million euro of which in securities. As a consequence, the overall stock of loans at the end of September totaled 26.4 billion euro when the turnover attributable to the maturity and disposal of assets is accounted for, up 1.1% on an annual basis.

The flow of new contracts on the domestic market in the first nine months of 2006 amounted to 2,245 million euro.

The bank also strengthened its operating and commercial development on foreign markets: contracts with foreign payees (excluding project finance) amounted to 575 million euro in the period, a significant improvement over the figure for the corresponding period of 2005; the growth trend is proof that penetration of international markets remains one of the bank’s primary goals for the future.

While developing its lending activities, the bank also increased its up-selling to public customers by promoting liability management services through plans for the re-modulation and renegotiation of financial liabilities, in part through the use of derivative instruments: the first nine months of the year saw 58 new debt management transactions for a notional total of around two billion euro.

Finally, dynamic asset management continued, aimed at seizing the opportunities offered by market appreciation of good-quality

"Italian risk". More specifically, a total of 570 million euro in asset disposals were concluded, which led not only to capital gains but also to a reduction of asset concentration, thereby favoring the development of new prospective transactions.

Project finance was confirmed as one of the bank's distinctive traits and areas of excellence. Despite the uncertain climate on the domestic market, Banca OPI was awarded major roles in Italy as mandated lead arranger in the water, health building and local public transport sectors. Although further recovery on the domestic market has not yet materialized, project financing was characterized by marked international activity due to underwriting transactions connected to the privatization of French highways and the Indiana Toll Road Concession Company project in the U.S.A.. As a

*International Network*

| | First nine months 2006 | First nine months 2005 pro forma | Change first nine months 2006 / First nine months 2005 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 101 | 91 | +11.0 |
| Net commissions | 67 | 65 | +3.1 |
| Income from credit disposals, financial assets held to maturity and repurchase of non-hedged financial liabilities | 10 | - | n.s. |
| Dividends and income from other financial assets and liabilities | 22 | 10 | +120.0 |
| Profits (losses) on equity shareholdings | 13 | - | n.s. |
| Income from insurance business | - | - | - |
| **Total operating income** | **213** | **166** | **+28.3** |
| Net adjustments to loans | -8 | -19 | -57.9 |
| Net adjustments to other financial assets | - | - | - |
| **Net operating income** | **205** | **147** | **+39.5** |
| Personnel costs | -54 | -50 | +8.0 |
| Other administrative costs | -33 | -32 | +3.1 |
| Net adjustments to tangible and intangible assets | -7 | -8 | -12.5 |
| *Operating costs* | *-94* | *-90* | *+4.4* |
| Other net income (expenses) | 2 | 2 | - |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | 1 | n.s. |
| Net provisions for risks and charges | 1 | 1 | - |
| **Pre-tax operating profit** | **114** | **61** | **+86.9** |
| Taxes for the period | -34 | -18 | +88.9 |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | -1 | -1 | - |
| **Net profit** | **79** | **42** | **+88.1** |
| **ALLOCATED CAPITAL** (€/mil) | **453** | **320** | **+41.6** |
| **RATIOS** (%) | | | |
| Annualized profitability | 23.3 | 17.5 | |
| Cost / Income ratio | 44.1 | 54.2 | |
| | 30/9/2006 | 30/9/2005 pro forma | Change 30/9/06-30/9/05 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Intermediary funds | 14,940 | 12,145 | +23.0 |
| Direct deposits | 5,610 | 5,119 | +9.6 |
| Net loans to customers excluding NPLs | 8,713 | 6,636 | +31.3 |
| **OPERATING STRUCTURE** | | | |
| Employees | 2,365 | 2,131 | +11.0 |
| Foreign branches and representative offices | 147 | 129 | +14.0 |

result, overall volumes of contracts reached 626 million euro at the end of September, up on the 345 million recorded in all of last year.

