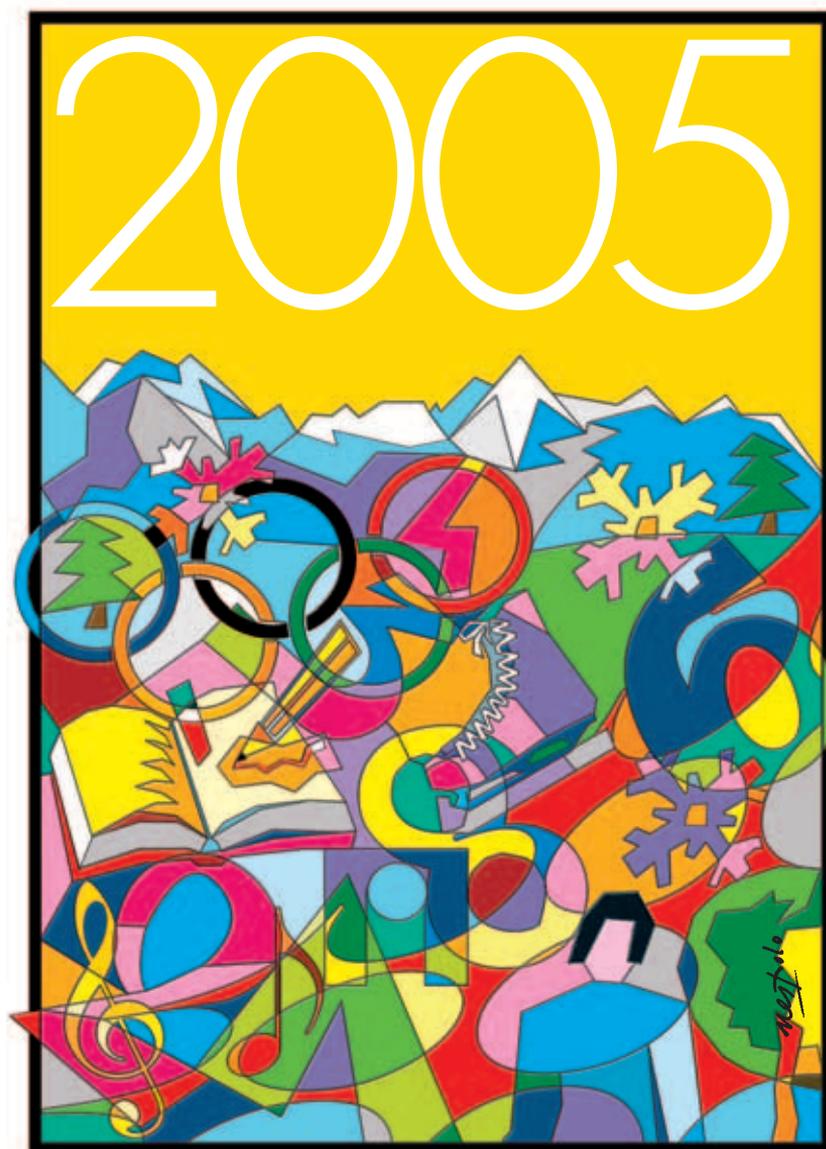


S A N P A O L O I M I



S O C I A L R E P O R T  
PREPARED ACCORDING TO IAS/IFRS INTERNATIONAL ACCOUNTING STANDARDS

**SANPAOLO IMI GROUP**





# 2005 Social Report

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## SANPAOLO IMI

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REGISTERED OFFICE: PIAZZA SAN CARLO 156 TURIN, ITALY

SECONDARY OFFICES:

- VIALE DELL'ARTE 25, ROME, ITALY

- VIA FARINI 22, BOLOGNA, ITALY

COMPANY REGISTER OF TURIN N. 06210280019

SHARE CAPITAL 5,239,223,740.80 EURO FULLY PAID

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PARENT BANK OF THE SANPAOLO IMI BANKING GROUP

MEMBER OF THE INTERBANK DEPOSIT GUARANTEE FUND

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



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## Letter to stakeholders

In the past few years the Sanpaolo IMI Group has been through a profound transformation, to become one of the most widespread banking and insurance organizations in Italy, with excellent European credentials. Along the way we have worked to maintain and reinforce our values of excellence and our regional connections with the communities – which are the fruit of a centuries old history and tradition – bringing them together with the arrival of so many young people, with new technologies and the specialization of what we do, in order to be ever closer to our customers and to better meet their needs and expectations. We have thus acted in the firm belief that long-term sustainable value can be created only if the company's operations run along three strong lines - financial, social and environmental – and if they are reinforced by healthy and transparent corporate governance.

Sanpaolo IMI's Social Report, now in its fourth edition, is a useful instrument in tracing the path we have followed and to report transparently and promptly on the actions undertaken and results achieved on these three fronts: from the actions aimed at strengthening the relationship of trust with our customers, to those directed internally to strengthen and favor the personal growth and motivation of the people who work with us, to the financial plans to improve performance, to the focus on the environment and future generations. With this Social Report we also intend to reaffirm our continued commitment to promoting sustainable development, which has already seen our support for important international programs (the UN Global Compact and the UN Environment Program), our recent adoption of the Equator Principles and the attainment of environmental certification, in the firm belief that it is fundamental to continuously improve processes and to establish ever more efficient management and control systems.

The financial results Sanpaolo IMI achieved in 2005 are important not only because they are indicators of our constant focus on value creation but also because they are a clear and tangible signal of the trust placed in us by our customers and because they are the result of the dedication and professionalism of the people who work for the Group.

Today we face new and important challenges.

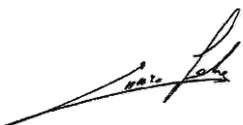
In 2005 we launched a new three-year Plan setting ambitious targets. The Plan was innovative because of the wide range of people and areas involved, which for us represents the best guarantee of its success.

Uniting corporate citizenship with long-term financial targets, the Plan contains an important commitment to value creation extended to all our stakeholders and therefore confirms the importance for us of corporate social responsibility, which is an integral, rather than a peripheral, part of our strategy.

Sanpaolo IMI is committed to being a competitive bank at an international level, capable of creating long-term value – guaranteeing an adequate return for shareholders - and being a responsible player within the territories in which it operates, with the best products and services for its customers.

Thus a strong and solid company, capable of offering solid and significant professional prospects to the 48 thousand people who work for the Group, and in particular the younger workers. We offer our utmost gratitude to them because the results we have achieved are due to their constant dedication and passion and because we are convinced that they are our winning formula.

We are conscious of the role that the Bank can play in society and in our country and we are determined to fulfill it completely. We cannot underestimate the work that still remains to be done but we shall maintain the commitment that lies at the base of this Social Report.



Enrico Salza  
Chairman



Alfonso Iozzo  
Managing Director



Enrico Salza



Alfonso Iozzo

## Introduction and methodology

Sanpaolo IMI presents its fourth Social Report, the third of the Group, with the aim of providing information about its corporate social responsibility profile and reporting to the stakeholders concerning its ability to act coherently with its values and the principle of sustainable development. This document therefore reports on the social and environmental dimensions of the company's operations alongside the traditional economic results. In addition to being a useful means of communication, Sanpaolo IMI's Social Report will become more and more a management tool aimed at increasing the satisfaction of the Group's growing number of stakeholders – focusing on translating their expectations into plans for action – and monitoring the progress achieved.

The information in this document was collected and processed by a working group consisting of representatives from the Groups' various divisions and companies, coordinated by the Social Responsibility Unit. The data was taken from the information systems used for the general management and accounting of company operations. The 2005 Social Report was submitted to the Ethical Committee for review and was approved by the Board of Directors in the meeting held on 23 March 2006.

In drafting the Social Report reference was made to the "Social Reporting Standards" issued by the GBS (Gruppo Bilancio Sociale – Social Report Group), to the "Model for the drafting of Social Reports for the banking sector" produced by the ABI (Italian Bankers' Association) and, in particular, to the GRI (Global Reporting Initiative) Sustainability Reporting Guidelines in the new, yet to be finalized, G3 edition, which represent the main international reference point with regard to triple bottom line reporting.

All the data refer, unless otherwise specified, to the Group perimeter and the 2005 financial year. Where possible, they have been compared with those of the previous two financial years.

The 2005 Social Report was submitted to the auditing company PricewaterhouseCoopers for examination, which was performed for the first time on the basis of the standards and the instructions contained in the International Standard on Assurance Engagement 3000 (ISAE3000). This analysis not only enables the verification of the correspondence with reality of the figures and

information reported in the report, but also ascertains that the document was drafted in conformity with the specifications of the drafting standards used as reference and that it reflects the results of management permeated by socially responsible choices.

The document is made up of the following sections:

- Identity and governance: presenting Sanpaolo IMI's identity – mission and values – and the Group profile. Particular attention is paid to the aspects of corporate governance and to the management of corporate social responsibility. The various management tools for governance (internal policies and management systems certified by accredited external organizations) are presented together for the first time. The significant stakeholders are also identified.
- The social statement: dedicated to the Group's stakeholders. Each section examines, by individual stakeholder, the policies, actions taken and results achieved with respect to the objectives set in the 2004 Social Report. The report contains special information boxes dedicated to certain specialist Group companies.
- The environmental report: presenting the Group's environmental performance in terms of direct and indirect environmental aspects.
- The economic report: presenting the Group's economic performance and the allocation of added value between the various stakeholders in accordance with the guidelines of the ABI model.
- Improvement targets: identifying the long-term future commitments to the stakeholders.
- Certification of compliance by PricewaterhouseCoopers.
- As attachments, the External assessments; The table of indicators and contents: summary table of the indicators and information provided (including the GRI, GBS and ABI guidelines used as reference), detailing their location within the document; and the Glossary.

## Reporting principles in accordance with the Global Reporting Initiative (Draft G3)

Several changes have been introduced in the contents, the form and process of the compilation of the Social Report to increase its conformity with the reporting principles taken as reference.

### Inclusiveness

Over the year an investigation was carried out in order to better identify the positioning of the various stakeholders within each macrocategory of stakeholders, represented by a map of stakeholders. During the year, several stakeholders were consulted in order to identify their expectations in terms of information and to determine the scope for improvement of this document.

### Relevance and materiality

In order to identify the relevant issues for the Social Report, reference was made to the scope of social responsibility identified in the Group's mission and values (considered for each stakeholder) and to the contents and indicators envisaged by the GRI, ABI and GBS guidelines. A survey of the issues most relevant to the sector (including the most controversial ones) was also undertaken, as well as of the national and international legislation. This survey led to the introduction of new indicators into the document, considered to be particularly significant or available for the first time.

### Sustainability context

The document presents Sanpaolo IMI's concept of sustainable development and helps to place the Group's operations in a wider context (for example the development of the business system, migratory phenomena, poverty and problems of access to credit and global warming).

### Completeness

The figures reported in the document refer to the aggregate of the Companies of the Group, unless otherwise indicated. The information included relates to the time period of reference (financial year 1/1/2005 – 31/12/2005). Any significant developments occurring in the early months of 2006 have been reported.

### Balance/neutrality

This document has been drafted utilizing information taken from verifiable documentation, and the information is presented in such a way as to highlight both favorable and unfavorable results.

### Comparability

This document allows the comparison of the Group's performance over the years (the figures reported are compared where possible with those of the two previous financial years) and a comparison against other operators in the sectors, thanks to the inclusion of system data where available from reliable sources.

### Accuracy

The majority of the data were gathered directly, except for certain estimates (reported in notes) made for some environmental data. The economic report was drafted in accordance with the new IAS principles.

### Timeliness

The timing is aligned with that of financial year statements. Both documents are submitted to the Board of Directors in March and presented to the Shareholders' Meeting at the end of April.

### Clarity

The principle of clarity was taken as a reference both when setting out the structure of the document and when compiling the text. Indeed, we are continuing in our efforts to simplify and streamline the document, by introducing more figures and tables and we have attempted to use a language that is clearer and more accessible also to those not working in the sector.

### Auditability

The auditing company PricewaterhouseCoopers has verified the compliance of this edition of the Social Report with the instructions provided in the GRI, ABI and GBS guidelines, in accordance with the provisions of the ISAE3000 standard.



# Identity and Governance



Sanpaolo IMI's mission is to provide the highest quality of financial and lending services aimed at the careful management of the resources of households and a commitment to sustainable development of the business system, also with the aim of contributing to the country's overall economic growth.

The objective of value creation for shareholders is pursued with a view to long-term sustainability and in the context of constant and conscientious attention to the company's various stakeholders.

# Mission



## Creation of value

The idea of value that we are pursuing includes the dimensions of sustainable development, namely:

- the creation of economic wealth;
- the promotion of social cohesion;
- protection of the environment and natural resources

## Customer orientation

The customer is the focus of our objectives for continuous improvement. We intend to ensure that each individual customer is provided with a flexible and innovative service, to the best of our ability, also applying the same spirit of service to our internal customers



## Integrity

We guide the actions and behavior of all those acting on behalf of the Group in accordance with the criteria of integrity and honesty, in full compliance with the rule of law, the financial and banking regulations and the spirit of the agreements entered into with our counter-parties

## Commitment to excellence

We intend to offer high quality services, constantly aiming at improvement, forward thinking, anticipating challenges and fostering innovation and creativity

## Growth in observance of specific qualities

We want to combine large size with a strong presence in local communities, to be a bank that can think big without losing sight of the individual

## Responsibility in the use of resources

We aim to make careful use of resources, encouraging behavior aimed at avoiding excess and waste

## Group profile

The Sanpaolo IMI Group is one of main Italian banking and insurance organizations. It has around 44,000 employees and 4,000 private bankers serving approximately 7 million customers through a network of almost 3,200 branches spread throughout Italy, enhanced by well established local brands. It operates in 33 countries around the world through its branches and representative offices.

Thanks to the completion of the project for the creation of the Savings and Pensions pole, the Group is now a player at European level and market leader in asset management and insurance in Italy. At national level, Sanpaolo IMI is one of the leading banks in terms of number of branches, direct deposits and loans. It is the leading asset management company and second in terms of funds under management in the insurance market.

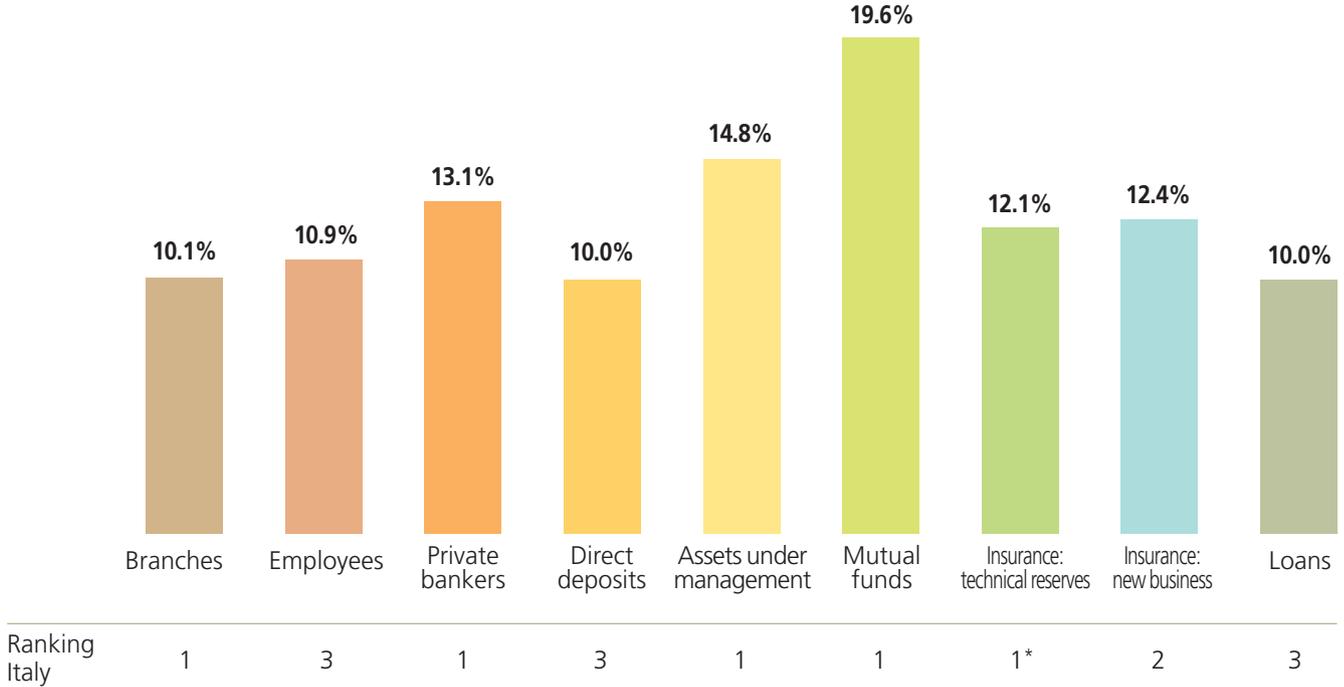
Customers	7 million
Employees	43,666
Private bankers	4,151
Branches in Italy	3,172
Foreign branches and representative offices	136
Net profit	1,983 million euro
Tier 1 ratio	7.2 %
Capitalization	24.7 billion euro
Loans to customers	138 billion euro
Customer financial assets	402 billion euro
Direct deposits	165 billion euro
Assets under management	158 billion euro
Technical reserves	46 billion euro
Mutual funds	106 billion euro

*It can count on almost 44,000 employees and more than 4,000 private bankers serving 7,000 customers and on a network of nearly 3,200 branches spread throughout Italy, enhanced by well established local brands. It operates in 33 countries around the world through its branches and representative offices*



Paolo Arcagni

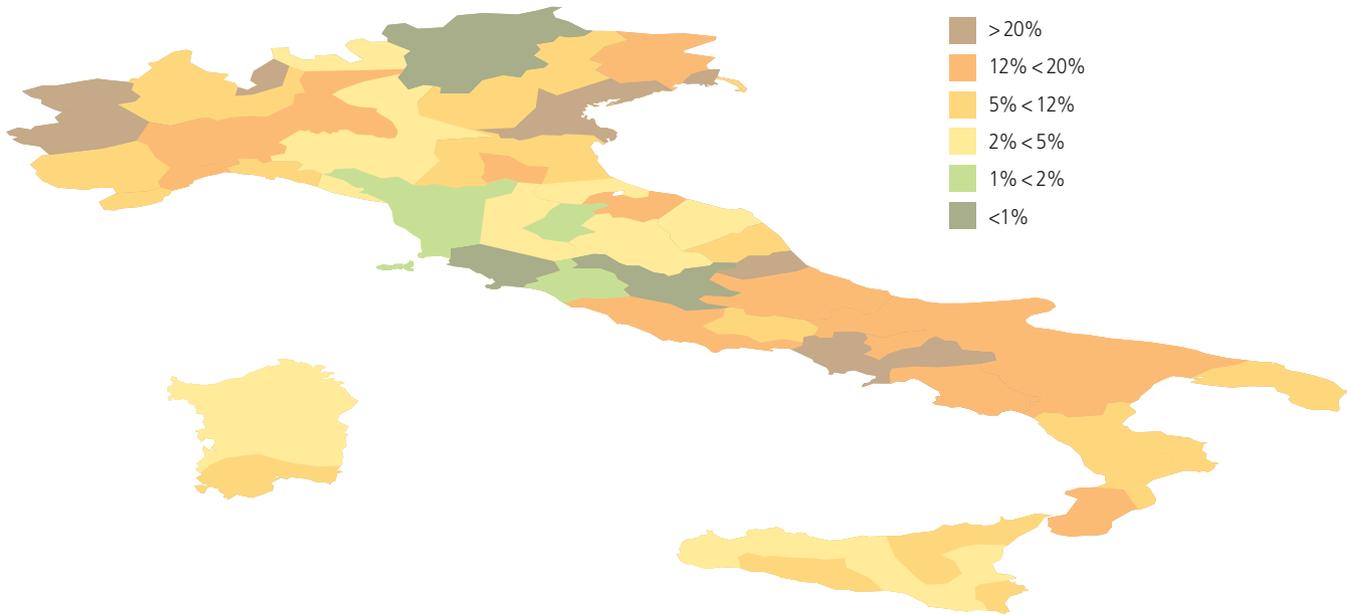
MARKET SHARE OF OPERATIONS IN ITALY



\* With reference to banking Groups.

## Geographical presence

### BRANCHES MARKET SHARE BY PROVINCE



#### SANPAOLO

Sanpaolo offers its customers the services of around 21,000 employees and over 1,400 branches throughout Italy, with a particular concentration in the areas where the Bank has an historical presence in the communities, namely: Piedmont, Liguria and Valle d’Aosta. It also has an extremely strong presence in Lombardy, in Sicily and Rome.

#### SANPAOLO BANCO DI NAPOLI

The 15,750 employees of Sanpaolo Banco di Napoli – the largest bank in Southern Italy – are available to customers in 687 branches, widespread throughout Campania, Apulia, Calabria and Basilicata.

#### CASSA DI RISPARMIO DI PADOVA E ROVIGO

Cassa di Risparmio di Padova e Rovigo, which has over 3,000 employees, is a significant economic player in Veneto, with 322 branches present predominantly in the provinces of Padova, Rovigo, Treviso, Venice, Vicenza and Belluno.