As for equity investor activity performed by the subsidiary FIN.OPI, in July it concluded a transaction to acquire slightly more than 8% of the share capital in IRIS S.p.A., a multi-utility company in Gorizia. In the third quarter FIN.OPI continued to acquire shares of AEM Torino and AMGA on the market, increasing its previous stake in anticipation of the merger between the two companies. These transactions are part of FIN.OPI's acquisitions policy in the

*Public Authorities and Entities*

| | First nine months 2006 | First nine months 2005 pro forma | Change first nine months 2006 / First nine months 2005 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 94 | 96 | -2.1 |
| Net commissions | 2 | 4 | -50.0 |
| Income from credit disposals, financial assets held to maturity and repurchase of non-hedged financial liabilities | 12 | 19 | -36.8 |
| Dividends and income from other financial assets and liabilities | 18 | 9 | +100.0 |
| Profits (losses) on equity shareholdings | 1 | - | n.s. |
| Income from insurance business | - | - | - |
| **Total operating income** | **127** | **128** | **-0.8** |
| Net adjustments to loans | - | -5 | n.s. |
| Net adjustments to other financial assets | - | - | - |
| **Net operating income** | **127** | **123** | **+3.3** |
| Personnel costs | -18 | -15 | +20.0 |
| Other administrative costs | -10 | -9 | +11.1 |
| Net adjustments to tangible and intangible assets | - | - | - |
| *Operating costs* | *-28* | *-24* | *+16.7* |
| Other net income (expenses) | 1 | 1 | - |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | - | - |
| Net provisions for risks and charges | - | 1 | n.s. |
| **Pre-tax operating profit** | **100** | **101** | **-1.0** |
| Taxes for the period | -29 | -42 | -31.0 |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | - | - | - |
| **Net profit** | **71** | **59** | **+20.3** |
| **ALLOCATED CAPITAL** (€/mil) | **660** | **510** | **+29.4** |
| **RATIOS** (%) | | | |
| Annualized profitability | 14.3 | 15.4 | |
| Cost / Income ratio | 22.0 | 18.8 | |
| | 30/9/2006 | 30/9/2005 pro forma | Change 30/9/06-30/9/05 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Net loans to customers excluding NPLs | 20,132 | 20,816 | -3.3 |
| Disbursements in the period | 3,920 | 4,456 | |
| Investments in customer securities (stock) | 6,285 | 5,319 | +18.2 |
| Subscription of securities issued by customers (flows) | 1,160 | 911 | |
| **OPERATING STRUCTURE** | | | |
| Employees | 233 | 221 | +5.4 |
| Domestic branches (1) | 4 | 2 | +100.0 |

*(1) This figure is for the central operating offices of Banca OPI, and does not include the (16) regional offices of the Public Authorities and Entities Division distributed throughout Italy.*

local public utilities compartment, which is currently going through a bullish phase driven by an increasing trend towards mergers.

One especially significant development took place in September when the Bank of Italy approved the regulations of the infrastructure mutual fund PPP Italia, for which FIN.OPI will act as advisor and investor, and whose closing is scheduled for the end of 2006.

### Other Activities

The merger by incorporation of Sanpaolo IMI Private Equity into IMI Investimenti took effect on 30 September 2006.

This merger created a single pole for the management of the Group's equity investment business, financed both with own capital and resources obtained from the market, which is intended to function as a single, qualified center dedicated to identifying, managing and monitoring investments in the capital of industrial businesses and service companies.

In the third quarter, management of the portfolio of investments directly held by the subholding IMI Investimenti continued; these investments are financed with own capital and are aimed at medium/large companies or closed-end equity funds.

Activity was especially lively for the closed-end funds managed by two controlled asset management companies (SGR), Sanpaolo IMI Investimenti per lo Sviluppo, which manages the Fondo Mezzogiorno (Fund for South Italy), and Sanpaolo IMI Fondi Chiusi, which manages the Fondo Centro Impresa (Central Italy Corporate Fund) and Fondo Nord Ovest Impresa (North-West Italy Corporate Fund). These funds, which are financed with capital collected mainly on the market, operate in the private equity field, and are aimed at small/medium companies.

In August, the Fondo Mezzogiorno sold its equity shareholding in Cirio De Rica, realizing an annual return of 8.5%. It was decided to sell the equity shareholding in Hardis, which was executed at the end of October, generating an annual return of 28% for the Fund.

Concerning new transactions, the Fund resolved to acquire a 44% equity shareholding in the DEMA company in Campania (the deal was finalized in October); DEMA, which operates in the aeronautics sector, was the seventh investment the Fund has made since its inception in 2003.

As part of a management buy-out, the Fondo Centro Impresa acquired a 32% stake of the company Green Sviluppo S.p.A., which is controlled by Blumen S.r.l. and produces and markets seeds and gardening products.

Lastly, the Fondo Nord Ovest Impresa completed its second transaction, acquiring a 37% stake of the Genovese company RGM S.p.A., which produces electrotechnical components for industrial customers. This transaction, which may be classified as "replacement/development capital" transaction, involved transferring most of the company's share capital from the previous financial partner to a consortium consisting of the Fondo Nord Ovest Impresa, the company's founder, and its main managers.