#### CARISBO

Cassa di Risparmio in Bologna has around 2,000 employees with a distribution network of 200 branches, located primarily in Emilia Romagna, particularly concentrated in Bologna and the surrounding area.

#### CASSA DI RISPARMIO DI VENEZIA

The business network of Cassa di Risparmio di Venezia consists of 144 branches, served by around 1,400 employees, with a particularly widespread presence in Venice.

#### BANCA POPOLARE DELL’ADRIATICO

The 141 branches of Banca Popolare dell’Adriatico – with over 1,100 employees – are spread throughout the regions of the Adriatic ridge, namely Marche, Abruzzo and Molise. At the beginning of 2006 the merger of the Bank with Sanpaolo IMI was approved and the subsequent spin-off into a new bank named Sanpaolo Banco dell’Adriatico

#### FRIULCASSA

Friulcassa – Cassa di Risparmio Regionale – was created at the end of 2003 from the merger of Cassa di Risparmio di Udine e Pordenone and Cassa di Risparmio di Gorizia. Its 140 branches and more than 1,100 employees are present throughout Friuli Venezia Giulia.

**INTERNATIONAL PRESENCE**

**BRANCHES**

REPRESENTATIVE OFFICES



**CONTROLLED BANKS**

- Banka Koper (Slovenia)
- Inter-Europa Bank (Hungary)
- Sanpaolo IMI Bank Ireland (Dublin)

- Sanpaolo Bank, Luxembourg
- Sanpaolo IMI Bank Romania
- Sanpaolo Bank Suisse (Geneve)

## Historical development

### From the origins to the 1990's

#### 1563

The Compagnia della Fede Cattolica sotto l'invocazione di San Paolo is established in Turin, to then become Monte di Pietà, which issues interest free loans against pledges to the poor to provide them with an alternative to usury.

#### 18<sup>th</sup> and 19<sup>th</sup> centuries

Monte's banking nature is enhanced and in the 19<sup>th</sup> century it becomes a true bank, authorized to apply interest.

#### 1928

The Bank changes its name to the Istituto di San Paolo di Torino - Beneficenza e Credito.

#### 1931

To support the reconstruction of the national industrial system, Istituto Mobiliare Italiano (IMI) is founded as a public credit institution.

#### 1932

San Paolo becomes a public credit institution.

#### 1950s - 1990s

In the 1960's the Bank extends its network nationally. Over the next decade it launches a project for territorial expansion involving the acquisition of Italian and foreign banks. The increase in size is accompanied by the development of the range of products and services offered to customers.

### Recent history

#### 1992 - 1997

In 1992 the Bank becomes a corporation and completes the privatization process in 1997.

#### 1998

Merger with IMI taking the name Sanpaolo IMI. The resulting multi-functional Group operates in the various sectors of business through dedicated companies or business units.

#### 2000

Sanpaolo IMI continues to grow nationally, acquiring Banco di Napoli (that was founded as long ago as 1539 as a charitable institution focused on helping the needy) and setting up strategic alliances with leading Italian and foreign banking institutions.

#### 2001 - 2002

Integration with the Cardine Group, established through the merger of the Casse Venete and Casse Emiliano Romagnole Groups and consisting of seven banks (Cassa di Risparmio di Padova e Rovigo, Cassa di

Risparmio in Bologna, Cassa di Risparmio di Venezia, Cassa di Risparmio di Udine e Pordenone, Cassa di Risparmio di Gorizia, Banca Popolare dell'Adriatico and Banca Agricola di Cerea), operating in northeastern Italy and along the Adriatic coast.

#### 2003

Steps are taken to ensure the integration of Banco di Napoli and the Banks of the Cardine Group. To facilitate this integration process, companies operating within the same territory are combined: Banca Agricola di Cerea is therefore taken over by Cassa di Risparmio di Padova e Rovigo, while Cassa di Risparmio di Udine e Pordenone and Cassa di Risparmio di Gorizia are merged to form Friulcassa. In July 2003 the spin off of Sanpaolo Banco di Napoli, the major bank operating in southern Italy, is completed.

#### 2004

Integration of all of the Group's Commercial Banks, adopting the same organizational and business model and the same IT platform, is completed.

#### 2005

The project for the new Insurance pole is launched and in October the strategic Plan for the three-year period 2006-2008 is presented.

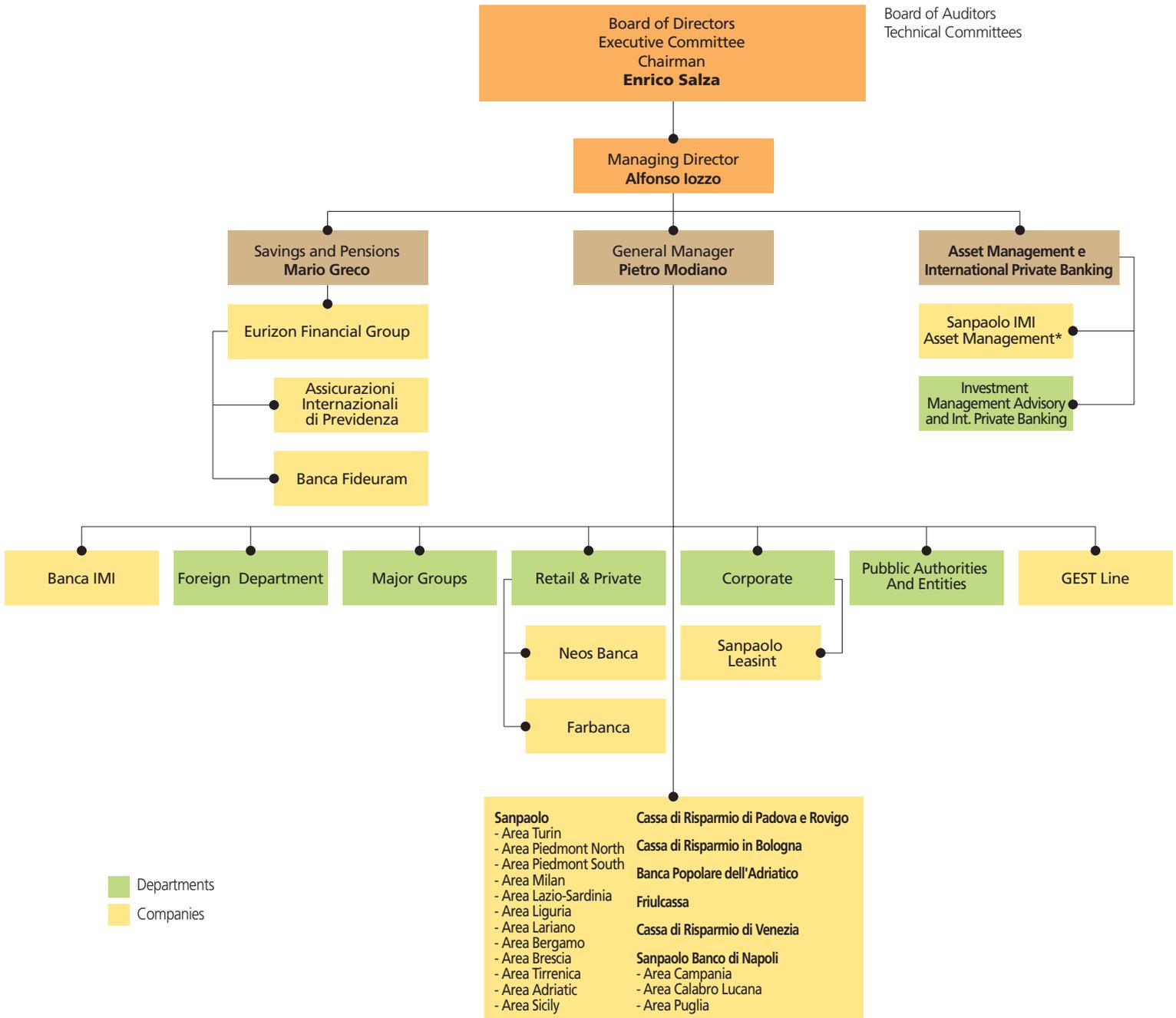
#### 2006

In January, the second phase of the development of the Savings and Pensions pole, which envisages the absorption of Asset Management in the company Eurizon Financial Group already including the insurance company AIP and Banca Fideuram, is approved.



Fabio Grosso

## Organizational structure



\* On January 24, 2006 the Board of Directors of Sanpaolo IMI decided to concentrate the Group's Asset Management in Eurizon. This operation is subject to authorization by the relevant Supervisory Authorities. Update to 31/03/2006

## Strategic view

The Sanpaolo IMI Group's new business Plan for the three-year period 2006-2008, presented in October 2005, sets ambitious targets, in particular the doubling of net profit with respect to the end of 2004. The realization of the growth envisaged in the Plan is aimed at allowing the Sanpaolo IMI Group to fulfill its potential and become market leader in Italy in terms of sustainable growth, revenues and profitability.

*The Plan confirms the model of national bank of territories, reiterating the importance of enhancing the presence at community level and of the local brands, adding extensive expertise and customer and product specialization*



Luciano Pavesio

### THE OBJECTIVES AS AT 2008

Pre-tax operating profit	4.1 billion euro
Net profit	2.5 billion euro
ROE	18%
Cost/income	52%

For banking operations, the Plan confirms the model of national bank of territories, reiterating the importance of enhancing the presence at community level and of the local brands, adding extensive expertise and customer and product specialization. It envisages, following the completion of the integration process, the full deployment of the Group's competitive strength over the three-year period, focusing on the central importance of the relationship with the customers and local communities. It therefore defines a streamlined and decentralized organization with a growth strategy linked to two fundamental levers: the increase in revenues linked to the convergence of all the operational units towards the Group's levels of best practice and initiatives aimed at increasing marketing effectiveness and productivity. The importance of decentralization and a strong local presence is clearly shown by the way the Plan was produced. The new strategic Plan, the fruit of an innovative process, represents the integration and the synergy of the 20 three-year plans produced by the 20 areas that correspond to the geographical areas and the Banks that make up the organization.

In 2005 and the early months of 2006 the project also continued for the creation of the Group's Savings and Pensions pole, the second pillar alongside banking, aimed at maximizing efficiency and product innovation in a sector open to international competition and at consolidating the distinction between the product factories and the banking distribution networks. With this in mind, the insurance company AIP and Banca Fideuram were amalgamated under the company Eurizon Financial Group and, in 2006, the amalgamation of Sanpaolo IMI Asset Management was also approved.

## Corporate governance

Sanpaolo IMI's corporate governance model is aimed at ensuring the adequate division of responsibilities and powers, with an appropriate balance between management and control functions. It is focused on maximum transparency and follows the instructions of the Corporate Governance Code for Listed Companies of the Italian Stock Exchange and the United States legislative provisions.

Indeed, the company is registered with the U.S. Security and Exchange Commission (SEC) and issues financial instruments listed on the New York Stock Exchange.

For detailed information on the subject of corporate governance, discussed briefly in this report, please refer to the Report on Corporate Governance (available on [www.grupposanpaoloimi.com](http://www.grupposanpaoloimi.com) and in paper form on request).

*Sanpaolo IMI's corporate governance model is aimed at ensuring the adequate division of responsibilities and powers, with an appropriate balance between management and control functions*

### OWNERSHIP STRUCTURE

- List of major shareholders updated in the Group's website
- 35% of the ordinary capital held by foreign shareholders (of which 30% situated in Europe)
- Compagnia di San Paolo, Fondazione Cassa di Risparmio Padova e Rovigo and Fondazione Cassa di Risparmio Bologna hold 13.7% of the ordinary capital (26.8% of the total capital)
- Consultation agreements, expiring in 2007, involving 25.4% of the ordinary capital

### BOARD OF DIRECTORS

- Separation of roles between the Chairman (non executive) and the Managing Director (executive)
- Presence of technical committees: Audit Committee, Remuneration Committee and Ethical Committee
- Independent Directors: 8 out of 17
- Remuneration of the Directors also linked to the Group's profit results

### TRANSPARENCY AND AUDIT

- Timely public disclosure
- Compliance with US legislation: compilation of Form 20-F; presence of a Disclosure Committee, which has the role of providing a technical opinion on the controls and procedures for disclosure as well as of supervising the compilation of the principal accounting documents; and presence of a Steering Committee
- An internal control system structured on three levels: Board of Auditors, Audit Committee and Audit Department

### SHAREHOLDERS' RIGHTS

- One share one vote (preference shares can only vote at extraordinary shareholders' meetings)
- Prior depositing of shares not required
- Absence of anti-takeover measures
- Presence of an Ethical Code

## Corporate governance structure

### Board of Directors

<b>Functions</b>	Performs the role of strategic guidance and is assigned all the Bank's management powers. It also decides over transactions with related parties considered to be significant, after examination by the Audit Committee.
<b>Composition</b>	17 Directors, including 1 executive and 8 independent
<b>Appointment</b>	The appointment of Directors takes place on the basis of the proposals from the shareholders presented at the shareholders' meeting. The nomination proposals – according to the regulations concerning the requirements of integrity and professional experience of bank Directors – imply an adequate verification by the proposers of the personal and professional characteristics of the candidates in relation to the office involved. The Board, within thirty days of the nomination, in any case verifies the existence of these requirements, in compliance with the supervisory regulations issued by the Bank of Italy. Sanpaolo IMI does not currently have a committee to propose candidates for appointment to the position of Director, as the shareholders participate attentively and actively in the shareholders' meeting and propose suitable candidates.
<b>Meetings in 2005</b>	15, with 90% participation
<b>Termination</b>	At the time of the approval of the financial statements relating to the financial year 2006.

### Executive Committee

<b>Functions</b>	It exercises the powers, delegated to it by the Board, in the context of strategies, address and plans laid out by the Board of Directors, with the obligation to report quarterly to the Board on the activity performed. It may take urgent measures, in the interest of the Company, reporting them to the Board at the next meeting.
<b>Composition</b>	8 Directors, including 1 executive and 4 independent
<b>Meetings in 2005</b>	19, with 98% participation

The Board of Directors is supported in carrying out its institutional functions by 3 Technical Committees made up from its members, with consultative, management and control functions.

## Audit Committee

<b>Functions</b>	It has the responsibility of analyzing the problems and relevant practices with the possibility to make specific analyses of subjects to be investigated further, with reference to the assessment of the internal control system. It considers the adoption of the corrective measures aimed at improving the audit processes, both internal and performed externally by the auditing company. It also acts as a supervisory body, in compliance with Legislative Decree 231/2001 concerning the administrative liability of companies.
<b>Composition</b>	3 Directors, all independent
<b>Meetings in 2005</b>	12

## Remuneration and Personnel Policy Guidelines Committee

<b>Functions</b>	It is responsible for the evaluation, in agreement with the Chairman of the Board of Auditors, of the remuneration of the Directors who hold particular offices, the examination of the remuneration structure for Directors; the investigation of issues concerning remuneration policies for top management; and the approval and amendment of the general regulations concerning labor relations.
<b>Composition</b>	3 Directors, including 1 independent
<b>Meetings in 2005</b>	6

## Ethical Committee

<b>Functions</b>	It is responsible for examining and evaluating the principles to be submitted to the Board of Directors for the definition of a corporate ethical-environmental policy, for monitoring the degree of implementation of the selected principles within the company and for supervising the drafting of the Social Report and the guidelines for the external communication of corporate policy in this sector.
<b>Composition</b>	3 Directors
<b>Meetings in 2005</b>	3

Summary of the offices held by the Directors, their requisites and their membership of Committees.

#### BOARD OF DIRECTORS\*

	Office	Non executive	Independent	Executive Committee	Audit Committee	Remuneration and Personnel Policy Guidelines Committee	Ethical Committee
<b>Enrico Salza</b>	Chairman	●	●	●			
<b>Maurizio Barracco</b>	Director	●	●		●		
<b>Pio Bussolotto</b>	Director	●		●			
<b>Giuseppe Fontana</b>	Director	●	●		●		
<b>Ettore Gotti Tedeschi</b>	Director	●		●			
<b>Alfonso Iozzo</b>	Managing Director			●			
<b>Virgilio Marrone</b>	Director	●					●
<b>Iti Mihalich</b>	Director	●				●	
<b>Anthony Orsatelli</b>	Director	●					●
<b>Emilio Ottolenghi</b>	Director	●	●	●			
<b>Orazio Rossi</b>	Deputy Chairman	●	●	●			
<b>Gian Guido Sacchi Morsiani</b>	Director	●	●	●			
<b>Alfredo Saenz Abad</b>	Director	●				●	
<b>Mario Sarcinelli</b>	Director	●	●		●		
<b>Leone Sibani</b>	Director	●					●
<b>Alberto Tazzetti</b>	Director	●	●			●	
<b>Josè Manuel Varela</b>	Director	●		●			

\* Brief biographies are available at the Group Internet site ([www.grupposanpaoloimi.com](http://www.grupposanpaoloimi.com))

### Role of the Chairman, Deputy Chairman, Managing Director and General Manager

The Chairman of the Board of Directors, who is not assigned any operational delegated powers and is therefore considered as non executive, is responsible for coordinating the Company's operations and acting as its legal representative. He also has the power to take any urgent measures – in agreement with the Managing Director or, in his absence, the General Manager – in the Company's interest, reporting them to the Board of Directors or the Executive Committee at the next meeting.

The Deputy Chairman is also a non executive Director, called on to assume the powers of the Chairman and act as the Company's legal representative in the event of his absence or impediment.

The Managing Director is responsible for global coordination of Group activities, according to the guidelines provided by the Board of Directors. In particular, he is responsible for defining the Bank and the Group's activities of strategic direction, governance and control, supervising the Group planning process, monitoring the consistent development of plans and budgets and the central control of risks. The Managing Director is also responsible for the operations of the Savings and

Pensions sector (Assicurazioni Internazionali di Previdenza, Banca Fideuram and Sanpaolo IMI Asset Management) and the governance of equity investments.

The General Manager – who heads the operating and executive structure – is responsible for all the functions involved in banking operations, with the related governance and support structures; the banking networks operating domestically and internationally; and the specialist companies controlling specific markets, territories and business sectors such as public bodies (Banca OPI), investment banking (Banca IMI), private equity (Sanpaolo IMI Private Equity), consumer credit (Neos Banca), leasing (Sanpaolo Leasint) and tax collection (GEST Line). Based on the allocation of their respective responsibilities, the Board has assigned to the Managing Director and the General Manager the powers to be exercised in relation to the strategies, policies and plans formulated by the Board, with the power to sub-delegate and the requirement to report to the Board on a quarterly basis on the activities carried out. The Managing Director and the General Manager, on the basis of their respective powers and authorities, also formulate deliberation proposals for the Board of Directors and the Executive Committee.

## Board of Auditors

<b>Functions</b>	It is called on to supervise observance of the law and the Articles and by-laws; the observance of the principles of correct management and the adequacy of the organizational structure, for the areas of competence, of the internal control system and the administration-accounting system; as well as the adequacy of the provisions given by the company to its subsidiaries in order to fulfill the disclosure and reporting obligations provided for by the law. It has extensive powers of inspection and internal investigation and it may call – in the circumstances provided for by law – the Shareholders' Meeting, the Board of Directors and the Executive Committee; appeal against the Shareholders' and Directors' resolutions; and report management irregularities to the Authorities. It notifies CONSOB and Bank of Italy of any irregularities found during its supervisory activities. Sanpaolo IMI has also decided to assign the functions of the audit committee provided for under US legislation to the Board of Auditors – functions that primarily involve the control of accounting and financial reporting processes and the Bank's audit.	
<b>Composition</b>	Maurizio Dallochio Aureliano Benedetti Gianluca Ferrero Augusto Franchini Paolo Mazzi Carlo Pavesio Paolo Piccatti	Chairman Standing Auditor Standing Auditor Standing Auditor Standing Auditor Alternate Auditor Alternate Auditor
<b>Meetings in 2005</b>	12, with 87% participation	
<b>Termination</b>	At the time of the approval of the financial statements relating to the financial year 2007	

The auditing company, which is responsible for the audit of the statutory and consolidated financial statements for the financial years 2004-2005-2006, is PricewaterhouseCoopers.

## Management tools for Governance

The strategic management of an organization makes use of several tools that although appearing varied, in fact represent a single and coherent structured management system.

With the aim of guaranteeing transparency and professionalism in its relations with customers and the security and quality of its management systems for key areas of the Bank's operations, Sanpaolo IMI has in recent years developed a series of internal policies and has requested and obtained numerous certifications from an external accredited certifying organization.

The policies	Year launched	Scope of application
Loan policy	1999	Sets out the guidelines, criteria and mechanisms for the granting of loans
Group regulations	2002	Sets out the Group's fundamental organization principles, its basic operating principles, the areas of authority and responsibility of the Group's central functions, and the fundamental rules of the model for the management and coordination of the subsidiaries
Policy concerning the armaments sector	2002	An internal governance code that restricts the Group's operational boundary in relation to the support of military supplies exclusively to the following operations: - requests from Italian enterprises in compliance with the legislation in force (law 185/90), in particular Art. 5, which states that: "The export and transit of armament material, and the assignment of the related production license, are prohibited when they conflict with the Constitution, Italy's international commitments, the fundamental interests of Italian State security, the fight against terrorism and the maintenance of positive relations with other countries, and also where there are no adequate guarantees concerning the final destination of the material." - requests from foreign enterprises provided that they are destined to countries belonging to the European Union and/or NATO and in any case to be used, due to their nature, for security purposes.
Commercial policy	2003	It is a charter of values that contains the guiding principles for the management of the financial needs of companies.
Investment policy	2003	It is a charter of values that sets out the guiding principles for operations to assist customers in the investment of their financial assets and savings. It contains the codes of conduct for all those who are involved in customer relations and the principles adopted by the Bank in the development of electronic, informational and training support, marketing strategies and products consistent with the policy's principles.

*"The development of operations with business enterprises is naturally limited by the respect of ethical values recognized as fundamental to the Bank"*. Commercial Policy

*"The management of customers' savings is one of the Bank's most important and complex business operations. The objective of the investment assistance service is to aid the customers to the best of our ability in their choices, helping them to satisfy their financial needs"*. Investment Policy

*“When carrying out their professional services, each Director, employee and worker is required to behave in line with the principles of fairness and honesty, as well as complying with the requirements of confidentiality involved in the handling of information in their possession.” Ethical Code*

The policies	Year launched	Scope of application
Ethical Code	2003	It sets out the principles of honesty, loyalty, fairness and impartiality and the general codes of conduct that the Group's management, employees and external workers must follow. It also establishes control mechanisms and a control body, represented by the Ethical Committee. The Ethical Code was sent individually to all of the Italian and foreign employees and to the main suppliers (since 2005 all new agreements with suppliers make reference to the Ethical Code).
Donations policy	2004	This policy, in force in Sanpaolo and Sanpaolo Banco di Napoli, governs the procedures for the allocation of the overall ceiling in the various regions and provides guidelines for the selection of the beneficiaries of the donations and the criteria relating to specific initiatives, establishing a principle of rotation of actions. It also introduces approval, reporting and control mechanisms.
Environmental policy	2005	It contains the fundamental principles of the environmental management system certified by the standard ISO14001. It reiterates the importance of acting from the perspective of sustainable development, which integrates the economic and operational aspects of "doing business" with the social and environmental aspects, to safeguard present and future generations.
The loan directives	2005	They define the rules that managers must follow in the evaluation and granting of loans to enterprises, updating the 1999 loan policy. The Directives form part of the Basel II project. They are aimed at positively linking the informational advantages that the Group's Banks have concerning local businesses, their history and their management, as a result of their local coverage, with advanced evaluation technology. Their objective is to understand the specifics of these enterprises and thus be able to support their financial requirements and plans for development, also with a view to the medium to long term.

*“Sanpaolo IMI has chosen to pursue its mission inspired by values defined from the perspective of sustainable development, which integrates the economic and operational aspects of "doing business" with the social and environmental aspects, to safeguard present and future generations.”*

*Environmental Policy*

## The certifications

When carrying out its operations, Sanpaolo IMI pursues the principles of efficacy and efficiency, the principle of transparency towards customers and the mutual benefit of the relationship with them, as well as continuously seeking to improve the security of the services offered. In order to verify the adequacy of its processes with respect to the best international standards it has requested certifications by an external accredited organization (DNV – Det Norske Veritas) in various areas.



Gianni Chiri

Certification	Scope of application	Year launched
UNI EN ISO 9002:1994	Design and supply of EU and international payment systems. The field of application is as follows: "Agent supplying the Euro financial and business clearing procedure and related customer service".	1999
UNI EN ISO 9001: 2000	Extension of the ISO 9002 certification to the design and supply of EU and international payment systems. The field of application is as follows: "Agent for the design, implementation and supply of Financial and Business Clearing (EURO) services, and the related Customer Service, and end-to-end money transfers for payments into the Single Euro Payments Area (SEPA) and cross-border payments".	2002
BSS 7799	Certification of the specifications that define the requirements of the design, implementation and management of IT security systems for Internet Banking Services. These services were found to be in conformity with the standard under the following aspects: technical, organizational, legal, human resource management, and with regard to the formulation of the contracts for the purchase of products and services.	2002
PattiChiari	This initiative is aimed at providing customers with simple and practical tools that help them to understand banking products and allow them to easily compare offers from several banks in order to choose the product that best meets their needs. In this way the customers, having been made more aware, can play a more active role in their relations with the Bank.	2003
UNI EN ISO 9001:2000	All the banks in the Group have attained the 8 PattiChiari certifications. Design of financial products for the purchase, construction and restoration of residential properties.	2004
UNI EN ISO 9001:2000	Extension of the scope of certification to the processes of mortgage provision and to consultancy and assistance services to customers by the sales network.	2005
UNI EN ISO 14001:2004	Certification of the Environmental Management System.	2005

## THE EIGHT PATTICHIARI INITIATIVES

### **FARO (On-line working ATM signal)**

a service that enables the nearest operational ATM to be located by telephone or via the Internet.

### **List of low risk - low return bonds**

a tool to make customers better aware that a higher return corresponds to a higher risk.

### **Clear information on structured and subordinated bank bonds**

an informational tool designed to help in the understanding of complex securities and raise the customers' awareness of the risks associated with this form of investment.

### **Evaluation criteria for assessing the credit worthiness of SMEs**

a document with clear and simple details of the criteria that the banks generally use to assess loans to small and medium enterprises.

### **Current accounts compared**

an "ID card" with clear and easy to understand details of the features, services and prices of current accounts.

### **Basic banking services**

a product that offers all the basic banking services, which is readily accessible, due to its simplicity and low cost, to those who currently do not have a current account, from young people to pensioners.

### **Average response time for credit to small enterprises**

information aimed at enabling the customer to know in advance the amount of time the bank takes, on average, to respond (positively or negatively) to a loan application.

### **Certainty of the date at which deposits of checks become available**

information concerning the amount of time for the legal availability on one's current account of the amounts paid in by check.

## Corporate Social Responsibility

In Sanpaolo IMI the organization of the firm is directed towards value creation over the long term contributing to the sustainable development of the communities in which the Group operates. This orientation is maintained by strengthening the relations and dialogue with all the stakeholders and by consolidating the relationship of trust through the pro-active and progressive inclusion of their needs in the firm's organizational and operational strategies. This approach is taken up by the new strategic Plan for the three-year period 2006-2008, which reiterates the importance of long term sustainability and constant and careful attention to the company's stakeholders. The Plan presents a summary of the fundamental courses of action aimed at enhancing relations with customers, valuing and involving employees, meeting the profit expectations of the shareholders, and promoting a development process that takes into account the needs of local communities and protection of the environment.



Daniele Volpicelli

*In Sanpaolo IMI the organization of the firm is directed towards value creation over the long term contributing to the sustainable development of the communities in which the Group operates*

## Supervision and coordination

### Ethical Committee

The Ethical Committee, an internal body of the Board of Directors, is responsible for the management and control of ethical, social and environmental issues. It performs the following tasks:

- examining and evaluating the principles to be submitted to the Board of Directors for the development of policies of an ethical and environmental nature;
- suggesting the definition of codes of conduct and considering compliance with declarations of principles or with sector organizations;
- monitoring the degree of implementation of the Group's fundamental principles within the corporate structure;
- supervising the compilation of the Social Report and the guidelines for the external communication of corporate policy in this sector.

During 2005, the Ethical Committee provided a favorable opinion with regard to the adoption of an environmental management system and to the developments of the Social Microcredit project, and supervised the progress of the realization of the 2004 Social Report. It also examined the various issues relating to the company's social responsibility, including the training of the Group's employees on social responsibility and the Social Report and the actions taken in relation to the interbank PattiChiari initiative. The Committee is periodically informed about the operations carried out in relation to SRI (Socially Responsible Investors), the inclusion in ethical indices and the external evaluations of aspects of corporate governance and social responsibility of the Group. During the early months of 2006 the Ethical Committee favorably assessed the opportunity of adhering to the Equator Principles (social and environmental guidelines for project financing).

### Social Responsibility Unit

The structure dedicated to the direct management of Group ethical, social and environmental matters is the Social Responsibility Unit, reporting to the Managing Director. This unit has the following responsibilities:

- monitoring the various issues included in the Social Report;
- defining action plans for donations to make them closest to Sanpaolo IMI's social objectives;
- acting as secretary to the Ethical Committee.

## Diffusion and sharing of the culture of sustainability

### Internal training

In 2005 an online training course was produced on corporate social responsibility and on the Social Report. The course, available on the intranet training platform and developed internally to adapt it as closely as possible to Sanpaolo IMI's specific needs, has the objective of providing basic information and raising awareness of these issues, especially concerning the related strategies and actions instituted by the Group. The course was completed by almost 15,000 people. A compulsory online course for employees was also produced on the "Administrative liability of companies and Ethical Code". The course, taking its inspiration from the legislation and regulations in force, set itself the objective of providing detailed information on corporate administrative liability, the Ethical Code and the "sensitive" company operations where there may be a risk of committing the offences envisaged by Legislative Decree 231/01. Approximately 22,000 people have completed the course.

*In 2005 an online training course was produced on corporate social responsibility and on the Social Report*

### Internal and external communication

The activities carried out by Sanpaolo IMI within the area of social responsibility are communicated inside and outside the company through the publication of the Social Report and the continuous updating of an extensive dedicated section of the Group's internet site, together with presentations and participation in relevant special events.

During the year, a new section of the intranet portal, "Green Village", dedicated to the examination of issues linked to social responsibility, was designed and made available to the employees. This section contains a general introduction to CSR, details of the initiatives that Sanpaolo IMI has developed in this area, an archive of articles and a glossary with the more frequently used technical terms. It is regularly updated and enriched with new content.

**Collaboration**

Sanpaolo IMI supports and participates in several important international initiatives concerning corporate social responsibility, in particular UNEP and the UN Global Compact. It is also committed to a series of collaborations with associations and working groups on issues connected to ethical finance, social responsibility and the environment. In some cases this involves

collaboration of a permanent nature (for example the participation in the ABI's working group or the participation in the Italian Forum for Sustainable Finance). In other cases it involves participation in specific projects with a set lifetime (for example the Social Accountability and Consumers project of Adiconsum - Italian Association for Consumer and Environmental Protection - and the Masters in Corporate Citizenship of the FONDACA – Italian active citizenship foundation).



**UNEP – Financial Institutions (Finance Sector initiative of the United Nations Environment**

**Programme):** a partnership between the United Nations and the financial services sector that promotes a dialogue on the linkage between economic development and financial performance, environmental protection and sustainable development. In particular, Sanpaolo IMI participates in the asset management working group, which presented its report on “The Materiality of Environmental, Social and Governance Issues to Securities Pricing” to the financial community in 2005.  
[www.unepfi.org](http://www.unepfi.org)



**UN Global Compact:** an initiative promoted by the United Nations that aims to bring businesses and civil society together and promote respect for the 10 principles relating to human rights, labor rights, protection of the environment and the fight against corruption. Sanpaolo IMI publishes a report annually on the progress achieved in relation to the 10 principles.  
[www.unglobalcompact.org](http://www.unglobalcompact.org)

**CARBON DISCLOSURE PROJECT**

**Carbon Disclosure Project:** a joint initiative of various institutional investors that aims to raise the awareness of the management of the major listed companies in relation to the impact that their activities have on climate change. Sanpaolo IMI Asset Management, as an institutional investor, is one of the promoters of this initiative, whilst the Group responds annually to the questionnaire on greenhouse gas emissions sent to listed companies.  
[www.cdproject.net](http://www.cdproject.net)



**Italian Forum for Sustainable Finance:**

a multi-stakeholder association with the objective of spreading the culture of sustainable development within the financial community and the Italian representative of EuroSIF (European Forum for Sustainable and Responsible Investments).  
[www.finanzasostenibile.it](http://www.finanzasostenibile.it)



**ABI working group on the Social Responsibility of banking institutions**

**ABI working group on consumer associations ABI Energy Consortium,** a point of reference for operations connected to the optimization of energy efficiency in the banking system.  
[www.abi.it](http://www.abi.it)



FONDAZIONE ADRIANO OLIVETTI

We acknowledge the valuable contribution provided by dott. Laura Olivetti, Chairman of the Adriano Olivetti Foundation on the issues related to CSR and in the compilation of the Social Report. **The Adriano Olivetti Foundation,** established in 1962 with the aim of “continuing the research, experimental, theoretical and practical work set in motion by Adriano Olivetti”, is engaged in an intensive program of cultural and scientific research and promotion.  
[www.fondazioneadrianolivetti.it](http://www.fondazioneadrianolivetti.it)



[www.sodalitas.it](http://www.sodalitas.it)

**Sodalitas:** an association for the development of the non profit sector and the diffusion of corporate social responsibility.



**Social Accountability and Consumers (SA&Co):** a project coordinated by Adiconsum with the objective of setting guidelines for the compilation of a social report oriented towards the customer expectations.  
[www.consumoetico.info](http://www.consumoetico.info)



**Master in Corporate Citizenship – integrated social responsibility strategy:** a post graduate course organized by **FONDACA** – the Italian active citizenship foundation on the subject of social responsibility.  
[www.fondaca.org](http://www.fondaca.org)



**Green Light:** a program of the European Commission for the upgrading of technology and procedures for lighting management in buildings.

### Discussion of the Social Report

During the year we worked together with several stakeholders in order to improve the clarity and relevance of the contents of our Social Report. In particular, there were two important initiatives in this area: the “SA&Co - Social Accountability and Consumers project” of Adiconsum and the focus group on the Sanpaolo IMI Social Report organized as part of the Master in Corporate Citizenship of FONDACA – (Italian active citizenship foundation). The “SA&Co - Social Accountability and Consumers project”, set up and coordinated in Italy by the consumer association Adiconsum, forms part of a wider project realized at European level thanks to the contribution of the Directorate-General for Employment and Social Affairs and Equal Opportunities of the European Commission. The project has two objectives: rethinking the Social Report as a tool for social reporting oriented towards the expectations of the customer-consumer and raising the awareness of consumers on the issue of social responsibility. As part of this initiative Sanpaolo IMI’s 2004 Social Report, both in its full version and in the purposely compiled summarized and simplified version, was assessed and discussed, together with reports from other organizations, by Adiconsum and a mixed group of consumers. The results of the focus group and the information on the project are available at the website [www.consumoetico.info](http://www.consumoetico.info).

The second initiative involved a multi-stakeholder group of participants in the Master in Corporate Citizenship promoted and organized by FONDACA – the Italian Active Citizenship Foundation, with the support of the Center for Responsible Leadership of the Boston College and the Sant' Anna School of Advanced Studies of Pisa. Sanpaolo IMI Social Report was judged to be generally complete, truthful and balanced, but a document aimed at experts in the field, bulky, often with technical language (difficult for the average reader to understand) and where detailed descriptions of operations and programs did not always emphasize their relevance in relation to social responsibility (for example their innovative nature, usefulness for stakeholders etc.). Bearing the results of these consultations in mind, the 2005 Social Report was produced with a further effort towards clarity, with a greater use of figures and tables and more accessible language also for those not working in the sector. An effort was also made to better explain the relevance of the contents presented in the document within the context of social responsibility.

*Bearing the results of these consultations in mind, the 2005 Social Report was produced with a further effort towards clarity, with a greater use of figures and tables and more accessible language also for those not working in the sector*

### Dialogue with employees

Internal communications take place in Sanpaolo IMI through a variety of channels on the company intranet. Each channel has procedures for two-way dialogue, particularly in the form of letters sent to the editors that are placed in a dedicated section. The intranet site dedicated to business communication with the branch network in 2002 introduced the forum as a tool that enables employees to directly express their opinions on various aspects of operations, share experiences and success stories, report concerns and problems and submit ideas and suggestions for the improvement of products, services and procedures. Alongside the permanent forums (currently there are 14 active ones) temporary forums also spring up in order to gather suggestions and proposals on important specific issues. The forums are characterized by the absence of prior screening of the messages added, which are published in real time. The direct dialogue between the branches and the central structures, with their heads often intervening personally, enables the rapid identification and resolution of problems arising and the gathering of information useful for the improvement of products and services. The continuous sharing of experiences between the colleagues of the Group's different Banks has also contributed to encouraging the process of integration for the people originating from the most recently migrated Banks.

The growing appreciation and use by branch employees is measured on the basis of the number of messages sent (the forum on “the extra idea that is not there” received more than 2,000 messages in one year) and from the fact that more than 50% of the potential users regularly consult the online discussions as they consider them to be interesting and useful.

# Map of Stakeholders





Social Report





## Creation of value

Our work is aimed at producing a real benefit for customers. It is directed at producing results that are - and are perceived as being - consistent with customer expectations and that correspond to the expected economic return

## Customer orientation

We want our customers to feel looked after through an organization that is structured around their needs and that is open to dialogue and able to listen

## Integrity

We believe that in the long term loyalty and transparency in dealing with customers will lead to further sources of benefit for our organization

## Commitment to excellence

We want to offer our customers readily accessible high quality products and services by combining, using our branch network and virtual channels, "tradition" with the convenience and the wealth of information offered by IT systems

## Growth in observance of specific qualities

We strive to pay the highest level of attention to the individual customer and in particular to the needs of specific customer categories

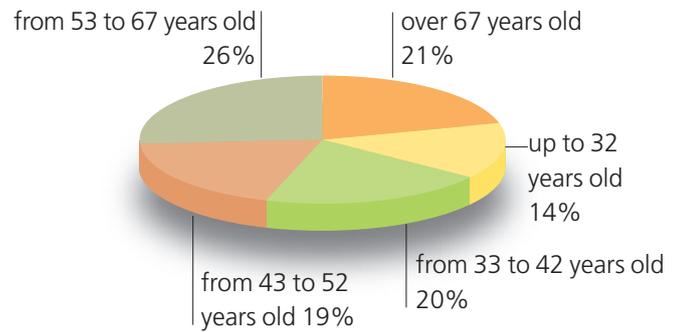
## Responsibility in the use of resources

We aim to make responsible use of financial resources by bringing together, in our day to day operations, the need to protect savings and to generate interest on deposits, typical of the family, and the financing needs of the business world

The Group has around 7 million customers including approximately 6.5 million retail customers and small businesses (professionals, dealers, small family businesses, etc) and around 78,000 firms. The Group's foreign Banks have a total of 270,000 customers.

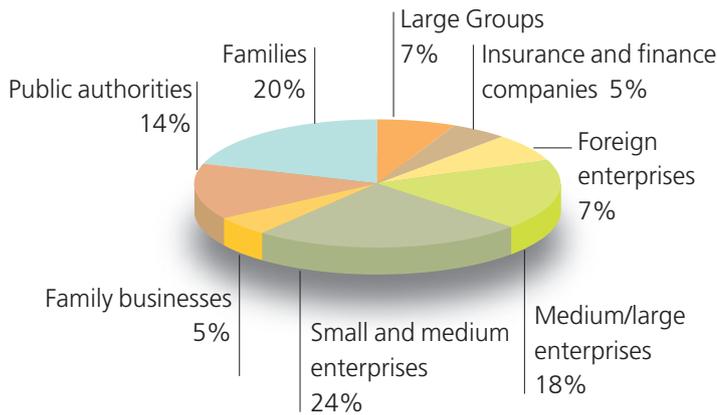
The Group's Banks provided credit, in the form of short and medium term financing, mortgages and personal loans, totaling approximately 140 million euro as at the end of 2005. The total of medium/large enterprises and the large groups represented around 25% of the loan portfolio, whereas small and medium enterprises and family businesses, including professionals, craftsmen, dealers and other small businesses, received around 30% of the total loans.

**CUSTOMERS BY AGE GROUP\***

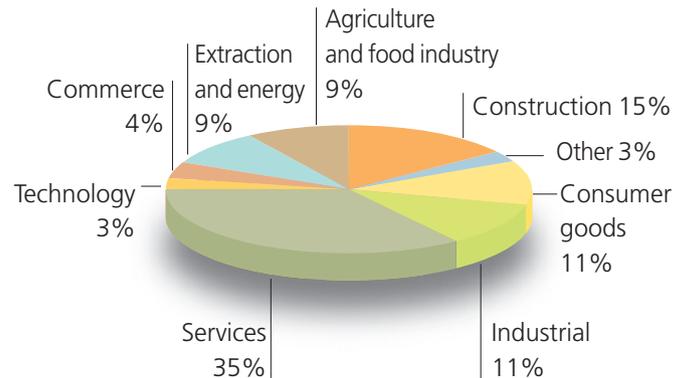


\* Figures relate to the Commercial Banks.