## Savings and Assurance

The area of operation of Eurizon Financial Group, the sub-holding company responsible for the Savings and Assurance sector, includes the insurance business run by EurizonVita, the asset-gathering activity performed by Banca Fideuram's network of financial planners serving customers with medium to high savings potential, and asset management conducted by Sanpaolo IMI Asset Management (renamed Eurizon Capital on 1 November 2006).

In the first nine months of 2006, the Sector registered a 4.8% increase in total operating income over the same period of 2005 due to the impact of increased revenues produced by Banca Fideuram and Sanpaolo IMI Asset Management. Operating costs grew by 11.1% in connection with Eurizon start-up costs and the strengthening of the governance and operating structure of EurizonVita, as well as new project initiatives and extraordinary transactions by Banca Fideuram related to Eurizon's Public Offer. The cessation of non-recurring provisions allocated last year by Banca Fideuram to cover risks related to defaulted securities it had placed contributed to a 5% increase in net profit, which rose to 355 million euro.

As for operating figures, assets under management totaled 188.2 billion euro, up 3.5% from the end of September 2005.

Capital absorbed by the Sector, which represents 11% of the Group's overall capital, totaled 1,399 million euro, up 6.1% over the first nine months of 2005, mainly due to increased absorption by insurance companies. Along with this factor, the more moderate increase in net profit, which represents 22% of the consolidated figure, led to a decrease in annualized profitability, which fell to 33.8% from the 34.2% for the first nine months of 2005.

*Savings and Assurance*

| | First nine months 2006 | First nine months 2005 pro forma | Change first nine months 2006 / First nine months 2005 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 57 | 33 | +72.7 |
| Net commissions | 616 | 572 | +7.7 |
| Income from credit disposals, financial assets held to maturity and repurchase of non-hedged financial liabilities | 4 | 3 | +33.3 |
| Dividends and income from other financial assets and liabilities | 1 | 23 | -95.7 |
| Profits (losses) on equity shareholdings | - | - | - |
| Income from insurance business | 281 | 284 | -1.1 |
| **Total operating income** | **959** | **915** | **+4.8** |
| Net adjustments to loans | 1 | 1 | - |
| Net adjustments to other financial assets | - | - | - |
| **Net operating income** | **960** | **916** | **+4.8** |
| Personnel costs | -182 | -155 | +17.4 |
| Other administrative costs | -200 | -179 | +11.7 |
| Net adjustments to tangible and intangible assets | -19 | -27 | -29.6 |
| *Operating costs* | *-401* | *-361* | *+11.1* |
| Other net income (expenses) | 9 | 16 | -43.8 |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | - | - |
| Net provisions for risks and charges | -39 | -62 | -37.1 |
| **Pre-tax operating profit** | **529** | **509** | **+3.9** |
| Taxes for the period | -129 | -121 | +6.6 |
| Profits (losses) on discontinued operations | - | -5 | n.s. |
| Profit attributable to minority interests | -45 | -45 | - |
| **Net profit** | **355** | **338** | **+5.0** |
| **REVENUES FROM THE SECTOR** (€/mil) | **959** | **915** | **+4.8** |
| **INCOME FROM THE SECTOR** (€/mil) | **529** | **509** | **+3.9** |
| **ALLOCATED CAPITAL** (€/mil) | **1,399** | **1,318** | **+6.1** |
| **RATIOS** (%) | | | |
| Annualized profitability | 33.8 | 34.2 | |
| Cost / Income ratio | 41.8 | 39.5 | |
| | 30/9/2006 | 30/9/2005 pro forma | Change 30/9/06-30/9/05 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Assets under management (1) | 188,195 | 181,822 | +3.5 |
| Total interest-earning assets | 8,553 | 7,014 | +21.9 |
| Total interest-bearing liabilities | 7,704 | 6,152 | +25.2 |
| **OPERATING STRUCTURE** | | | |
| Employees | 2,760 | 2,576 | +7.1 |
| Financial planners | 4,221 | 4,189 | +0.8 |
| Domestic branches | 93 | 91 | +2.2 |

*(1) Includes asset management, asset administration, management of institutional customers and third parties, and direct deposits in relation to asset management transactions.*

### EurizonVita

In the third quarter of 2006, activities were focused on:
- revising and repositioning the product range;
- honing loan portfolio management strategies;
- launching activities aimed at creating a distribution network for individual assurance;
- implementing projects aimed at improving management and control;
- collaborating in the development plans of the Eurizon group.