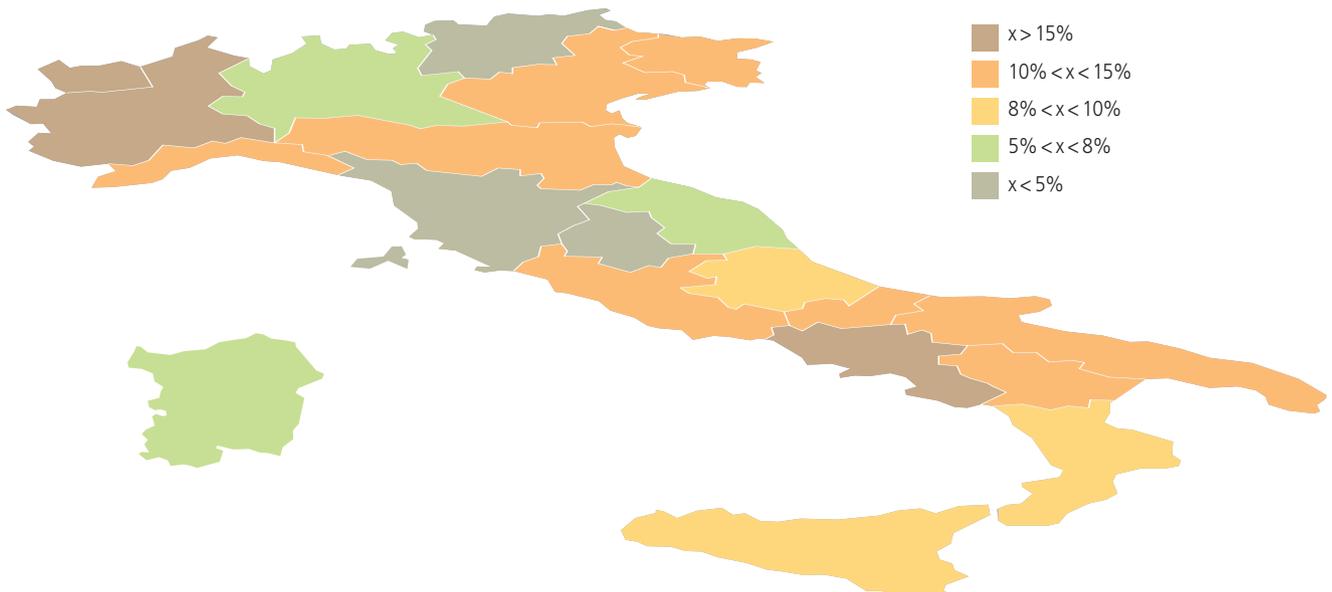
**LOANS BY TYPE OF USER**



**LOANS TO ENTERPRISES AND FAMILY BUSINESSES BY SECTOR**



**REGIONAL MARKET SHARE FOR CUSTOMER LOANS**



## TARGETS AND RESULTS ACHIEVED

### Improvement targets set in the 2004 Social Report

### Actions and results achieved in 2005

Customer satisfaction initiatives, aimed at improving the customer relationship.

In particular:

- a. qualitative-quantitative surveys on retail customer perception of services;
- b. conclusion of the corporate customer survey.

- a. Surveys of the level of satisfaction of 11,000 retail customers, split by segment, were conducted as well as ad hoc surveys on specific topics.
- b. A survey was conducted of around 2,000 corporate customers of Sanpaolo and Sanpaolo Banco di Napoli that in the future will be extended to other Commercial Banks of the Group.

Drafting and circulation of two policies containing the guiding principles for behavior towards corporate customers in relation to credit (in light of the introduction of the Basel II regulation) and derivative products, in order to ensure the consistency of conduct and to create an opportunity to share values concerning these issues.

In light of the Basel II regulation the Loan Policy “The Loan Directives: issuing and management” was produced.

The drafting of the Derivatives Policy is still in progress and is part of a wider review of the distribution process for derivatives, which takes into account the legislative changes to the Consob study.

Development of products aimed at meeting the new needs of customers, by providing a personalized service in the customers’ interest. In particular:

- a. for retail customers, completion of the range of account products by engaging in initiatives aimed at specific customer segments (e.g. ‘Over 65’ customers) or modular products that allow management charges to be reduced in accordance with the intensity of the relationship; development of the products and services offered for the ‘18-30’ segment, continuing the relationships developed with the university world; implementation of the range of insurance products in the non-life division (Accident and Health insurance policies, financial products coverage); and review of the range of pension and annuity products.
- b. for corporate customers, the creation of a new product aimed at facilitating the capitalization of enterprises, in light of the Basel Agreements. A new ceiling will also be set for medium enterprises aimed at financing investment in research and corporate innovation.

- a. A new Benefit account was launched for over 65s and the services linked to the Esprit program, aimed at young people between 18 and 30 years of age, were extended.  
The range of insurance products for the non-life division (Accident and Health insurance policies, Polizza Assidomus linked to mortgages) was implemented.  
The review of the range of pension products is in its final phase and in particular AIP has restyled the individual form of insurance, called “Vita & Previdenza Sanpaolo (Sanpaolo Life and Pensions)”. Activities also started on the review of the annuity products.
- b. Two new medium-long term financing products were developed, in light of Basel II, aimed at equity strengthening (Basel Equity) and the improvement of corporate financial structures (Basel Finance).  
With regard to the support for investment in research and innovation, in addition to doubling the Applied Research ceiling to 500 million euro (used to finance 564 projects for a sum of 477 million euro as at mid-March 2006), a new product Innovation-Buy was developed, which finances the acquisition of existing technology.

### Improvement targets set in the 2004 Social Report

Expansion of the services available on the web. For retail customers, the target was to achieve one million multi-channel contracts.

Optimization of the investments made in obtaining quality certifications and translating the information obtained from the handling of complaints and the critical aspects of customer relationships into actions for improvement.

### Actions and results achieved in 2005

New Internet functions have been developed for retail customers (online reporting and financial accounting showing the average book value and the risk position of individual securities held in portfolio; subscription for third party liability car insurance; payment against notice; and payment of taxes). The new T-Banking service was also developed and launched on the digital terrestrial television platform. As at the end of 2005 there were more than one million multi-channel retail customer contracts.

For corporate customers the web platform for remote banking "Links Sanpaolo" used by 30,000 customers was reviewed and enhanced. The new "Links Sanpaolo Basic" service was launched, a specific single-bank version for professionals and small enterprises, with simplified functions and lower costs.

During 2005, a number of projects of an organizational nature were carried out at local level, in order to coordinate the actions required to maintain the standards set by the certification protocols and to implement any corrective measures aimed at improving operational processes. The detailed analysis of the complaints made by customers also enabled the rapid identification of problem areas within the customer relationships. Over the year these led to initial amendments to the internal processes, a review of the procedures adopted when notifying the public of product features and an updating of specific contractual provisions.

## The organization of the Bank at the service of the customers

The model of a national bank for territories, adopted by the Sanpaolo IMI Group, is based on a strong local presence, the independence of the regional organizational structures and promotion of the specialization of services. Through links with the communities, also demonstrated by the maintenance of brands of the Group's various Banks serving the neighborhoods they are historically connected to, we are able to get closer and closer to the customer, with a widespread network of 3,422 branches throughout Italy. The extensive network of branches and specialized service points allows us to provide a personalized service to meet our customers' various needs, by focusing on the human element and recognizing that the professionalism and skills of our staff provide the tools required to manage customer relationships, understand customer needs and provide the relevant solutions.



*Giovanni Ruffo*

## Branches' specialization

### GEOGRAFICAL DISTRIBUTION\*

- 2,765 Retail and Small Business branches
- 173 Corporate branches
- 74 Corporate teams on secondment
- 131 Private banking
- Other 279 offices throughout Italy\*\*

### North West

- Retail and Small Business branches:** 871
- Corporate branches:** 85
- Corporate teams on secondment:** 35
- Private banking:** 59

### North East

- Retail and Small Business branches:** 786
- Corporate branches:** 34
- Corporate teams on secondment:** 18
- Private banking:** 37

### Center

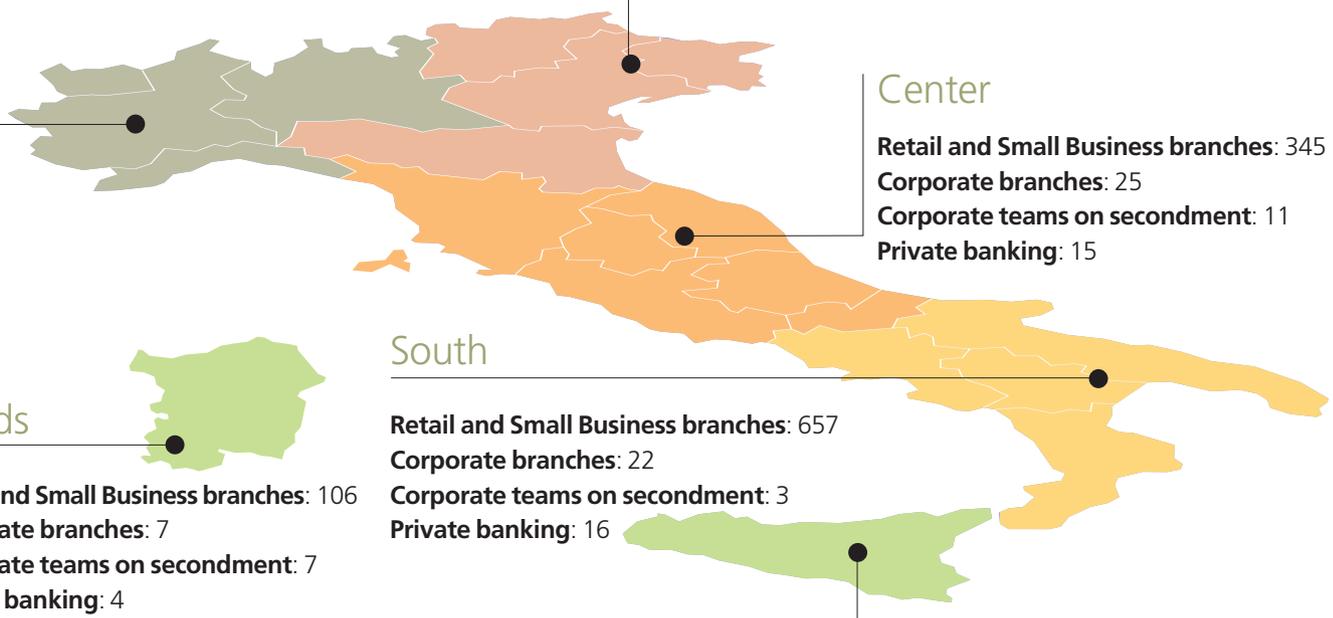
- Retail and Small Business branches:** 345
- Corporate branches:** 25
- Corporate teams on secondment:** 11
- Private banking:** 15

### South

- Retail and Small Business branches:** 657
- Corporate branches:** 22
- Corporate teams on secondment:** 3
- Private banking:** 16

### Islands

- Retail and Small Business branches:** 106
- Corporate branches:** 7
- Corporate teams on secondment:** 7
- Private banking:** 4



\* Data refer to the Commercial Banks  
 \*\*Secondment of branches, consultancy outlets, Domus Points, treasury branches etc.



Anna Iandolino

The Group also has a network of around 3,900 ATMs that are due to be progressively replaced with machines equipped with Web technology (at the end of 2005 amounting to 9% of the total compared to 1% at the end of 2004). The new Web ATMs also offer, in addition to the traditional functions, services such as bank transfers, rapid withdrawals and sophisticated informational services (some also allow cash and checks to be deposited).

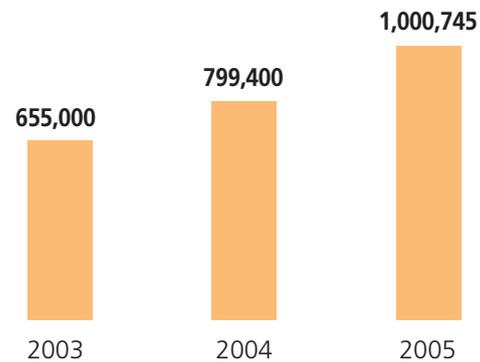
## Ease of access to banking services

### Direct channels

Alongside the physical proximity of its branches, the Sanpaolo IMI Group also provides its services through other channels – Internet, telephone and television – that provide the customer direct and secure access to banking facilities.

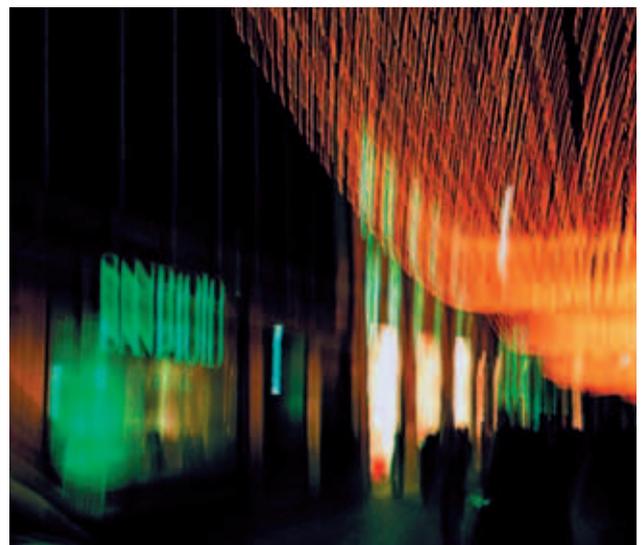
During the year the range of payment and investment services available through direct channels was expanded and the level of automation of bank transfers and securities

### NUMBER OF MULTI-CHANNEL CONTRACTS

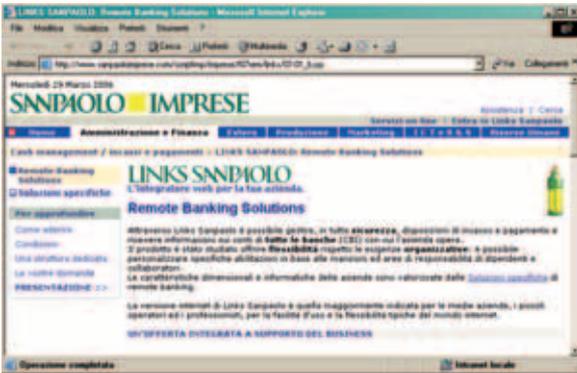


*Alongside the physical proximity of its branches, the Sanpaolo IMI Group also offers its services through other channels – Internet, telephone and television – that provide the customer direct and secure access to banking facilities*

transactions reached 30% and 64% respectively of the total transactions. For customers who make use of the Internet banking service – over one million retail customers, professionals and sole firms – the online reporting function was developed, which allows them to receive and display in electronic format, within a special section of the protected area of the Bank's Internet site, the notifications that would otherwise be sent by ordinary post to the customers' homes. This function, in addition to significantly reducing the use of paper, provides the customer with the benefit of receiving notifications from the Bank more rapidly, as well as saving on the postage costs. To make access to banking services even easier, the T-banking service on the digital terrestrial television platform has been made available to customers. In addition to other direct channels (Internet, telephone and cell phone), the T banking service allows customers to view the updated position of the movements on their current accounts. Corporate customers, on the other hand, have access to an elaborate and



Riccardo Granato



reliable remote banking service for their operations, known as Links Sanpaolo. The navigation and the content of the web platform has been renovated and is now aimed at all corporate users and not just the traditional operators in the administrative sector. The new structuring of the products and services available within Links Sanpaolo corresponds to the various corporate operations: from the management of liquidity to relations with customers and suppliers, and from foreign operations to opportunities for business growth. Links Sanpaolo is a tool for day to day use and contact with the Bank for the over 30,000 customers who subscribe to the service and is the channel where information can be obtained in real time. It handles over 10 million transactions per month – informational and operative – in the Group as a whole, with a rate of use exceeding 88% and a trend showing continuous growth. Since 2005, the Bank has also offered Links Sanpaolo Basic, a service designed for professionals and small enterprises, with simplified functions and lower costs compared to the full version. Links Basic is aimed at customers who operate solely in the Italian market (there are no facilities for foreign collection and payment services) and do not need to provide their employees with different access profiles. The customers and professionals who use Links Sanpaolo also have full access to the data banks, the news and information dossiers published in the Internet portal “SanpaoloImprese.com”. In addition to presenting a wide range of the Banks’ products and services, the portal over the year published continuously updated information (over 2,500 news items and 60 dossiers) on topical issues and company operations. It also produces a

personalized newsletter on the basis of the interests defined by the user, and publishes news and figures focusing on specific topics ([www.agricoltura.sanpaoloimprese.com](http://www.agricoltura.sanpaoloimprese.com) and [www.europa.sanpaoloimprese.com](http://www.europa.sanpaoloimprese.com)).

*Corporate customers have access to an elaborate and reliable remote banking service for their operations, known as Links Sanpaolo*

In 2005, the number of mobile payment services offered was also increased including the possibility of buying train tickets during the journey, an increase in the number of payment card readers in taxis, and the issue of payment cards that also function as a ski pass.



Vittorio Libanori

### Safeguarding IT security

The Internet banking service was the first of the Bank's services to have its security certified by the BSS 7799 standard, from the start of its operations. Constant attention is paid to the safeguarding of customer operations through the use of the most advanced security systems available and through continuous monitoring enabling the analysis of anomalous transactions with particular focus on material amounts, suspect beneficiaries and recurring reasons for payments.

In order to increase the security for customers when using Internet banking and to protect them from the improper use of the service an Internet transaction notification service via SMS was introduced in 2005. The customers subscribing to this service receives a text message for each bank transfer made from their



current accounts through the Internet banking service. Recently Italy has also seen the spread of an online fraud (known as "phishing") that, without breaching the Bank's security systems, aims to fraudulently obtain the customers' Internet banking access codes. This takes place by sending an email, which appears to originate from the bank, to a list of email

addresses created at random by the fraudsters. The email asks the customers to access a link (which appears to take them to the bank's official website) and enter their access codes, claiming they are needed for general security reasons. In reality, by following these instructions, the customer is connected to the fraudster's site and transmits his personal information to him.

To protect the customers from potential frauds a specific notice was published on all the Internet sites of the Group's Banks, in order to notify all the Internet customers about this issue and to inform them of the relevant prevention measures. A similar notice was also sent via the free newsletter to the approximately 200,000 Direct Banking customers who had requested it.

Services have also been developed in relation to transactions carried out with payment cards to provide customers with greater security. The alarm and reporting service supplied via SMS, for example, notifies the customers about any transaction carried out by payment card and allows them to take action in the event of their fraudulent use.

In 2005 a plan for the progressive use of advanced technology (microchips) was initiated to ensure, through substantial investment in the modification of payment cards, ATMs and POSs, increasing levels of security for electronic payment services and the possibility of enhancing the functions of payment cards.

*The Internet banking service was the first of the Bank's services to have its security certified by the BSS 7799 standard, from the start of its operations. Constant attention is paid to the safeguarding of customer operations both through the use of the most advanced security systems available and through continuous monitoring*

## Willingness to dialogue and to listening

The transformations in the financial market over recent years have had a profound impact on the relationship between the bank and its customers. Our efforts are continuously focused on gaining our customers' trust and this can only be achieved through a greater awareness of their expectations, needs and opinions. We believe that improving the dialogue with our customers – by asking them to assess our services and by analyzing the notices and requests sent to us – will enable us to continue to enhance the quality and efficiency of the services we offer.

### Communication and listening channels

The people working in the Group's branches are our first and most important channel of communication with our customers. This is why their training is particularly focused on supporting the development of specific focus on understanding customer needs and on managing the relationship as clearly, simply and directly as possible.

The Bank also provides many other channels through which information can be requested and inquiries can be made.

In particular, the Bank can be contacted directly through the Group's various Internet sites where specific email addresses can be found. During 2005 the office responsible for customer assistance received over 40,000 emails, with the majority relating to information on products, assistance in the use of direct channels, and clarifications concerning the functioning of the Bank's services.

During 2005 a new help service, "Your Bank answers", was produced. Customers and non customers can call a freephone number to receive information about the Bank's products and services and find answers to common problems connected to banking operations. In its first six months of operations, the service handled almost 13,000 contacts and the average response time was 15 seconds. The possibility has also been provided, for customers who need further or personalized information, to make a telephone appointment for an operator to call them in order to provided them with the clarifications requested.

*We believe that improving the dialogue with our customers – by asking them to assess our services and by analyzing the notices and requests sent to us – will enable us to continue to enhance the quality and efficiency of the services we offer*

### Customer satisfaction surveys

For several years now periodic surveys have been conducted of customer satisfaction and the evolution of their needs. In 2005 they were extended to all of the Group's Commercial Banks. In addition, more specific analyses are performed on satisfaction and expectation of certain customer segments and on the appreciation of certain types of products and ranges of offers. In all the analyses carried out great care was taken in the methods used to contact the customers, in particular in relation to the protection of privacy and level of invasiveness of the interviews.



Marco Lombardini

*For several years now periodic surveys have been conducted of customer satisfaction and the evolution of their needs. In 2005 they were extended to all of the Group's Commercial Banks*

## SURVEYS CONDUCTED IN 2005

Subject	Objectives	Target	Methodology/sampling
Retail customer satisfaction survey	<ul style="list-style-type: none"> <li>Monitor the level of satisfaction and gather customer assessments of the current range of products offered and the adequacy of the services offered.</li> </ul>	Mass and affluent customers of the Commercial Banks	11,000 telephone interviews, carried out in two phases
Retail customer satisfaction survey by ABI monitoring center	<ul style="list-style-type: none"> <li>Monitor the level of customer satisfaction and gather customer assessments of the current range of products offered and on the adequacy of the services offered.</li> </ul>	Sanpaolo retail customers	1,200 telephone interviews conducted by Eurisko
Corporate customer satisfaction survey	<ul style="list-style-type: none"> <li>Monitor the current financial services offered to companies and the complex of expectations still to be covered.</li> <li>Determine the positioning and value of the brand in the business world.</li> </ul>	Corporate customers of Sanpaolo and Sanpaolo Banco di Napoli	Interviews of a sample of around 2,000 corporate customers
Small business customer satisfaction survey by ABI monitoring center	<ul style="list-style-type: none"> <li>Monitor the level of customer satisfaction and gather customer assessments of the current range of products offered and the adequacy of the services offered.</li> <li>Assess the importance of relationship aspects and the Bank's ability to respond to customer needs.</li> </ul>	Sanpaolo Small Business customers	500 telephone interviews conducted by Eurisko
Private customer research	<ul style="list-style-type: none"> <li>Identify the level of customer satisfaction and assess customer perception in relation to the development of the service model.</li> </ul>	Private customers of the Commercial Banks	Questionnaire sent to customers of the segment (3,573 responses)
Survey of ethical products	<ul style="list-style-type: none"> <li>Reconstruct the framework of expectations in relation to ethical finance proposals.</li> <li>Ascertain appreciation of and interest in specific ethical investment proposals.</li> <li>Evaluate the interest of the Group's customers in ethical issues and compare it to the system.</li> </ul>	Sanpaolo customers	300 telephone interviews of Sanpaolo customers who had subscribed for an ethical product
Esprit survey of young people	<ul style="list-style-type: none"> <li>Measure the appreciation of the membership program associated to the Esprit product.</li> </ul>	Customers of the Commercial Banks belonging to the program	Questionnaire completed via Internet (1,255 responses)
Survey of protection products (health insurance, home insurance, basic life insurance, and third party liability head of household insurance)	<ul style="list-style-type: none"> <li>Survey the expectations from the Bank of Sanpaolo IMI customers who have needs of an insurance nature.</li> <li>Evaluate the path that led the customer to the purchase and his expectations at the time of subscription.</li> <li>Analyze the motivations underlying the subscription for the product and the level of satisfaction in relation to overall sales process for the product.</li> </ul>	Sanpaolo customers	480 telephone interviews of Sanpaolo customers aged between 18 and 60 years old
New customer survey: reasons and decisional process for the choice	Obtain information on the financial needs of customers and on the reasons that led new customers to choose a bank over others (attraction incentives)	Non customers	300 telephone interviews of new customers of competing institutions and 18 in depth interviews of new customers of competing organizations in geographical areas of interest

### Retail customer satisfaction surveys

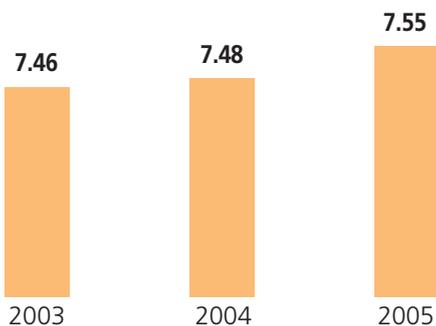
The research conducted on the Group's retail customers allowed Sanpaolo and Sanpaolo Banco di Napoli to update the results obtained in previous years, whereas for the other Commercial Banks of the Group it represented the first survey of its kind. The survey was conducted by means of 11,000 telephone interviews, over two different time periods.

The first phase, completed in July 2005, involved 7,000 telephone contacts and provided results for the customer segments within each Bank of the Group.

The survey indicated an average level of customer satisfaction with the Commercial Banks of the Group of 7.47 (on a scale of 1 to 10).

The chart below shows the trend in the level of satisfaction of the customers of Sanpaolo and Sanpaolo Banco di Napoli.

**TREND IN THE LEVEL OF SATISFACTION OF THE CUSTOMERS OF SANPAOLO AND SANPAOLO BANCO DI NAPOLI**  
(average score)



The first phase showed that:

- within the Group a high level of satisfaction was found in customers who have a more intensive relationship with the Bank thanks to the contribution of the staff who on average are highly appreciated;
- the level of satisfaction has improved for customers of Sanpaolo and, to a greater degree, for customers of Sanpaolo Banco di Napoli;
- the customers of Sanpaolo Banco di Napoli made use of the benefits resulting from the integration into the Sanpaolo IMI Group, showing an increased appreciation of the brand and growing loyalty.

The second phase of the survey, conducted at the end of 2005, involved a further 4,000 telephone interviews and was particularly focused on measuring the level of satisfaction of customers at local level.

The research also focused on the perception and awareness of the Clear Pacts initiative, the ABI project promoted by a consortium composed of the main Italian banks to improve relations between the banking system and customers. The results showed that more than half of the sample interviewed was aware of our Group's membership in the project.

### Scenario surveys of the ABI Monitoring center on customer satisfaction 2005/2006

In 2005 Sanpaolo IMI once again took part in the ABI scenario research, which is a useful tool for understanding the current status and trend in relations between the banking system and customers in Italy.

- For retail customers the results of the ABI study showed a positive turn around in the previous trend in relation to overall satisfaction. The outstanding scores given increased by 5 percentage points compared to the previous edition, moving from 42% to 47% of fully satisfied customers.
- As for small business customers of the Sanpaolo network, the results showed a high level of satisfaction, both at overall level and for the individual service aspects, especially in relation to the staff in contact with customers and the managerial staff, who were awarded a rating of full satisfaction in over 70% of cases. It also emerged that the most pressing needs of the customers concern relations with the bank. Indeed, they require, above all, stable and trained contact persons capable of recognizing the specific needs of small businesses and responding clearly and rapidly, providing all round support, with particular attention to the area of financing.

### Corporate customer survey

The survey involved 2,000 corporate customers of Sanpaolo and Sanpaolo Banco di Napoli.

The results of the research conducted on corporate customers showed that 57% of these customers expressed a high level of satisfaction, in particular with respect to the various aspects that make up the bank-enterprise relationship. These included the efficiency of the channels used for corporate operations, the quality of the service offered and the variety of the range of products.

The people handling the relationship with the enterprise were rated positively, with 66% of customers declaring that they were satisfied, thus confirming the value of the human aspect within the customer relationship.

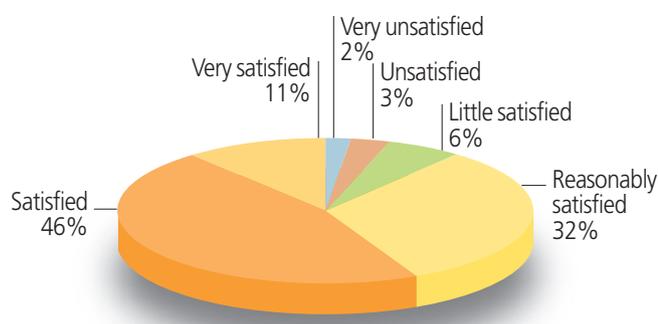
In addition to the analysis of the satisfaction of the customers of Sanpaolo and Sanpaolo Banco di Napoli, the survey is set up to act as base for a permanent “monitoring center” on the Italian corporate system. To this end, the analysis of the

satisfaction of the customers of Sanpaolo and Sanpaolo Banco di Napoli was compared with that expressed by a further sample of 1,000 enterprises with similar characteristics, but customers of competing banks operating in Italy.

The results indicated that the Bank was very well competitively positioned and they also provided useful new information for the continuous process of adapting the financial services offered to the needs of the businesses.

### Benchmarking survey

In order to be able to compare its performance with that of other banks in the system, the Sanpaolo IMI Group took part in the comparison analysis at system level conducted on a sample of the Italian population ranging between 18 and 75 years old. The results of this survey showed that customer satisfaction for the Sanpaolo IMI Group was higher than for its main competitors in all the areas analyzed, with particular appreciation for the employees who, for the second year running, were awarded a high level of satisfaction by the customers (over 70% of the Group's customers interviewed stated they were fully satisfied with its employees).



## Management of the customer relationship

### NUMBER OF COMPLAINTS\*

	2003	2004	2005	Chg. 2005/2004
Current accounts and deposits	1,747	2,175	1,712	-22%
Investments	1,596	6,131	3,082	-50%
Loans	1,031	1,233	924	-25%
Payment systems	1,221	1,566	1,007	-36%
Other	375	617	515	-17%
Total	5,970	11,722	7,240	-38%

\*Figures relate to the Commercial Banks.

The handling of claims made by customers has taken on more importance within the Group as a result of the progressive development of social and corporate sensitivity to this issue. Increasing attention has been paid to seeking as much uniformity as possible in the valuation criteria used by the Group, in the belief that the accuracy and transparency of these criteria can contribute to

strengthening relationship with the customer. From the organizational perspective we continued in our efforts to increase our speed of response. To this end during 2005 the development phase was completed for a new IT process – extended to the whole Group and operational from start of 2006 – aimed at enabling a more rapid execution of procedures, with the direct

involvement of the branches engaged in the handling of the individual case.

At a more general level, the Sanpaolo IMI Group took part directly in the establishment of the “Alternative Dispute Resolution Association for company, banking and financial matters” promoted by the ABI, aimed at providing customers, at the interbank system level, with an additional tool for the resolution of disputes by way of conciliation rather than in court proceedings, to run alongside the Ombudsman.

Since January 1, 2006 the authority of the Ombudsman – which has taken on the name “Ombudsman-Giuri Bancario” (Legal Banking Ombudsman) – has been increased up to 50,000 euro (value of the amount claimed by the customer) and has also been extended to enterprises, professionals and other businesses.

During 2005, a total of 185 complaints from unsatisfied customers received by the Group's Complaints Department were forwarded to the Ombudsman.

Therefore, as already seen in the total number of claims made by customers, there has also been a significant decrease under this aspect, compared to the 2004 figures (203 complaints).

#### **The management of complaints on defaulting bonds**

In managing the complaints of the customers, Sanpaolo IMI has adopted an approach that envisages case by case assessment, aimed at examining the situations where the customers complain of specific deficiencies in the relationship with their branch of reference. The objective is to verify the adequacy and formal and substantial coherence of the investment with the risk profile attributable to the customer, thus favoring the amicable settlement of the dispute, should doubts emerge on the subject. During 2005 the examination of the claims relating to the Cirio and Parmalat bonds was essentially concluded. It demonstrated, in the majority of cases, the formal and substantive correctness of the Group's actions. The examination of the claims relating to the Argentinean bonds is still in progress and here also, in the majority of cases examined, the formal and substantive correctness of the Group's actions is being demonstrated. Where the investment transactions in the bonds of Cirio, Parmalat or Argentina have been found to be inappropriate (approximately 5% of the total claims made against the Banks of the Group in relation to these three investments, for a total nominal value of around 14 million euro) the relevant refunds have been made to the customers, for an amount of approximately 6 million euro.

#### **Compounding**

Numerous claims were also recorded – similarly to that already seen in the final months of 2004 – relating to the alleged unlawfulness of the quarterly capitalization of debt interest (compounding), attributable to the most recent decision on this issue, in November 2004, by the Court of Cassation sitting en banc. To these exposures – corresponding to 6,221 in 2005 (1,864 in 2004) – the Bank decided to respond underlining (on the basis of the arguments not dealt with by the Court of Cassation but often accepted by a part of the case law concerned) its claim of the legitimacy of the conduct adopted.

## Meeting the customers' needs

### Assistance in the management of savings and pensions

The assistance to customers in the management of their savings is one of the most important and, at the same time, most complex of the services offered by our Bank. This is why several years ago a wide ranging process was initiated aimed at generating a wealth of culture, rules and tools to enable us to provide better guidance to the customer. The operation has been governed, since 2002, by the “Guidelines for sales/distribution to the public of savings and risk management products” and, since 2003, by the Investment Policy, a document that gathers together the principles and codes of conduct for employees in relation to investment assistance and the Bank's commitment in this area (U28). In line with the principles of the policy, specific IT tools and training courses have been developed for the employees as well as initiatives to notify and inform customers. In particular, consultants and managers have access to computerized financial analysis tools that incorporate the principles of the Investment Policy. These applications provide the support for the analysis and assessment of portfolios risk for customers and enable the verification of their coherence with their objectives and their appetite for risk. The resulting database



provides an overall outline of the nature of the customers' portfolio, identifying any situations of particular risk and monitoring the reaction of the portfolios to movements in the financial markets. In 2005 the Risparmio Consapevole (Informed Saving) initiative was launched, representing a further effort to bring the support service for the choice and planning of investments increasingly into line with the objectives of customer protection. The initiative is aimed at guiding customers towards a gradual and programmed conversion of their investments, in line with their financial profile. In particular, proposals are made for the conversion of investments in individual shares or bonds without rating or with a low rating or monetary investments - no longer capable of guaranteeing protection against inflation - into managed savings products characterized by risk-return ratios that are more efficient and capable of preserving the purchasing power of the investments. This initiative is aimed at increasing the customers' understanding of their risk profile and yield expectations and their ability to make rational rather than emotional decisions. The Informed Saving initiative was supported by the production of the brochure entitled "Sanpaolo. Meno banca, più Investimento Consapevole (Less bank, more Informed Investment)", which explains the Bank's commitment to accompanying the customers in the informed and balanced selection and planning of their investments, and backs up the information provided during the meetings with the customers. The Group then started work on complying with the new PattiChiari initiative to provide information at the counter in relation to trading in financial instruments. The initiative, which takes the regulations governing the sale of financial instruments as its foundation, establishes a procedure for the conduct of counter staff involved in these operations that is clear, verified and traced electronically and that makes the most of the opportunities for communication with and education of the customers.

## SANPAOLO MEETS

Within the activities aimed at providing information to customers, the "Sanpaolo Meets" initiative continued – which in 2004 was focused on the issue of investment selection and risks connected with financial instruments – with the setting up in 2005 of informational events on the subject of pensions and protection of people and their assets. The initiative was developed over a series of eleven meetings in as many Italian cities and involved customers, opinion leaders and more generally local communities, with an average of 200 participants per event. The meetings, aimed at informing and raising the awareness of the participants about the abovementioned issues, took the research on trends in the evolution of society as their starting point and provided answers to the central questions concerning protection and pensions, stimulating useful debate and exchange.

*The assistance to customers  
in the management of their savings  
is one of the most important and,  
at the same time, most complex  
of the services offered by our Bank*



Stefano Pandiani



Banca Fideuram, a Group company specialized in financial consultancy and private banking with assets under management as at the end of 2005 of over 64 million euro, is part of the Savings and Pensions pole of the Sanpaolo IMI Group. Banca Fideuram heads an integrated complex of Italian and foreign companies, specialized in the production and management of financial products distributed exclusively by its Private Bankers. These products run alongside the traditional banking services of securities trading and funds of the Group, the mutual funds of some of the most important international investment houses; and insurance and pensions products. The service provided to the over 700,000 customers is guaranteed by a business model structured over two distinct Private Banker networks (the Fideuram network and the Sanpaolo

Invest network) with a single management responsible for formulating strategies and allocating human and financial resources. In November 10, 2005, Sanpaolo IMI S.p.A. allocated 73.4% of the capital of Banca Fideuram to the Savings and Pensions pole created within the Group. The remainder of the capital is in the market. The shares of Banca Fideuram are listed on the Milan stock exchange and are one of the few Italian shares to be included in the FTSE4Good index and the Dow Jones Sustainability Index, considered to be the two most important ethical indices at European level.

In line with previous years, Banca Fideuram was also distinguished in 2005 by having adopted a policy of generous profit distribution, with a payout ratio of around 87% of 2005 pro-forma profit, without undermining the Bank's financial solidity. The shares of Banca Fideuram performed very well in 2005, recording an increase of over 20%.

## KEY FIGURES

	2004	2005
Total assets under management (billions of euro)	59.5	64.3
Mutual funds	16.8	18.8
Private banking	16.0	17.3
Insurance/Pension funds	13.6	14.2
Securities / current accounts	13.1	14.0
Total net inflows (millions of euro)	-798	1,122
Number of private bankers	4,313	4,150
Number of employees	1,824	1,866
Branches	89	91
Private banker offices	263	257
Market capitalization (millions of euro)	3,735	4,500
Rating Standard & Poor's:		
short term	A-1	A-1
medium/long-term	A+	A+
Electrical energy consumption (millions of Kwh)	7.9	10.6
Hydroelectric energy (% of total electrical energy consumption)	70%	100% (since May 2005)

### **The mission**

To achieve the financial and pension wellbeing of our clients, guiding them towards rational and informed management of their assets. Banca Fideuram has always been committed to translating the needs of its customers into effective solutions coherent with their individual risk profiles.

### **Values**

Banca Fideuram, in carrying out its operations, considers attention to its customers to be fundamental, always putting their interests first and seeking to exceed their expectations. It acts with integrity and professional confidentiality, willingness and precision, continually seeking innovative and effective solutions.

### **Looking after customers: investment support services and transparency**

During 2005 Banca Fideuram increased the level of information relating to financial instruments for customers, in order to raise their awareness of the investment choices. This initiative led to the review of operating procedures: in fact, prior to a purchase order, the Bank provides its customers with a schedule that analyzes the principal features of the financial instrument involved in the transaction (level of risk, characteristics of the issue, degree of liquidity and the markets listing the shares) complete with a key to help the customer understand the terms used. With the aim of helping its customers understand and compare banking products and services, Banca Fideuram also took part in PattiChiari, the project developed by the ABI to improve relations between banks and customers. In particular, during 2005, in addition to the FARO (On-line working ATM signal) and Check availability initiatives already launched in 2003 and 2004 respectively, Banca Fideuram took part in and certified the initiatives of Current accounts compared and Low risk - low return bonds (📖 31 for description of the initiatives).

A special commitment has been made to the development of the online services, which were renewed and enhanced over the year, also taking into consideration suggestions made by customers, through measures aimed at increasing transparency, ease of use and security. During 2005 a continuous growth was seen in the numbers of customers choosing to use Internet channels to obtain information about products held and to carry out their banking transactions. Indeed, over 159,000 customers have subscribed to Fideuram Online (+12% compared to last year).

### **The Private Banker and the territorial coverage**

The Private Bankers are professionals, connected to the Bank by an agency agreement, who assist customers in the selection of their investments. As at 31/12/2005 there were a total of 4,150 Private Bankers operating in the two networks - Fideuram and Sanpaolo Invest – in close contact with their relevant communities. The network structure, with a widespread distribution throughout Italy, is organized in Areas that may consist of several regions or just a few provinces. With the aim of strengthening territorial coverage, the territorial structure of the two networks was reorganized in 2005, bringing the number of Areas up from six to the current eight within the Fideuram network and from three to the current four in Sanpaolo Invest network.

The particular attention that has long been paid to the training of our Private Bankers was increased in 2005, with a total of 56,000 hours of training (13.5 per head) through classroom and distance initiatives, compared to approximately 23,000 in 2004. Within the initiatives aimed at the professional growth of the Private Bankers, the commitment was confirmed in 2005 to award study grants for the qualification of European Financial Advisor, a European certification issued by €FPA (European Financial Planning Association). €FPA is a financial planning organization whose primary objective is the fostering of the highest professional, educational and ethical standards in the sector. During 2005, the €FPA certification was gained by 162 Private Bankers of the Banca Fideuram Group, adding to the 73 in 2004. The distance training platform was also strengthened, providing the Private Bankers with access to all the information relating to Banca Fideuram's products and services, to regulatory changes and to courses relating to the PattiChiari initiative, without neglecting the training aspects linked to financial advice (for example courses aimed at passing the CONSOB exam required to join the register of financial advisors). Since 2004, the Banca Fideuram Group has published its own Social Report, available at the site [www.fideuram.it](http://www.fideuram.it).

## Commitment to transparency and accessibility of banking services

The collaboration with the ABI continued as part of the interbank PattiChiari initiative (31), which aims to improve certain critical aspects of the relations between the banking world and the community by providing citizens and customers with a series of tools that facilitate the understanding of banking products and enable comparison between competing operators. The banks taking part in PattiChiari make a wide range of information available, at the site [www.pattichiari.it](http://www.pattichiari.it) and in their branches, helping customers to select the product most suitable for their needs. As part of the PattiChiari initiative a basic banking service has been created with the aim of reaching those who do not have a current account by offering a set of essential tools and services, at very low cost, aimed at meeting basic banking needs. As at the end of 2005, thanks to this initiative, 8,300 new bank accounts (a third of the banking system) had been opened.

Activities also started for the two new PattiChiari initiatives: the ninth initiative, relating to the information at the counter for the trading of financial instruments, and the tenth initiative, which aims to tackle the problems linked to "exit barriers" (and to the entry barriers for new customers) through a series of measures that provide clear information on the procedures and costs for the closure of current accounts and the transfer of securities and to make changing banks easier and quicker.

In order to reduce the exit barriers linked to the account closure costs, over the last year the termination costs were removed on all the accounts dedicated to households (Benefit and MultiBenefit) and on savings books for young people. This initiative supplements the one launched in 2004 for the same products to freeze operating costs until June 2006. In 2005 a new current account was also launched at zero cost that allows new customers to try the Bank for free for six months.

## ETHICAL FUNDS

The Ethical System of Sanpaolo IMI Asset Management SGR consists of 3 funds managed according to ethical, social and environmental criteria, consisting of the funds Azionario Internazionale Etico, Obbligazionario Etico and Etico Venezia Serenissima. As at the end of December 2005 their overall assets amounted to 759 million euro (1.5% of the total funds organized under Italian law managed by the asset management company).