The primary objective in revising the product range was to maximize the insurance and assurance components of the products offered in an attempt to help customers choose more suitable instruments in terms of coverage needs and with timelines more in tune with the characteristics of insurance saving.

Actions regarding the range mainly concerned products linked to separated management for the banking network and unit-linked products for all the distribution channels.

Particular attention was also given to assurance to exploit the market development opportunities arising from the new socio-demographic situation and the reform of the Italian pension system, making use of product innovation and the strengthening of specialized customer advisory services.

These objectives were pursued in the third quarter of 2006 mainly through:
- the launch of a new dedicated personal assurance product for the network of planners;
- the start of the promotion campaign for pension funds;
- planning activities for the creation in EurizonVita of a direct distribution network to sell assurance products as of the beginning of 2007;
- the revision of the unit-linked range with the launch by Sanpaolo Life of two product lines geared towards the Group's bank branches and networks of financial planners, respectively;
- the launch of a mortality risk hedging product geared towards customer segments that had previously not been targeted by the Company's offer.

The honing of loan portfolio management strategies was mainly effected through portfolio hedging plans with the aim of protecting the return levels of separated management, together with the analysis and support tools.

Projects aimed at improving management and control mainly involved the creation of the FAP (Financial Analysis Program) system, which measures value and risk, the creation of an integrated system for the management of consolidated accounts, the launch of a project for the implementation of an ERP (Enterprise Resource Planning) system for administrative and accounting issues and the management of the liability cycle; the development of data warehousing systems for planning and control and marketing analyses, the gradual integration of IT systems into the Universo Servizi platform, and the implementation of the IT system for the casualty branch.

Co-operation in the creation of the Eurizon group comprised:
- start-up of projects aimed at supporting the gradual take-over of the activities of EurizonTutela (formerly Egida) – previously outsourced to Reale Mutua – following the acquisition of total control of the company;
- rationalization of the companies operating in the casualty branches through the merger by incorporation of Fideuram Assicurazioni into EurizonTutela, concluded at the end of July and effective as from 1 September;
- creation of a "Macchina Operativa di Polo" (Pole Operating Vehicle) with the integration into Universo Servizi of the IT and back office activities of Banca Fideuram in order to rationalize support and services;
- participation in the operational start of Eurizon effected also through the transfer to the latter of some organizational structures for policy and coordination;
- participation in the reviews of distribution agreements with regard to the Group's branch network;
- operational support for the project to obtain a listing for Eurizon, which will be completed next year.

EurizonVita posted a 146 million euro contribution to consolidated profit, a decrease of 5.2% compared to the same period of 2005. The figure for the first nine months of 2006 incorporates updated mortality tables based on new demographic data, which were prepared according to technical standards which were declared valid by ISVAP and entailed greater provisions for reserves: on a like-for like basis, net profit increased by 8%.

Income from the insurance business remained essentially stable compared to the corresponding period of 2005. Operating costs increased from 74 to 123 million euro. The trend in costs, which was offset by the increase in other operating income, may be attributed to the impact of the incorporation of the IT service unit transferred by Banca Fideuram to Universo Servizi effective as of 1 May, and, to a lesser extent, the strengthening of the Company's governance and operating structure that was initiated in the second half of 2005.

57% of the securities portfolio, totaling 47,226 million euro, is made up by securities designated as at fair value, mainly for unit- and index-linked products; available-for-sale securities account for 42%, mainly revaluable policies, and the remaining 1% is comprised of financing and loans. The policy portfolio totaled 45,257 million euro, comprising 22,432 million euro in life technical reserves, 22,267 million in financial unit- and index-linked policies classified as deposits, 344 million in specific assets, 116 open-end pension funds classified as insurance products, and 98 million in technical reserves for the casualty branch.