	Assets as at 31/12/2005 (millions of euro)	2005 Yield
Azionario Internazionale Etico	335.0	+17.6%
Obbligazionario Etico	406.3	+3.6%
Etico Venezia Serenissima	17.8	+3.8%

### Investment criteria and the Ethical Committee

The procedure for the investments of the ethical funds envisages the selection of investments using both positive (inclusive principle) and negative (exclusive principle) criteria. The positive criteria serve to identify the presence of ethical features in the companies and organizations analyzed, whereas the negative selection criteria identify areas considered to be in conflict with the funds' stated ethical principles. At the same time the "best in class" principle is used. This allows the combination of the positive and negative selection criteria in order to identify the companies that, within specific risk markets (e.g. the oil sector), stand out for their merits in the socio-environmental field.

During 2005, the adoption of these criteria led to change in the basket of permitted investments, with the inclusion or exclusion of companies/issuers from the portfolio of the funds. With regard to the bond portion, the exclusion, originally made in 2003, was confirmed of the United Kingdom and Australia from government bonds, because of their intervention in Iraq not undertaken under the auspices of the United Nations. The United States, which would have fallen under this reason for exclusion, had however already been excluded from the portfolio because of the enforcement of the death penalty in some of its

states. Amongst the US federal agencies the exclusion was confirmed of Fannie Mae, the real estate loans giant, due to the accounting irregularities found in its financial statements. As for companies, the changes in the composition of the funds were due to changes in the composition of the benchmark. The exclusions involved the securities of Teliasonera (for its involvement in the pornographic sector), Morgan Stanley (lack of transparency and insufficient standards of Corporate Governance), Cardinal Health (misleading information to consumers) and Schering Plough (improper pricing policies for a drug).

In order to ensure that the management choices are in line with the declared ethical principles of the funds, the Board of Directors of Sanpaolo IMI Asset Management SGR uses the services of an independent and autonomous Ethical Committee established with Ethica - Association for socially responsible finance, chaired by Cardinal Ersilio Tonini. The consultancy work and research relating to environmental, social and governance issues were provided by Avanzi SRI Research, an Italian SRI research company part of the SiRi network, and the US company KLD. In 2005 Avanzi was also appointed as an advisor in relation to SRI issues for the bond component. The indices used as a benchmark for the Ethical System were supplied by E. Capital Partners, a consultancy firm in the field of socially responsible investment.

### Devolutions

In accordance with the provisions of the rules of the Obbligazionario Etico and Azionario Internazionale Etico funds, Sanpaolo IMI Asset Management SGR is committed to funding projects and initiatives of a humanitarian nature through the devolution of 0.01% of the average daily net assets of the Ethical System. These are supplemented by ad hoc additions decided by the Board, as occurred also in 2005. The funds devolved in 2005 – amounting to 106,000 euro – were assigned partly to the 18 accredited associations and partly to the following specific projects proposed by the Ethical Committee:

- Project for the cultivation of *Artemisia annua* for its free distribution as a specific antimalarial drug;

- ‘Sezione Pontificio Istituto Giovanni Paolo II’ project (Zambia);
- San Biagio Center (Senegal);
- Care home for children in need at Campina (Rumania);
- Centro Obra Social PP. Dominicos, San Juan de Letran (La Habana);
- Asianews of the PIME (Pontifical Institute for Foreign Missions);
- Radio Maria;
- Family Integration Center “Free Space” (Brasil);
- A.E.P.E.R. Cooperative (Animation, Education, Prevention and Reintegration);
- Legrenzi-Cazzullo Foundation for psychological and domestic problems.

As for the Fondo Etico Venezia Serenissima, 5,000 euro were devolved to the Fondazione di Venezia, which used them to support the activities of the Fondazione Teatro la Fenice di Venezia (Fenice Theater Foundation of Venice) and the Fondazione per gli alti Studi sull’arte (Foundation for advanced art studies).

### Pension funds managed according to ethical criteria

Sanpaolo IMI Asset Management has adopted SRI policies, corresponding to ethical, social and environmental criteria, in the management of four pension funds, with a total membership of around 80,500 subscribers, namely: Previambiente (workers in the environmental sector), Fondo Fon.te (commercial sector), Fondo Eurofer (Italian State Railway Group) and Fondo Famiglia (housesives). As at 31/12/2005 the SGR for these Pension Funds managed around 26 million euro in accordance with SRI criteria, representing one third of the total assets under management

## Attention to young people and support for education

Sanpaolo IMI pays specific attention to young people with banking products and services focused on their needs and supported by a series of non banking benefits and facilities in collaboration with partners of national importance and initiatives linked, in particular, to the educational development of young people.

### Under 18s

The products and services offered to under 18 customers are aimed at meeting their savings needs, as well as enabling them to independently manage their “pocket money”. They are also aimed at parents who want to build up capital for their children's future, for example for their university education. In particular, the savings books for under 18s have a preferential interest rate and no account operating costs (including government duties). As for initiatives of a non banking nature, it is worth noting the educational component and the function of raising awareness of the free offers connected to the various initiatives involving young account holders, including:

- books, atlases, English and Italian dictionaries (in collaboration with several publishing houses and WWF) when opening the account;
- for children of less than 10 years old, the DVD “L'Isola degli Smemorati”, produced under the aegis of UNICEF, which contains a cartoon talking about children's rights. For each DVD donated 1 euro will be devolved to UNICEF for the children of South-East Asia who were victims of the tsunami in December 2004;
- for children aged between 11 and 17 years old, a copy of the Diary Notebook “Tremenda” produced by the Onlus Fondazione Exodus of Don Mazzi, which is committed to solving problems of hardship for young people;
- the sending of UNICEF greetings cards for the Christmas festivities.

### Young people aged between 18 and 30

For young people aged between 18 and 30 there is Esprit, a relationship program that was launched in June 2004 and that at the end of 2005 had 150 thousand members with an average age of 24 years old. It consists of three areas of operations:

1. specific banking offer, which consists of a credit card, first time buyer mortgages, personal loans and a current account for those under 26 years of age with preferential financial conditions such as an unlimited number of transactions and no annual fee. Banking operations also continued in 2005, at the premises of the E.DI.S.U (Organization for the Right to University Education), of the first Punto Ateneo, a banking outlet dedicated to university students. The collaboration with the E.DI.S.U also envisages the payment of 30,000 euro per year for study grants reserved for the students of the University of Turin;
2. non banking benefits in collaboration with several external partners that provide services in the areas of interest to young people (music, Internet, games, travel and cinema);
3. University Network, an information program developed in collaboration with the Almalaurea Interuniversity Consortium that provides selected information relating to post-graduate training and access to the world of work. An electronic newsletter has also been set up, which is sent to all the members of Esprit on a fortnightly basis.

As part of the initiatives aimed at young people, the initiative “Carta di Credito Formativo” (“Educational Training Credit Card”) continued in 2005, promoted by the Campania Region as a tool aimed at spreading IT knowledge and increasing the level of employment. The intention is to provide financing at preferential rates through this initiative for the purchase of hardware, software and distance training, using a support account with favorable rates.

### Services to immigrants

In order to meet the needs of immigrants, initiatives have been developed aimed at their integration and responding to the most common banking needs, namely: dedicated reception points in the branches (Multiethnic Point), a service for payments abroad and microcredit (as shown on page 91, 50% of those receiving loans are non Italian citizens).



Serena Pecori

The Multiethnic Points – staffed by people who speak Arabic, Chinese, French and English – offer immigrants personalized consultancy and banking products for the investment of their savings; the purchase of a home and other goods; the transfer of funds to their country of origin; and the starting up of businesses. The aim is to accompany foreign citizens along the path towards integration so that

*In order to meet the needs of immigrants, initiatives have been developed aimed at their integration and responding to the most common banking needs*

they can make use of banking services without any language, cultural and technical difficulties. To this end, the Basic Banking Service, which provides access to banking services at readily accessible costs, was also an extremely efficient approach. To date there are four Multiethnic Points in as many Italian cities that have a significant presence of foreign citizens – Turin, Padova, Pescara and Poggiomarino (Naples). Public institutions with cultural intermediaries and The Gate, an association active in the field of welcoming immigrants at community level, were involved in the design of the Multiethnic Point in Turin. In Pescara representatives of the main foreign communities present in the area were involved, facilitating the dialogue with these communities in order to understand their financial needs and to develop solutions capable of meeting them.

With regard to transfers, since 2004 Sanpaolo IMI has provided a money transfer service for immigrants in Italy that currently operates towards 12 non EU countries by virtue of commercial agreements that are entered into from time to time with banks located in the immigrants country of origin. The service, known as GETMONEY TO FAMILY, establishes competitive and predetermined commissions along the whole of the payment chain, with rapid execution times. 2005 saw a significant increase in operations.

## Support for the business system

The Bank performs an essential function in supporting the business system and promoting Italy's economy as a whole. In providing our customers with experience, skills and the best financial solutions, and taking into consideration the characteristics of the Italian business system, we have primarily focused our efforts in three directions, each of which represents a lever to increase the competitive capacity of the system consisting of: support for the processes of change and growth of enterprises, including those envisaged by Basel II; support for research and development; and, finally, support for internalization.

*Our efforts to increase the competitiveness of the business system are oriented in three directions: support for the processes of change and growth, for research and development and for internalization*



Renato Bernardini

## The processes of change and growth of enterprises

The international accord known as Basel II, due to become fully operational in 2007, envisages a new version of the minimum equity requirements that banks must adhere to, identifying a close link between these and the risks arising for intermediation services: the greater the risk the greater the equity requirements.

This regulation, which encourages the strengthening of bank-enterprise relationships founded on knowledge and transparency, represents a new challenge for both enterprises and for banks. Italian enterprises, the majority of which are of small and medium size, have a further incentive to strengthen their corporate capital and to seek a sound balance in their financial structures, launching a process aimed at improving their market positioning.

The banks are encouraged to increase their credit assessment capabilities and to strengthen their relationship with the customer. Sanpaolo IMI has spent a great deal of time preparing for these changes, in the first instance equipping itself with advanced tools for the measurement and management of risk and credit and, considering the crucial human and professional element, also paying particular and far-reaching attention to the internal training of its employees.

It has also paid particular attention to supporting and providing consultancy to companies preparing themselves for this process. During 2005 Sanpaolo – in collaboration with local and national associations – promoted numerous training and informational initiatives for business people, linked to Basel II and the bank-enterprise relationship. These included conventions and seminars in Rome, Perugia, Bari, Caserta, Cosenza, Udine, Alba (Cn) and Viadana (Mn). In line with the objectives of the new accord on capital, the Group has supplemented the range of financial products on offer with two new types of medium-long term financing aimed respectively at equity strengthening (Basel Equity) and the improvement of corporate financial structures, with regard to liabilities (Basel Finance). Through Basel Equity and Basel Finance the Sanpaolo IMI Group intends to provide Italian firms with the consultancy services and the tools required to transform the new Basel II regulation into an opportunity for growth and increasing competitiveness.

## SEMINARS ON BASEL II

In 2005 the Bank organized a series of 3 seminars, in collaboration with the Association of Industrialists of Rome, on "Basel II: the financial management of small enterprises and banking relationships"

The initiative, which was aimed at starting a process of increasing contact, also of a cultural nature, between the business community and banks, represented an opportunity for significant cohesion between these two worlds. The attendance of 30 business people and 4 managers of the Bank's corporate branches contributed to providing opportunities for mutual dialogue and exchange, and to supplying further useful information in the preparation for Basel II.

*The Sanpaolo IMI Group offers Italian companies the assistance and the instruments to make of Basel II an opportunity of growth and increase in competitiveness*



### Cooperation agreements in support of small enterprises

In 2005 cooperation agreements were initiated with Confcommercio, Confartigianato and Coldiretti Piemonte, aimed at the enhancement and qualitative improvement of the products and services offered to their members. The choice of supporting the development of small enterprises, focusing on providing a personalized service for the benefit of the customers, included other initiatives, such as the collaboration with professional associations, trade associations and Loan Guarantee Consortia, aimed at the development of projects for the benefit of their members. Of no less importance is the area of preferential loans, which represent a significant opportunity for businesses, in particular for those of small size, applying to a variety of areas ranging from support for investments to the reduction in territorial imbalances, and from environmental protection to investment in research and development.

### Research and development and innovation

The capacity to carry out research and development and to invest in technology and innovation is a crucial factor for the development of the competitiveness of the Italian business system.

With this in mind our Group, on the strength of 35 year experience in the management of public funding for research and development (R&D), has made available to its customers the technical and financial skills developed in the evaluation of projects and has set a credit ceiling dedicated to the funding of projects

*The Group has set a credit ceiling dedicated to the funding of projects for applied research for businesses*

for applied research for businesses. The projects chosen are aimed at increasing the technology levels of products and production processes and at designing applied research programs for the development of technologically innovative products, production processes and services as well as at their enhancement or improvement if already in existence.

As a result of the success of the initiative, the ceiling, set up in 2004 and initially amounting to 250 million

### SUPPORT FOR NEW BUSINESSES

With a view to facilitating access to credit and focusing on specific categories of customers, the Group has entered into a series of accords with regional bodies aimed at the development of new businesses, in particular involving young people and women. Sanpaolo IMI, as at 31/12/2005, had funded 502 projects for the start up of new business and cooperative enterprises in the regions of Lombardy, Piedmont and Molise, for a total amount of around 15 million euro.

euro, was doubled to 500 million euro during 2005. Several innovations were also introduced aimed at extending the scope of the offer, which can now support programs for larger sums, and at streamlining the process for the issue of funding.

The funding is accompanied by a consultancy service - provided by an internal structure with specific capabilities - aimed at helping businesses in the formulation of the project, the assessment of its technological and economic advantages, and the adoption of criteria for the management of the investment capable of reducing risk and maximizing effectiveness.

The initiative is targeted at businesses, especially small and medium enterprises - with the exception of those operating in the defense sector - with simplified and more accessible procedures for access to funding (which can reach up to 100% of the costs).

As at March 15, 2006 funding had been provided to 564 projects, for a total amount of around 477 million euro. Over 90% of the recipients were small and medium enterprises, with an average turnover of between 5 and 20 million euro and also many enterprises of even smaller size. A large part of the projects submitted involved product innovation, testifying to the emergence of a new cycle, after a long period of investment predominantly in processing technology. The geographical distribution of the projects showed the more heavily industrialized regions in the lead, headed by Lombardy and Piedmont. In third place, with 10% of the total projects funded, was Campania, where cooperation with the regional

government has led to excellent results, confirming how effective the joint work of various players in the territory can be. Finally, a wide spread of the scope of application for the funding can be seen including not only the sectors with a traditional technological vocation, such as mechanics and IT, but also food stuffs, materials, transport, textiles and clothing. Sanpaolo IMI's operations in the Research and



*The funding is accompanied by a consultancy service - provided by an internal structure with specific capabilities - aimed at helping businesses in the formulation of the project, the assessment of its technological and economic advantages*

Development sector are aimed at enabling firms to achieve a real jump in quality. This is why the Bank, in addition to performing the role of assessment and distribution, is willing to enter into the merits of the project, sharing the company's strategy. The simple procedures, rapid distribution, and assessment of the project to be funded assigned to specialists with

suitable technological expertise, which the enterprise recognize as competent contact persons also capable of helping it to brave the hi-tech path for the first time, account for the customers' appreciation of the initiative.

In view of this appreciation, in December 2005 the Group accompanied the existing funding with a second solution – Innovation Buy – which funds the expenses and costs incurred for the acquisition of existing technology. This initiative is also aimed at all businesses except for those operating in the defense sector, with a funding amount of up to 100% of the cost of the project.

The enterprise is therefore offered the possibility of choosing between two alternative strategies capable of increasing the technological content of its processes and products, namely: internally developing the innovation through the implementation of applied research projects, or buying it directly in the market.

The Group is also strongly committed to supporting innovation in a sector of particular importance to Italy, that of agricultural and foodstuffs, second in the country after metal working and mechanical engineering and symbol of the Italian image of excellence in the world. Through the project Agricoltura di Qualità (Quality Agriculture), Sanpaolo IMI offers solutions and initiatives adapted to the needs of various production lines (wine, meat, oil, milk and cheese etc.). The commitment in this sector is also directed towards the support of those firms that have made or are planning to make investments in the area of food traceability and safety. In 2005 the credit ceiling of 75 million euro was launched aimed at supporting the investments of the enterprises of the sector for compliance with the legislation on the protection of food safety and for the enhancement of the quality system over and above legal obligations. As at March 2006 a total amount of over 10 million euro had been provided. To communicate with the business world in this sector, the Bank has promoted the publication, in conjunction with Federalimentare and Il Sole 24 Ore, of a manual on the traceability of foodstuff products. It has also held a series of meetings with operators in various branches of the agricultural and food sector and institutional representatives in Turin, Parma, Udine, Foggia and Palermo, to discuss the subject of food quality and safety and the importance of an alliance on quality between producers, consumers, institutions and the banking world.

## SANPAOLO IMI PRIVATE EQUITY

Sanpaolo IMI Private Equity is the Group company that, through the two subsidiary asset management companies and their investment teams, promotes and manages the closed end securities funds that invest in the venture capital of small and medium enterprises, to support their development, aggregation and restructuring.

### Fund for the promotion of venture capital for the South of Italy

The Fund, launched at the end of 2003 with a capital of 100 million euro, subscribed for by Italian and foreign investors and managed by the subsidiary Sanpaolo IMI Investimenti per lo Sviluppo SGR, invested 23 million euro in 5 operations involving enterprises, primarily of small and medium size, located in the regions of Campania and Abruzzi. The investments made in 2005 involved an enterprise in the mechanical sector and a newly established enterprise in the biotechnology sector. The asset management company (SGR) also takes part in public tenders organized by local bodies for the employment of public and private resources in the venture capital of enterprises in respective territories.

### Other multi-regional funds

During 2005 the subscriptions were finalized for two new multi-regional closed funds, Fondo Centro Impresa and Fondo Nord Ovest Impresa, managed by the subsidiary Sanpaolo IMI Fondi Chiusi SGR, devoted to investments in the capital of small and medium enterprises. The subscriptions reached an overall amount of 180 million euro, including 100 million euro relating to Fondo Centro Impresa and 80 million euro for Fondo Nord Ovest Impresa.

## The processes of internationalization

The ability to attract foreign investment and to open up the domestic business system to the outside world are crucial to the future of the Italian business system. Sanpaolo IMI encourages and supports the internationalization of Italian enterprises and promotes investments and operations of foreign multinationals in Italy thanks to a dedicated range of financial products and services and an extensive international network. The Group is present in 33 countries around the world, in particular in all main markets in Europe, Asia and the American continent and in the emerging markets with the best development prospects and opportunities for Italian businesses. This presence is ensured through 13 branches, 19 representative offices, 2 operating desks and the Irish subsidiary Sanpaolo IMI Bank Ireland,

together with the 96 branches of the subsidiary foreign banks operating in Central-Eastern Europe.

To increase the effectiveness of the service for Italian customers in foreign markets, Italian desks, run by bilingual specialists, were set up in each of the foreign branches and the foreign subsidiary banks. The Group has also entered into a number of operating agreements with banks present in countries where the best service for Italian businesses can only be ensured by making use of a leading local bank. In addition to the agreements already in force in various countries including China (with the Industrial Bank of China and the China Merchants Bank with over 20,000 branches), Tunisia (with the Banque Internationale Arabe de Tunisie 5.6% owned by Sanpaolo), the United Arab Emirates (National Bank of Abu Dhabi) and Morocco (Banque Marocaine du Commerce Extérieur), during 2005 new commercial agreements were signed in India, with ICICI Bank Ltd, the second largest Indian bank, and in Thailand with TMB Bank Public Company Ltd. Both agreements envisage the possibility for customer enterprises to access, under preferential conditions, services and financing in local currency.

The framework is completed by the strategic alliances with Caisse National des Caisses d'Épargne in France, through Banque Palatine, and Santander Central Hispano Group (over 4,000 branches in 9 countries in Latin America), which also led to the establishment of a dedicated "Latin American Desk" in Italy, with staff originating from the Latin American network of the Spanish bank.

The support for Italian customers orientated towards strengthening trade and investment in Eastern Europe, already ensured by the Group's presence in Hungary through Inter Europa Bank, in Romania through Sanpaolo IMI Bank Romania and in Slovenia through Banka Koper, was consolidated at the end of 2005 thanks to the signing of agreement for the purchase of an 80% holding in Banca Italo Albanese.

Italian businesses operating in high risk countries can find adequate cover/mitigation for the "country risk" factor thanks to the Sanpaolo IMI/SACE framework agreement, and since last October to the adherence (the first Italian bank) to the Global Trade Finance program of the International Finance Corporation, which allows Sanpaolo IMI to obtain partial or full cover for risks assumed towards banks in emerging countries in the field of the import/export of goods and services.

It is also worth noting the specific agreement entered into with SACE for the activation of a line of credit, 95% guaranteed by SACE, to support Italian business people in the reconstruction and/or reactivation of commercial, tourism, hotel and manufacturing operations that sustained economic damage following the tsunami of December 2004 in the countries of South-East Asia.



### Creation of value

We focus our attention on people and we make the most of their skills and experiences because these represent the key factor in the generation of sustainable competitive advantages and, therefore, of value creation

### Customer orientation

We pay the utmost attention to the individuals of the company, who represent its “internal customers”, providing them with support and information so that they can express themselves at their best

### Integrity

We intend to continually generate conduct, actions and decisions guided by impartiality, honesty, ethics and social responsibility

### Commitment to excellence

We cultivate vitality and innovation by pursuing operational procedures aligned to best practice and consistent with the needs of the business and we nurture a sense of responsibility in the pursuit of target objectives by looking at the implications for the future

### Growth in observance of specific qualities

We intend to develop a harmonious and integrated corporate social system that, by valuing the identity and the professional skills of individuals, promotes development

### Responsibility in the use of resources

We seek to achieve efficiency and the responsible involvement of people and we focus our attention on all sources of costs to ensure growth in the future

## TARGETS AND RESULTS ACHIEVED

### Improvement targets set in the 2004 Social Report

Orientation of the variable remuneration systems towards the adoption of mechanisms that emphasize the exceeding of targets set.

Implementation of new initiatives aimed at the development of abilities and enhancement of skills. In particular:

- a. extension of the management skills system to executives;
- b. development of the system of professional skills relating to the remaining employees, as the base for a more comprehensive management and development system for the executives and staff of the professional areas

### Actions and results achieved in 2005

With the 2005 bonus incentive system, the previous mechanism of direct correlation between the percentage of the achievement of objectives and the percentage of bonus provided was replaced by an exponential system, which emphasizes the achievement of results, rewarding performance that exceeds expectations.

- a. An intranet environment has been created aimed at accompanying and promoting the development of the managerial skills of the executives, through training seminars, educational material and self-learning training courses.
- b. The development was completed of a new skills management system characterized by:
  - strict coherence of the skills required from the various professional profiles with the Business Plan;
  - changes in the process of identifying the skills possessed by individuals.
 This made it possible to refine the model supporting the choices and actions for the professional development of individuals and the model supporting measures of an operational nature.

*The staff of the Sanpaolo IMI Group is characterized by a high female component, a high level of education and an average age lower than the sector average*



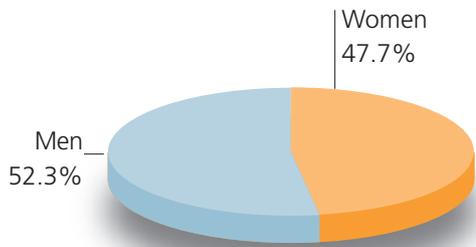
Angela Grazioli

## Staff in depth

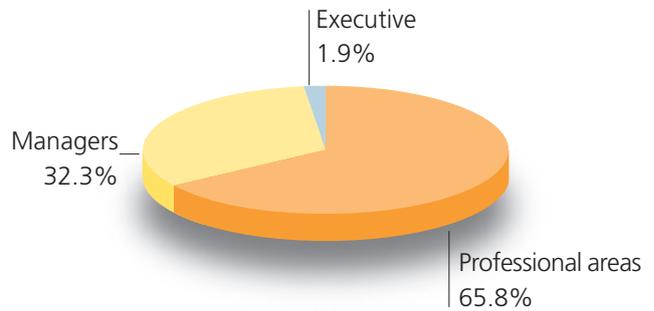
As at December 31, 2005 the Group was made up of 43,476 employees, together with 190 people with non-standard employment contracts (staff leasing contracts and project workers).

The staff of the Sanpaolo IMI Group is characterized by a high female component, a high level of education, an average age lower than the sector average and a higher level of fixed term workers, resulting from the use of these types of contracts for the introduction of staff in the second semester of 2003, in anticipation of the full enforceability of new institutions established by the Italian law 30/2003. On the other hand the number of fixed term workers fell in 2005 by more than one third as a result of their conversion into long term employment relationships.

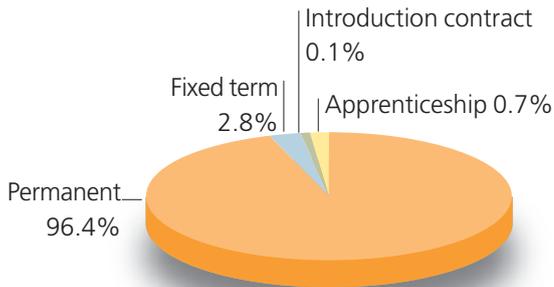
### BREAKDOWN BY GENDER



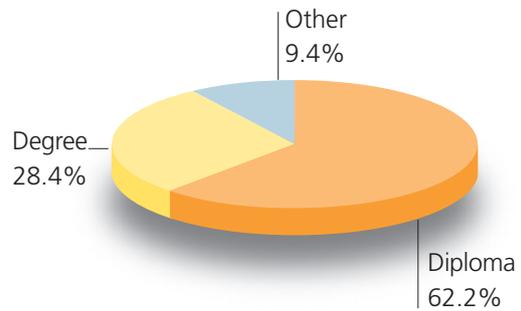
### BREAKDOWN BY CATEGORY



### BREAKDOWN BY TYPE OF CONTRACT

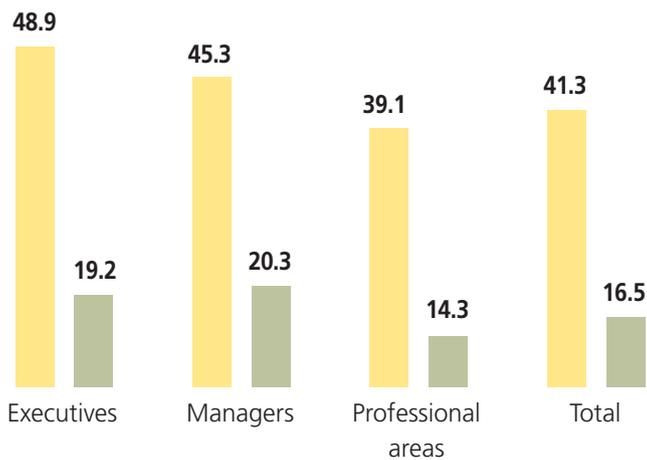


### EDUCATION



### AVERAGE AGE AND LENGTH OF SERVICE

■ Age  
■ Length of service



### Average system data\*

- Women: 38.6% Men: 61.4%
- Executives: 1.8% Managerial staff: 36.8% Professional areas: 61.4%
- Permanent contract: 97.9% Fixed term: 1.5% Professional training: 0.6%
- Degree: 24.3% Diploma: 58.2% Other: 17.5%
- Average age: 43.1 years old (Executives: 49.6 Managerial Staff: 45.9 Professional Areas: 41.3)

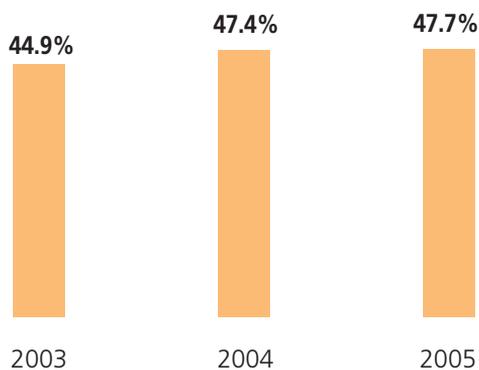
\*Data relates to the major banks. Source: ABI 2005 report on the labor market in the finance industry

# Staff trends

The staff trends over the last two financial years have featured the following:

- an increase in the female component (+5.8% over the last two years), now at 47.7%, connected to the high level of women new recruits;
- an increase in female executive staff (+16.3 over the two years), which highlights the equally opportunities policy pursued in career and professional development;
- an increase (+14.7% over the two years) in the number of graduates, now at 28.4% of the total, as a result of the predominant introduction of staff with a graduate degree;
- a substantial stability on the average age (41.3 years old) and average length of service (16.5 years) thanks to the introduction of young people;
- an increase in part-time staff (+13.3% over the two years), now at 8.4%.

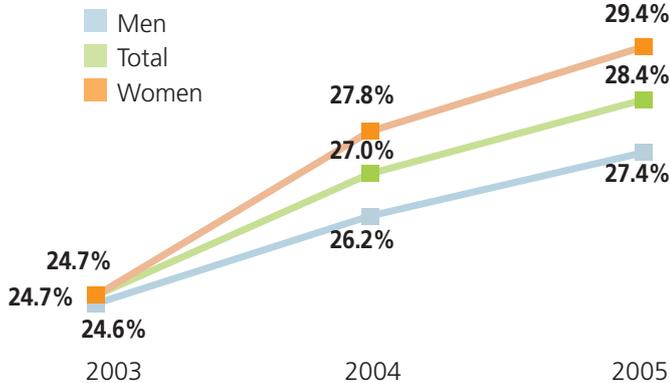
## FEMALE PRESENCE IN THE COMPANY



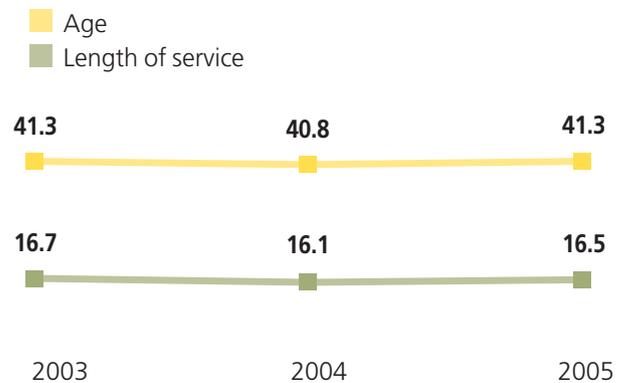
## FEMALE EXECUTIVE STAFF



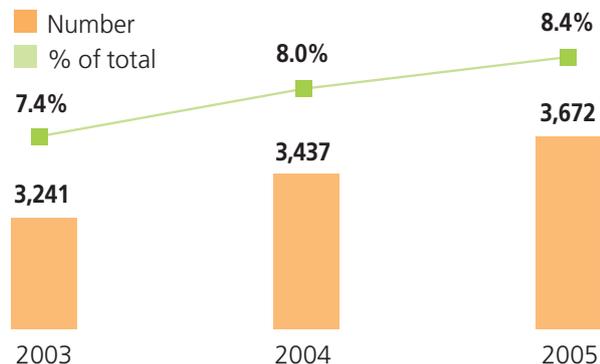
## GRADUATE STAFF



## AVERAGE AGE AND LENGTH OF SERVICE



## PART-TIME STAFF



## Turn-over

During 2005, the operation to introduce young employees continued, enabling the completion of the generational change started in 2003. Specifically, recruitment at Group level amounted to around 1,700 people, including 1,010 in the Commercial Banks and almost 700 in the other companies of the Group. The recruitments showed a clear predominance of female and graduate employees. There were around 1,050 terminations, including 530 in the Commercial Banks.

*During 2005, the operation to introduce young employees continued, enabling the completion of the generational change started in 2003*

### RECRUITMENTS AND TERMINATIONS 2005\*

Breakdown by contractual category	Recruitments			Terminations		
	Men	Women	Total	Men	Women	Total
<b>TOTAL</b>	<b>406</b>	<b>604</b>	<b>1.010</b>	<b>337</b>	<b>193</b>	<b>530</b>
%	40.2%	59.8%	100%	63.6%	36.4%	100%
Executives	7	0	7	24	0	24
Managerial staff	27	10	37	141	31	172
Professional areas	372	594	966	172	162	334
<b>Breakdown by type of contract</b>						
Permanent	127	82	209	304	129	433
Fixed term	195	352	547	32	63	95
Introduction contract	10	9	19	0	0	0
Apprenticeship	74	161	235	1	1	2

\*Figures relate to the Commercial Banks.

*The career development policy adopted by the Group is founded on the recognition of individual merit, with a view to the overall evaluation of performance and skills and the valuing of personal abilities*

## Career development and remuneration policy

The career development policy adopted by the Group is founded on the recognition of individual merit, with a view to the overall evaluation of performance and skills and the valuing of personal abilities.

The remuneration policy of the Commercial Banks envisages various tools including promotions, the payment of lump sum amounts and the allocation of personalized fixed increases.

In 2005, the Commercial Banks promoted 3,000 people corresponding to 8.1% of the total staff (8.7% of the total men and 7.4% of the total women). The breakdown of promotions (43.2% women and 56.8% men) was influenced by the different gender composition of the workforce and over the years has seen a progressive growth in the level of remuneration increases for women in line with the equal opportunities nature of

the remuneration policies and the evolution of workforce. It is worth noting the increase in the number of appointments made to the executive staff (+29.1%) from the female personnel.

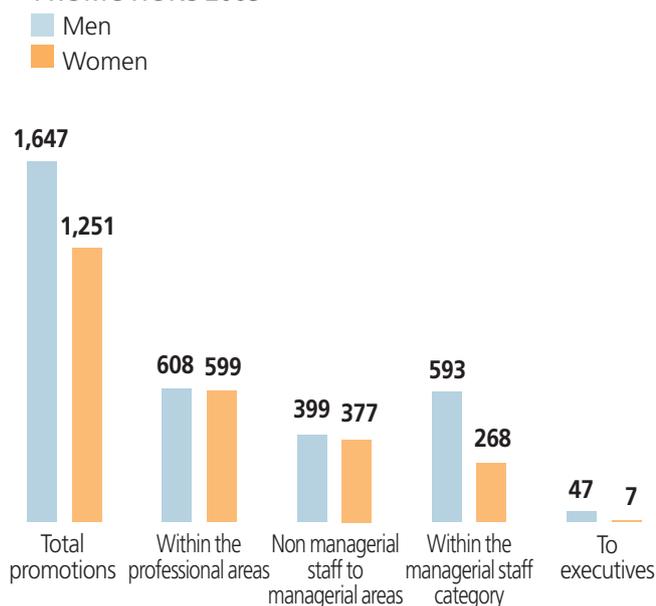
In 2005 there were a total of 4,300 remuneration interventions (promotions, lump sums, individual rises), an increase of 3.6% with respect to 2004, attributable in particular to the greater use of lump sum measures.

In 2005, the harmonization of the organizational model was completed, leading to impacts on the organizational

structure of the Commercial Banks, also in relation to new skills and the progress of specializations. The differences in remuneration between men and women, substantially attributable to difference in the average length of service, have progressively decreased over recent years.

The average figures for gross fixed remuneration by contractual category are in line with the average for Italian banks, resulting from the remuneration survey carried out by the ABI in 2005. Specifically, the professional areas and the first two levels of the managerial staff of the Commercial Banks showed higher levels than the average for the market. The increase in remunerations in the professional areas and the managerial staff resulted from the impacts of the renewal agreement for the National Collective Agreement for banking, finance and capital enterprises on February 2005, whereas the average increase in the remuneration for executives was limited due to the restructuring of the category as result of the introduction of new executives and outgoings for Liability provisions. In 2005 the heavy investment in variable remuneration was reaffirmed. Indeed, despite the considerable increase in fixed remuneration as a result of the contractual renewal, the level of variable remuneration both with respect to AGR and to TAR remained essentially stable (with a slight increase in the professional areas). The level of the variable component increases with the increase in the contractual category and is therefore linked to the greater responsibility assigned and to incentives available for the achievement of objectives.

### PROMOTIONS 2005\*



\*Figures relate to the Commercial Banks.

### GROSS FIXED REMUNERATION

(averages per category)\*

	Men			Women			Average		
	euro	net of part-time	% chg	euro	net of part-time	% chg	euro	net of part-time	% chg
Executives	111,498	111,498	1.8%	101,481	101,481	4.6%	110,613	110,613	1.9%
Managerial staff	50,949	51,011	5.0%	44,990	45,968	5.5%	49,151	49,575	5.0%
Professional areas	32,952	33,078	5.4%	30,008	31,089	4.9%	31,281	32,063	5.1%

\*Figures relate to the Commercial Banks.

### LEVEL OF VARIABLE REMUNERATION

(averages per category)\*

	% AGR			% TAR		
	Men	Women	Average	Men	Women	Average
Executives	36.6%	37.5%	36.6%	26.8%	27.3%	26.8%
Managerial staff	14.6%	13.8%	14.4%	12.7%	12.1%	12.6%
Professional areas	9.0%	9.2%	9.1%	8.3%	8.4%	8.3%

\*Figures relate to the Commercial Banks.

AGR: Annual gross remuneration (fixed remuneration component) TAR: Total Annual Remuneration (sum of fixed and variable remuneration components)

## Equal opportunities, work-home balance and flexibility

The Group pursues an equal opportunities policy for women workers, the introduction of disabled people to work environments and the protection of minorities.

As shown above the Group is characterized by a high female presence in the company (20,745 individuals corresponding to 47.7% of the total).

In addition, the age and length of service of the female staff of the Commercial Banks is lower than the average, with an average age of 39 compared to 44.3 for men (for executives equal to 48.1 for women and 50.6 for men) and an average length of service of 15.5 years compared to 19.6 for men (for executives equal to 21.1 for women and 24.1 for men).

In 2005 a number of trends that emerged for previous years

were also confirmed including, in particular, the sustained increase in female corporate executive staff (+10.6%), today amounting to 29.5% of the total executive staff; an increase in female staff with the role of director and manager of customer portfolios and the high female component of the recruitments to the Commercial Banks (59.8% of the total). As at the end of 2005 there were 3,474 part-time women workers (95% of the total part-time human resources), an increase of 7% and representing 16.7% of the female presence.

In addition, over 3,630 people (including 2,296 women and 1,334 men) within the professional areas benefit from flexible working hours.

### PART-TIME

	Men		Women		Total	
	num.	Part-time on total men	num.	Part-time on total women	num.	Part-time on total
Sanpaolo IMI Group	198	0.9%	3,474	16.7%	3,672	8.4%

### System average figures\*

• Men: 0.9% Women 19.2% Total: 8.0%

\*2004 figures relating to the Italian banking system  
Source: ABI 2005 report on the labor market in the finance industry

### PART-TIME AND FLEXIBILITY

	Men	Women	Total	
	num.	num.	num.	% of category total
Executives	0	0	0	0.0%
Managerial staff	27	289	316	2.7%
Professional areas	1,482	5,136	6,618	28.2%
- part-time	148	2,840	2,988	12.7%
- flexible working hours other than part-time	1,334	2,296	3,630	15.5%
<b>TOTAL</b>	<b>1,509</b>	<b>5,425</b>	<b>6,934</b>	<b>19.3%*</b>

\*% of total employees.

### BREAKDOWN OF BRANCH STAFF\*

■ Men  
■ Women

	Chg. 05/04		Men	Women
	Men	Women		
Executives	2,310	640	-0.3%	2.7%
Managers with portfolio	3,090	2,792	0.5%	0.8%
Other roles	7,748	9,134	0.1%	2.5%

\*Figures relate to the Commercial Banks.

## THE HUMAN CAPITAL VALUATION SYSTEM

The system for the valuation of human capital developed by Sanpaolo IMI is one of the models for the measuring and valuation of intangible assets and meets the objective of understanding the role of human capital in the dynamics of creating corporate value.

The system contains a series of quantitative (not only financial) and qualitative (measurable) performance indicators, updated monthly, in relation to two areas:

- Human Capital and human resource management processes (selection and recruitment, management and administration, training, management of performance, professional development, etc.);
- Business: the business indicators currently found in the human resource valuation system relate to three areas (assets and liabilities, products/services and customers).

This system has essentially three fields of application.

The first relates to the indicators of Human Capital and the human resource management processes that enable both the analyses of the professional and corporate social system and the evaluation of the performance of individual processes.

These indicators, aggregated together, also enable the

monitoring and control of the following specific phenomena that are critical to the achievement of the objectives of the business Plan:

- Efficiency phenomena: staff costs, organizational efficiency, flexibility and effectiveness of the remuneration policy and the operating costs for the human resource management processes;
- Effectiveness phenomena: flexibility of human capital, effectiveness of human resource development, effects of corporate attractiveness, and responsibility of human resources.

The second field concerns the relations between the indicators linked to human resources and business indicators, in order to understand the causal relationships and to appreciate how business results (e.g. trends in productivity, the performance of asset and income aggregates, generation of customer loyalty, the profitability of relations with customers, etc) are also attributable to the quality of the human capital and the management of people.

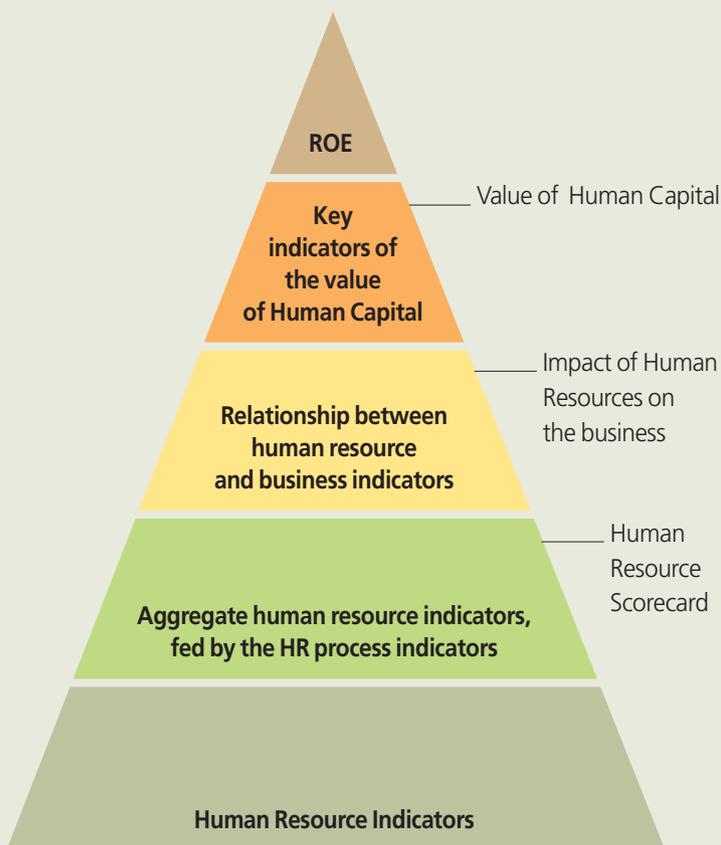
These analyses enable the revelation of trends and critical situations and the identification of the appropriate variables to act on, determining specific measures to be taken.