*EurizonVita*

| | First nine months 2006 | First nine months 2005 | Change first nine months 2006 / First nine months 2005 (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | - | - | - |
| Net commissions | - | - | - |
| Income from credit disposals, financial assets held to maturity and repurchase of non-hedged financial liabilities | - | - | - |
| Dividends and income from other financial assets and liabilities | - | - | - |
| Profits (losses) on equity shareholdings | - | - | - |
| Income from insurance business (1) | 282 | 284 | -0.7 |
| **Total operating income** | **282** | **284** | **-0.7** |
| Net adjustments to loans | 1 | 1 | - |
| Net adjustments to other financial assets | - | - | - |
| **Net operating income** | **283** | **285** | **-0.7** |
| Personnel costs | -46 | -24 | +91.7 |
| Other administrative costs | -70 | -47 | +48.9 |
| Net adjustments to tangible and intangible assets | -7 | -3 | +133.3 |
| *Operating costs* | *-123* | *-74* | *+66.2* |
| Other net income (expenses) | 59 | 13 | n.s. |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | - | - |
| Net provisions for risks and charges | -2 | - | n.s. |
| **Pre-tax operating profit** | **217** | **224** | **-3.1** |
| Taxes for the period | -71 | -67 | +6.0 |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | - | -3 | n.s. |
| **Net profit** | **146** | **154** | **-5.2** |
| **ALLOCATED CAPITAL** (€/mil) | **926** | **880** | **+5.2** |
| **RATIOS** (%) | | | |
| Annualized profitability | 21.0 | 23.3 | |
| Cost / Income ratio | 43.6 | 26.1 | |
| | 30/9/2006 | 30/9/2005 | Change 30/9/06-30/9/05 (%) |
| **OPERATING DATA** (€/mil) | | | |
| Life technical reserves and financial liabilities | 44,699 | 44,299 | +0.9 |
| - life technical reserves | 22,432 | 22,218 | +1.0 |
| - life financial liabilities | 22,267 | 22,081 | +0.8 |
| Net life flows | 246 | 3,288 | |
| **OPERATING STRUCTURE** | | | |
| Employees | 1,050 | 444 | +136.5 |

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

## Banca Fideuram

In the third quarter of 2006, Banca Fideuram’s actions were mainly geared towards rationalizing its structure in keeping with the policy of integration and creation of synergies within Eurizon, the group to which the equity shareholding in Banca Fideuram, previously held by SANPAOLO IMI, was transferred.

As described in more detail in “Action Points and Initiatives in the Quarter”, on 4 July, the Board of Directors of SANPAOLO IMI approved the rationalization of the shareholding structure of Banca Fideuram, which provides for the launch by Eurizon of a total, voluntary Public Offer for Banca Fideuram shares held by third parties. Upon the conclusion of this offer on 25 October, Eurizon held, directly or indirectly, 92.5% of Banca Fideuram’s share capital.

With regard to the Fideuram Wargny Group, on 6 September 2006 the Board of Directors of Banca Fideuram resolved to proceed with the establishment of European Treasury Company, directly controlled by Financière Fideuram and dedicated to managing part of the Banca Fideuram Group’s proprietary financial assets. This operational decision led to the need to return to a line-by-line consolidation of Financière Fideuram and the European Treasury Company, which were previously entered to “Profits on discontinued operations”, whereas this caption continued to list the interest in Banque Privée Fideuram Wargny and its subsidiaries in compliance with IFRS 5. Inquiries regarding the possibility of disposing of these assets are still underway, and it is likely that the entire process may be concluded by the end of 2006.

The good performance of transactions in the first nine months of 2006 compared to the same period of last year benefited from initiatives aimed at steering customer portfolios towards a mix of products with higher added value. At the end of September 2006, assets under management were up 3.6% over the 12-month period to reach 65.8 billion euro. This figure was influenced by an increase in the volume of asset management that generate recurring commissions. The 3.3% rise in total operating income is attributable to higher net interest income and greater commission revenues resulting from the growth in average intermediary volumes. The increase in revenues, along with a reduction in provisions to cover risks related to legal disputes, more than offset increased operating expenses. The increase in the latter was due to the increase in other administrative costs due to the impact of new project initiatives, extraordinary transactions related to Eurizon's Public Offer on Banca Fideuram's stock, and strengthening of the internal control system in compliance with the Sarbanes Oxley Act. Banca Fideuram's contribution to net Group profit came to 131 million euro, up 14.9% compared to the first nine months of last year. Profitability, expressed in terms of annualized RoE, was 44.9% compared to the 41.9% of the same period of last year.

*Banca Fideuram*

| | First nine months 2006 | First nine months 2005 pro forma | Change first nine months 2006 / First nine months 2005 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 52 | 31 | +67.7 |
| Net commissions | 440 | 424 | +3.8 |
| Income from credit disposals, financial assets held to maturity and repurchase of non-hedged financial liabilities | 4 | 3 | +33.3 |
| Dividends and income from other financial assets and liabilities | 1 | 23 | -95.7 |
| Profits (losses) on equity shareholdings | - | - | - |
| Income from insurance business | - | - | - |
| **Total operating income** | **497** | **481** | **+3.3** |
| Net adjustments to loans | - | - | - |
| Net adjustments to other financial assets | - | - | - |
| **Net operating income** | **497** | **481** | **+3.3** |
| Personnel costs | -94 | -98 | -4.1 |
| Other administrative costs | -140 | -102 | +37.3 |
| Net adjustments to tangible and intangible assets | -10 | -21 | -52.4 |
| *Operating costs* | *-244* | *-221* | *+10.4* |
| Other net income (expenses) | -2 | -1 | +100.0 |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | - | - |
| Net provisions for risks and charges | -37 | -60 | -38.3 |
| **Pre-tax operating profit** | **214** | **199** | **+7.5** |
| Taxes for the period | -38 | -38 | - |
| Profits (losses) on discontinued operations | - | -5 | n.s. |
| Profit attributable to minority interests | -45 | -42 | +7.1 |
| **Net profit** | **131** | **114** | **+14.9** |
| **ALLOCATED CAPITAL** (€/mil) | **389** | **363** | **+7.2** |
| **RATIOS** (%) | | | |
| Annualized profitability | 44.9 | 41.9 | |
| Cost / Income ratio | 49.1 | 45.9 | |
| | 30/9/2006 | 30/9/2005 pro forma | Change 30/9/06-30/9/05 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Assets under management (1) | 65,815 | 63,529 | +3.6 |
| Assets under management (net flow) (1) | 1,230 | 747 | |
| Asset management | 50,668 | 49,051 | +3.3 |
| - mutual funds and fund-based portfolio management | 36,059 | 34,352 | +5.0 |
| - portfolio management | 598 | 671 | -10.9 |
| - life technical reserves and financial liabilities | 14,011 | 14,028 | -0.1 |
| Net asset management flows | 134 | 110 | |
| Asset administration | 12,095 | 11,916 | +1.5 |
| Total interest-earning assets | 8,553 | 7,014 | +21.9 |
| Total interest-bearing liabilities | 7,704 | 6,152 | +25.2 |
| **OPERATING STRUCTURE** | | | |
| Employees | 1,121 | 1,666 | -32.7 |
| Financial planners | 4,221 | 4,189 | +0.8 |
| Domestic branches | 93 | 91 | +2.2 |

*(1) Includes asset management, asset administration and direct deposits in relation to asset management transactions.*

## Sanpaolo IMI Asset Management

Sanpaolo IMI Asset Management SGR is the Group company specialized in providing collective and individual asset management products, both to the Group's banking networks and to institutional investors. Sanpaolo IMI Asset Management Luxembourg and Sanpaolo IMI Alternative Investments, which focus on the promotion and management of, respectively, Luxembourg funds and alternative funds, are both subsidiaries of Sanpaolo IMI Asset Management.

With the aim of more effectively representing their position within the Eurizon Group, the three companies changed their names to Eurizon Capital SGR, Eurizon Capital (Luxembourg), and Eurizon Alternative Investments, effective as of 1 November.

Initiatives introduced over the third quarter, aimed at rationalizing and strengthening the offer range, concerned:

- revision of the range of mutual funds offered, effective as of 2 October, involving the merger of five harmonized funds to eliminate products with the same risk/return profile and a similar commercial impact on customers;
- in the area of speculative mutual funds, the launch of the speculative fund Brera Multi-Strategy HF Selection 2 and the merger of Brera Equity Hedge into Brera Multi-Strategy, which will take effect on 1 January 2007.

With reference to commercial initiatives, Sanpaolo IMI Asset Management Luxembourg opened a branch in Singapore in September in order to promote the placement of Luxembourg mutual funds and develop future commercial initiatives in the region.

Subsequent to the end of the third quarter, an agreement was reached with Banco Best (a member of the Banco Espirito Santo group) regarding the distribution of Eurizon Capital funds in Portugal. The Portuguese bank will distribute compartments of the umbrella fund Sanpaolo International Fund to retail and institutional customers.

At the end of September 2006, assets under management totaled 115.8 billion euro, a rise of 2.7% on an annual basis. Asset management recorded a 2.2% increase thanks in particular to the performance of fund-based portfolio management and portfolio management.

Total operating income for the first nine months of 2006 was 181 million euro, a 20.7% increase, due to the growth in commission income. The contribution to net Group profit was 93 million euro, a 32.9% rise over the 70 million in the same period last year.

The improvement in efficiency can be seen in the cost/income ratio, measured at 38.7% compared to the 44% recorded in the first nine months of 2005.

Annualized RORAC was 147.6%, in line with high values characteristic of this business line, due to limited absorption of capital compared to the considerable volumes of assets managed by the company and placed by the geographically widespread banking networks of the Group. Annualized profitability also rose compared to the figures for the first nine months of 2005, thanks to the increased contribution to Group profit.

*Sanpaolo IMI Asset Management*

| | First nine months 2006 | First nine months 2005 pro forma | Change first nine months 2006 / First nine months 2005 pro forma (%) |
|---|---|---|---|
| **STATEMENT OF INCOME** (€/mil) | | | |
| Net interest income | 5 | 2 | +150.0 |
| Net commissions | 176 | 148 | +18.9 |
| Income from credit disposals, financial assets held to maturity and repurchase of non-hedged financial liabilities | - | - | - |
| Dividends and income from other financial assets and liabilities | - | - | - |
| Profits (losses) on equity shareholdings | - | - | - |
| Income from insurance business | - | - | - |
| **Total operating income** | **181** | **150** | **+20.7** |
| Net adjustments to loans | - | - | - |
| Net adjustments to other financial assets | - | - | - |
| **Net operating income** | **181** | **150** | **+20.7** |
| Personnel costs | -32 | -33 | -3.0 |
| Other administrative costs | -36 | -30 | +20.0 |
| Net adjustments to tangible and intangible assets | -2 | -3 | -33.3 |
| *Operating costs* | *-70* | *-66* | *+6.1* |
| Other net income (expenses) | 4 | 4 | - |
| Impairment of goodwill | - | - | - |
| Profits (losses) from disposals of investments | - | - | - |
| Net provisions for risks and charges | - | -2 | n.s. |
| **Pre-tax operating profit** | **115** | **86** | **+33.7** |
| Taxes for the period | -22 | -16 | +37.5 |
| Profits (losses) on discontinued operations | - | - | - |
| Profit attributable to minority interests | - | - | - |
| **Net profit** | **93** | **70** | **+32.9** |
| **ALLOCATED CAPITAL** (€/mil) | **84** | **75** | **+12.0** |
| **RATIOS** (%) | | | |
| Annualized profitability | 147.6 | 124.4 | |
| Cost / Income ratio | 38.7 | 44.0 | |
| | 30/9/2006 | 30/9/2005 pro forma | Change 30/9/06-30/9/05 pro forma (%) |
| **OPERATING DATA** (€/mil) | | | |
| Assets under management (1) | 115,795 | 112,720 | +2.7 |
| Asset management | 74,867 | 73,258 | +2.2 |
| - mutual funds and fund-based portfolio management | 70,251 | 69,200 | +1.5 |
| - portfolio management | 4,616 | 4,058 | +13.8 |
| **OPERATING STRUCTURE** | | | |
| Employees | 475 | 466 | +1.9 |

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

## Central Functions

Central Functions covers holding activities, finance, management of equity investments (including Group shareholdings in Cassa di Risparmio di Firenze, Cassa dei Risparmi di Forlì and Banca delle Marche), Group credit policies, and the Macchina Operativa Integrata (Integrated Operating Vehicle). Group bodies responsible for the governance, support and control of other Group Business Sectors constitute the main component of Central Functions.

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

In the first nine months of 2006, Central Functions posted a loss on current operations of 85 million euro, compared to 58 million euro for the same period of last year. The increase in losses may be attributed to the absence of the positive differentials booked in the first nine months of 2005 in relation to the conversion of the FIAT loan and profits on the disposal of investments from the sale of property and computers, as well as greater provisions for risks and charges by the Parent Bank in 2006 to cover risks related to guarantees granted to the Group's tax collecting companies, in part subsequent to the conclusion of the sale of these companies to Riscossione S.p.A.. Central Functions posted 17 million euro in net profit due to the increase in profits on discontinued operations relative to GEST Line.

## Secondary Reporting

In accordance with the management approach and the organizational decisions of the Group, secondary reporting as required by IAS 14 is based on the disclosure of information by Geographical Sectors.

The table below summarizes the main operating data divided into Italy, Europe and the rest of the world.

| | Italy | Europe | Rest of the world | Group total |
|---|---|---|---|---|
| **REVENUES FROM THE SECTOR** (€/mil) (1) | | | | |
| First nine months 2006 | 5,676 | 722 | 74 | 6,472 |
| First nine months 2005 | 5,432 | 639 | 41 | 6,112 |
| Change first nine months 2006 / First nine months 2005 (%) | +4.5 | +13.0 | +80.5 | +5.9 |
| **TOTAL INTEREST-EARNING ASSETS** (€/mil) (2) | | | | |
| 30/9/2006 | 186,504 | 12,989 | 6,311 | 205,804 |
| 30/9/2005 | 159,628 | 11,497 | 6,085 | 177,210 |
| Change 30/9/2006-30/9/2005 (%) | +16.8 | +13.0 | +3.7 | +16.1 |

*(1) Total operating income.*

*(2) Excluding Banca IMI group.*

# Explanatory Notes

# Explanatory Notes

## Accounting and valuation principles

The SANPAOLO IMI Group Quarterly Report as at 31 September 2006 has been prepared in compliance with international accounting standards and drawn up in the form required by Attachment 3D of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and additions thereto. In particular, the Quarterly Report has been drawn up using the accounting standards and principles adopted for the 2005 Consolidated Financial Statements, which were prepared in compliance with IAS/IFRS.

As regards the interim figures from 2005 shown for comparative purposes, the economic results which were originally published in the quarterly report as at 30 September 2005 have been reclassified to take into account the new regulations of the IAS/IFRS (update of IAS 39 regarding the fair value option) and the provisions governing financial statements issued by the Bank of Italy (Circular No. 262 dated 22 December 2005), subsequent to the publication of the 2005 third quarter report. It is also noted that the economic results for 2005 were further reclassified according to the provisions of IFRS 5, "Non-current financial assets held for sale and discontinued operations", following the application of said principle to the subsidiaries GEST Line S.p.A. and Banque Privée Fideuram Wargny S.A.

For further details on the accounting and valuation principles, please see the 2005 Financial Statements. Here the following should be noted:
- the quarterly accounts have been prepared using the discrete approach, whereby the term of reference is treated as an independent financial period. Under this approach, the statement of income comprises ordinary and extraordinary items of the quarter, booked on an accrual basis. In particular, income taxes recorded reflect the cost attributable to the period, taking into consideration current and deferred taxation;
- line-by-line consolidation has been based on the financial statements prepared by the subsidiaries for the quarter ending 30 September 2006, adjusted as necessary to comply with Group accounting principles;
- equity method evaluations of subsidiaries in which the bank holds a significant influence or joint control have been made on the basis of the latest financial statements available;
- only infra-group relations of the greatest financial and economic significance have been netted.

The quarterly balance sheet and statement of income are not subject to audit by the Independent Auditor.

## Changes in the scope of consolidation

The scope of the line-by-line consolidation of the Group as at 30 September 2006 included the following changes compared to that at 31 December 2005:
- inclusion of the newly acquired Banca Italo Albanese SH.A.;
- inclusion of Financière Fideuram and its subsidiary W.D.W., which Banca Fideuram decided to exclude from the disposal process within the Banque Privée Fideuram Wargny grouping;
- the exclusion of GEST Line S.p.A. following the transfer of 70% of the equity shareholding to Riscossione S.p.A. at the end of September 2006. The economic results achieved by the tax collection company up to the transfer date have been recorded in the consolidated statement of income among the results for discontinued operations, according to IFRS 5.

## Criteria for calculating 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 was 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. More specifically, for services rendered by head office to operating business units, costs were allocated at standard prices, with any differences between costs actually borne and costs assigned being allocated to head office. This method is aimed at making the central structures responsible for the recovery of efficiency;
- for those Sectors whose activities are carried out entirely by subsidiaries, the income statements of the companies are reported in terms of their contribution to the consolidated results of the Group, net of minority interest and after posting of consolidation attributable to the Sector.

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

Profitability of each Sector has been expressed in terms of RORAC (Return On Risk Adjusted Capital), relating the Sector's contribution to the net profit of the Group to the amount of average absorbed capital measured according to VaR. Concerning Savings and Assurance, profitability has been calculated relating the contribution of the Sector to Group net profit to the amount of accounting net shareholders' equity of Banca Fideuram and the average absorbed capital of EurizonVita (formerly Assicurazioni Internazionali di Previdenza – A.I.P.) and Sanpaolo IMI Asset Management (Eurizon Capital as from 1 November 2006).

Turin, 10 November 2006

The Board of Directors

AGES ARTI GRAFICHE - TURIN