The third field of application consists of the use of management and financial indicators - ROI of human capital, cost/income ratio of human capital, effectiveness of human capital etc. - to highlight their contribution to the creation of corporate value.

The value of the system designed consists of the fact that it allows a high level of minute detail (individual numbers relating to the figures on the human resources and the branch that business indicators relate to) and an equally high level of aggregation. It is therefore possible to perform analyses both at micro, single person or service point, and macro level, area or business segment.

The data are available through software applications that allow both display and standard predetermined reporting, and the possibility of performing interactive and multi-dimensional analyses that enable the further examination of the data by simultaneously adding further dimensions of analysis. Currently 18 dimensions have been set up including time, organizational structure, geographical area, age and roles. Some dimensions allow a further split within them (e.g. the "time" dimensions can be broken down into year, semester, quarter or month).

In short, the layout developed for the Human Capital Valuation system allows us to identify and focus on material aspects and real problems and to single out the areas and levers to be acted on to address actions.



## Investment in training

Training is one of the Group's strengths. It is aimed at both supporting individual growth and improving the professional skills of the people in order for them to become increasingly competitive, motivated and capable of actively taking part in the pursuit of corporate objectives and of achieving sustainable competitive advantages.

The reduction in 2005 of the number of days provided and consequently in the average hours per capita was linked to the completion of the projects with a large-scale impact that had characterized 2003 and 2004, in particular training in support of the integration of the information systems of the Commercial Banks (88,000 days over the two years).

Various channels are available depending on the objectives to be achieved, consisting of:

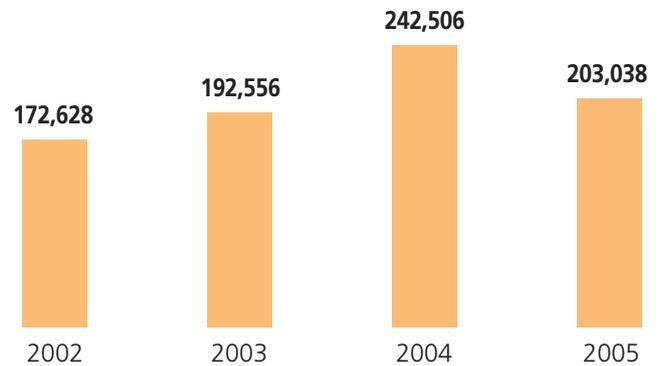
- training carried out internally utilizing qualified external trainers and involving Group staff acting as internal instructors (around 1,000 in 2005);
- distance training through the corporate e-learning platform Campus Sanpaolo, accessible via intranet from each workstation;
- specialist training courses, arranged by and held at external organizations.

### TRAINING DURING WORK HOURS\*

	2004	2005	chg. 05/04
Training days	250,811	222,114	-11%
Average hours of training per capita	48.9	40.6	-17%

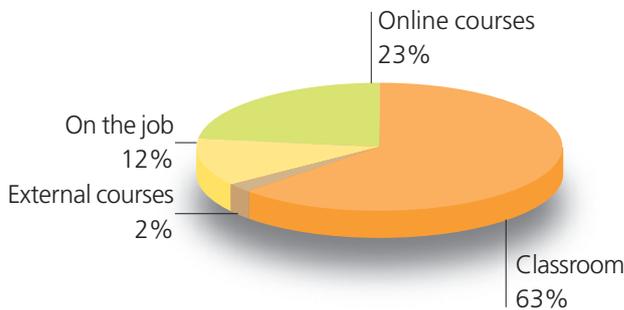
\*Figures relate to the Group companies operating in Italy.

### TOTAL NUMBER OF TRAINING DAYS\*



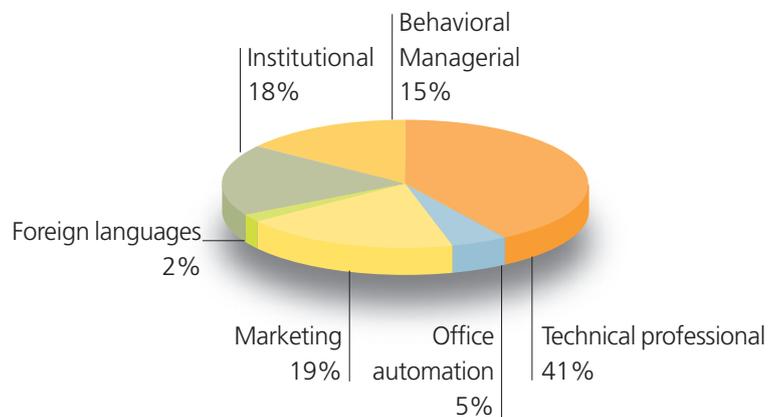
\*Figures relate to the Commercial Banks.

### BREAKDOWN BY CHANNEL\*



\*Figures relate to the Commercial Banks.

### BREAKDOWN BY SUBJECT\*



\*Figures relate to the Commercial Banks.

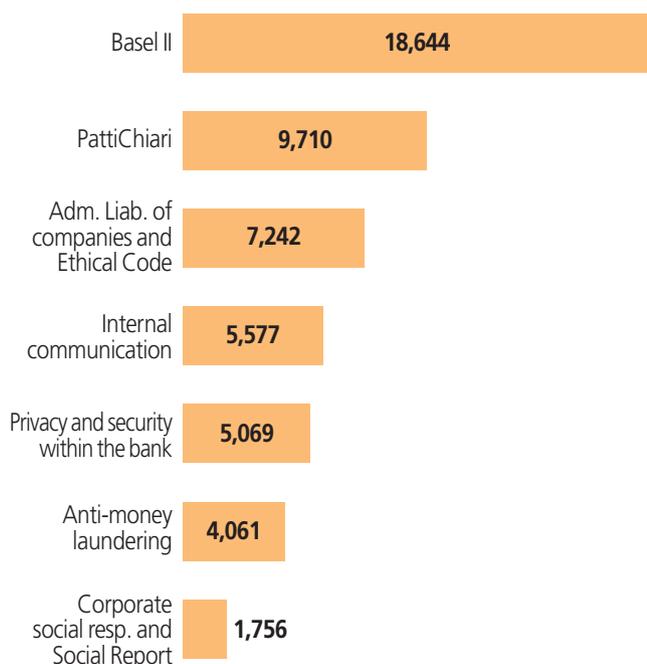
Over the year significant investments in training were made both in the technical-specialist area (linked in particular to the introduction of Basel II and the IAS accounting standards) and the area of conduct in support of customer relations, the valuing of staff, internal communication, correct interpretation of roles established in the distributional and organizational models, and the effective use of commercial planning tools for business development.

Significant numbers of staff took part in the specific courses on the subjects of PattiChiari, administrative liability of companies and the

Ethical Code, and on corporate social responsibility and the Social Report. Ad hoc intensive training courses were developed for certain categories of staff, linked to the particular role held and to changes in the service model, aimed at improving their technical and commercial skills and at developing specific relational capabilities with regard to both customers and colleagues. On the basis of anonymous questionnaires collected at the end of the courses (around 55,000) the score for the quality and the appreciation of the courses was 4, on a scale of 1 to 5.

*Training is one of the Group's strengths. It is aimed at both supporting individual growth and improving the professional skills of the people in order for them to become increasingly competitive, motivated and capable of actively taking part in the pursuit of corporate objectives and of achieving sustainable competitive advantages*

#### PRINCIPAL INITIATIVES BY NUMBER OF DAYS\*



\*Figures relate to the Commercial Banks.

#### AVERAGE HOURS PER CAPITA FOR CERTAIN CATEGORIES OF STAFF\*



\*Figures relate to the Commercial Banks.

## The corporate communities

The need to identify segments of the population important to the company, alongside and across the company professions, has led to the definition of communities of people to whom different management systems and instruments are addressed to.

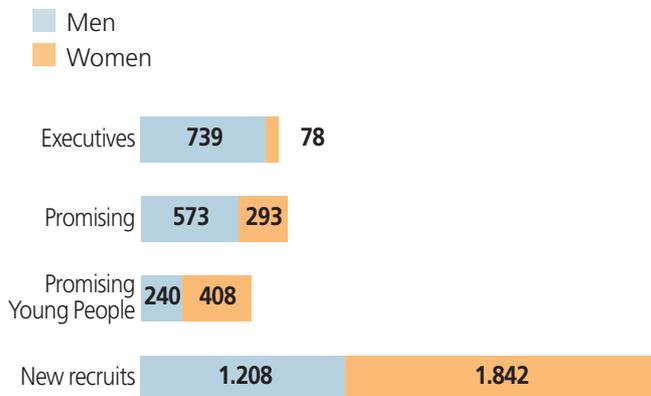
Management by communities, indeed, enables the implementation of initiatives aimed at professional development and becomes a factor for integration and aggregation at Group level. As at the end of 2005 there were 4 corporate communities:

- New recruits to the Group (for the first 24 months), to accompany the integration phase, create a sense of belonging, and bring their potential;
- Promising Young People, (up to 33 years old), characterized by medium-high performances and skills, with the potential to develop and take on more complex roles;

- Promising (over 33 years old) with high levels of performances and skills, who may be heading for managerial roles within the Group;
- The Group’s Executives, with the objective of guiding operational behaviors towards common strategic and organizational principles, to improve their effective operational integration.

*The need to identify segments of the population important to the company, alongside and across the company professions, has led to the definition of communities of people to whom different management systems and instruments are addressed to*

### COMMUNITY SIZES



### SIZE AND INITIATIVES OF THE COMMUNITIES

	Size		Development initiative	
	num.	chg. 05/04	people	dd/classroom involved
New recruits	3,050	9.2%	3,090	3,090
Promising young people	648	22.3%	272	816
Promising	866	27.5%	100	444
Executives	817	51.6%	18	108
<b>Total</b>	<b>5,381</b>	<b>18.5%</b>	<b>3,480</b>	<b>4,458</b>
Transversal activities			2,304	2,645



Laura Ibba

During 2005 management by community was extended to various Group companies and further intensified in the Commercial Banks, bringing the size of the communities up to 5,381 people (+840 compared to 2004), with 3,480 employees participating in the development initiatives for a total of over 7 thousand days.

## Industrial relations

The rights guaranteed to workers by the legal systems of Western countries are full and unconditionally enforced in all the companies of the Sanpaolo IMI Group.

### Relations with Trade Union Organizations

The level of unionization of the staff of the Commercial Banks is around 79%, in line with the Italian national averages for the sector.

During 2005 a total of 6 days of strikes were declared, for reasons not connected to corporate or sector issues. In conjunction with the adoption of a single organizational model for all the Commercial Banks, the process was completed for the harmonization of the aspects of the regulation of labor relations relevant to the model.

### The categories protected

In the Commercial Banks 2,499 people, corresponding to 7% of the total staff, belong to protected categories according to the Italian law 68/99 (invalids, disabled etc.).

### Disputes and litigation in progress

As at the end of 2005, there were 190 actions in progress with the staff of the Commercial Banks, approximately 8% less compared to 2004. There were 129 disciplinary measures taken (corresponding to 0.3% of the staff).

	2004	2005
No. of strike days	14	6
Days of absence due to strike	55,918	5,109
Union leave days	49,741	49,419

Figures relate to the Commercial Banks.



Teresina Lanzini

#### DISPUTES

	Number of cases	
	2004	2005
Termination of employment	5	9
Structure and progress of the employment relationship	48	43
Duties and job descriptions	77	83
Pensions and social security	5	13
Remuneration	50	31
Anti-union behavior pursuant to Art. 28	5	0
Active (instigated by the Banks of the Group against their employees)	4	6
Various	12	5
<b>Total</b>	<b>206</b>	<b>190</b>

## DISCIPLINARY MEASURES

Type of measure	2004		2005			Total
	Total	Embezzlement/misappropriation of administrative funds	Credit issue and management irregularities	Investment management irregularities	Operational irregularities and other negligence	
Written reprimand and verbal or written warning	44		6		40	46
Reduction of remuneration (up to 4 hours)	11		1		7	8
Suspension from service and loss of remuneration (from 1 to 10 days)	31		14	1	46	61
Dismissal for just cause or for justifiable reason	21	11	3			14
<b>Total</b>	<b>107</b>	<b>11</b>	<b>24</b>	<b>1</b>	<b>93</b>	<b>129</b>

*Within the companies of the Group, the supplementary bargaining agreements guarantee significant improvements in protection and remuneration compared to those provided under the law and the national collective agreement for the sector*

## Social security, pensions and employee benefits

Within the various companies of the Group, the supplementary bargaining agreements guarantee significant improvements in protection and remuneration, in general terms, compared to those provided under the law and the national collective agreement for the sector.

In particular:

- numerous forms of company contributions on behalf of the staff are envisaged, consisting of: pension funds, provided by minimum contributions corresponding to 3% of the remuneration base; supplementary health cover for retired and current staff (with the possibility of extension to direct family); insurance policies for work-related and non work-related accidents; study

allowances and graduation prizes for employees and the children of employees attending junior or senior high school or university study courses; benefits to family members in the event of serious physical or psychological disablement.

- a vast range of banking benefits in favor of staff have been set up (including preferential financing for disabled workers);
- there are various Corporate Social Clubs in existence, operating throughout Italy. In addition to vast range of concessions, initiatives are offered at both national level (tourism concessions; summer camps for the children of employees; “children’s summers” with games and sports activities including daily transport for the children of employees aged between 6 and 14 years), and at local level (company trips and visits to museums and exhibitions).

In addition, for the Parent company and some firms:

- there are numerous and well developed provisions relating to leave for the care of children, for serious illness and for justified personal reasons, which, because they are an overall improvement, replace the corresponding provisions of the legislation concerned. For example, the return is guaranteed for the mother and father worker, who has made use of the leaves established by Legislative Decree 151/2001, to the same service point they were previously assigned or to another in the same municipality;
- in order to protect maternity more effectively, a leave

## PENSION FUNDS

In November 2005 a new sub fund for ethical investments was established, enhancing the range of pension funds on offer to the Group’s staff. The sub fund, which has been active since January 2006, has received 220 subscriptions, with assets under management of over 10 million euro. The sub fund’s investments that in the first phase will be limited to the purchase of the units of ethical funds will, further down the line, also focus on companies that meet the ethical/sustainability criteria identified by E. Capital Partners within the economic sectors considered as ethical according to the advisor’s classification.

of absence is awarded, on request, in addition to the provision of the relevant legislation, for a maximum of three months and until the child's third birthday. The granting of paid leave to take part in anti-natal classes is also provided for;

- in order to meet staff needs in terms of flexibility of working hours it is possible, in compatibility with work demands, to have an elasticity for starting times of up to 45 minutes, and the option to take a 30 minute lunch break on a non-occasional basis;
- in the event of the death of an employee, the company regulations intercede in favor of the spouse and the children, with the possibility of their recruitment.

## MENO BANCA PIÙ PERSONE (LESS BANK MORE PEOPLE)

In 2005/2006 Sanpaolo IMI wanted to promote new method of communicating and spreading its image, which saw the people working for the Group as its leading characters. The new advertising campaign involves as testimonials employees from all over Italy and all the Banks of the Group. The key factor in this advertising project is the communication of the concept of a different type of bank: a bank that is professional but at the same time human, aimed at, and closer to, the customers. This innovative campaign originated from the idea of explaining the Bank's philosophy and nature through the faces, voices and names of those representing it on a daily basis in its relations with the customers. There are round thirty people involved, twelve in the cinema and television commercials, and the others on the radio and the pages of newspapers and magazines. And the signature of each individual in the advertising campaign is: "Sanpaolo. Less bank. More ...Luca, Giorgio, Elisabetta, Francesco,..."

The characters were subjected to the provocative and ironic interviews of the Gialappa's Band. During the winter Olympics the campaign was transferred to the competition sites and involved employees transferred to the temporary branches as well as the athletes taking part in the Olympic and Paralympic games. The public's opinion of the campaign was monitored by an external company that conducted over 1,200 telephone interviews. The results were positive, with 70% of those interviewed awarding the campaign the highest scores in the scale set by the interviews, with 76% in the South of Italy. Several focus groups were conducted consisting of a representative sample of the customers and non customers of the Banks of the Group. The results showed a high level of recollection of the campaign and strong appreciation, prompted above all by the contrast, considered as positive and agreeable, between the well-established image of Sanpaolo as a serious, reliable and meticulous bank (opinion that was confirmed) and the representation of the Bank, in the publicity, as a bank of people you can talk to. In short, they liked the amiable, open and smiling banker. The message "less bank, more..." was perceived as a promise and a commitment to bringing the bank closer and closer to the customers and their needs, becoming less and less formal and institutional.



## Internal communication

In 2005 the strategic role of internal communication in the improvement of the health of the organization was reinforced, by allowing people to participate more fully and more consciously in corporate activities.

To make the internal communication process more effective, communication delegates run alongside the central supervision, acting as reference points at individual local level, who continuously monitor the actions and procedures for internal communication adopted, focusing particularly on its effectiveness, level of diffusion and appreciation.

The internal communication operations are carried out in accordance with two guiding principles:

- the planning of listening initiatives and opportunities to facilitate the gathering of ideas and proposals and the direct involvement of the people working in the company in the management's choices and policies;
- the continuous improvement of the tools for the sharing and circulation of information within the organization and the communication of values and a shared culture.

A number of listening tools and opportunities were set up for the presentation of the 2006-2008 Industrial Plan. During 2005, the Managing Director met with the directors of the branches of the Banks of the Group – over three thousand two hundred people – with the aim of sharing

*In 2005 the strategic role of internal communication in the improvement of the health of the organization was reinforced, by allowing people to participate more fully and more consciously in corporate activities*



the strategies and procedures to be used to achieve the targets set in the Plan, through open and frank dialogue.

Coinciding with the presentation of the Plan to the market, an email message from the

Managing Director and a document from the Chief Executive Officer on the

guidelines for the Business Plan

were sent to all the staff,

whilst the report of the Plan's

presentation and related press

release were published on the

Green Village portal. In addition,

for the first time, a Video-CD of the

press conference for the presentation

of the Plan by the company's top

management was produced and sent to

all the staff.

We focus particular attention on specific training for internal communication. During 2005, the training program, launched in 2004, continued on the "role of the manager as interpreter of corporate and individual values", with the aim of:

- raising the awareness of middle managers and increasing their role as "director" of the processes and procedures for internal communication through the spreading of corporate values whilst respecting individual values;
- providing an opportunity for comparison and integration between the different local units of the Group.



*Francesco Di Giacomo*

The course is aimed at the directors of the retail branches (operation completed in 2005) and the heads of the central structures (operation started in 2006). During 2005, a total 6,937 training days were held (including follow up) with 2,800 people taking part. Over 1,800 of these involved a specific planning operation aimed at improving internal communication processes within their work environment, to then be shared with their course colleagues and their local internal communication delegate.

With regard to the tools for corporate internal communication, a survey of the satisfaction of the readers of the house organ, Sanpaolo Magazine, was conducted by an independent research institution on a representative sample of all the company units. The results of the

research, made available to the readers through the magazine, showed that overall appreciation and perception of usefulness was high, and at the same time enabled the gathering of proposals for improvement, which are in the process of being implemented.

The Green Village portal also increased the content of its information on the company and the services to the individual. The innovations made in 2005 include a section on corporate social responsibility (32), a dedicated channel for the Turin 2006 Winter Olympics and sections on safety and prevention in the company, on the privacy legislation, and on the consultation for employees of their levels of attendance and holiday situation. The section dedicated to the incentive system was also further enhanced. At the beginning of 2006 a section was also set up dedicated to working journeys, containing the company regulations, the relevant information and services. In addition the possibility for employees to consult their pay slips was also introduced. In order to facilitate communication between colleagues who share professional roles and areas of activity new online community environments aimed at specific groups within the company Intranet have also been developed, and numerous forums have been set up within them. The enhancement of the Green Village portal has led to a steady increase in the number of hits. The average daily hits for the homepage went up from over 21,000 at the end of 2004 to over 32,000 at the end of 2005.

## Safety

The Prevention and Protection Service, an internal structure spread throughout the Group, is responsible for supporting the corporate functions in the performance of their operations in order for them to protect the health and safety of people in the workplace, by supervising the aspects connected to the Legislative Decree 626 of 1994. It also provides advice in the analysis and assessment of areas of risk in order to minimize the elements of danger within the company, by improving conditions in the workplace.

The operations carried out include emergency management organization, the determination of the checks to be made to ensure unobstructed access to escape exits, the performance of mandatory periodic checks on installations and safety equipment, and compliance with the regulations on safety for the equipment and materials used at work.

An important part of these operations also involves the formulation of the processes for providing information and training to staff on safety, in order to spread a culture shared prevention. Each worker takes part in a training course on Law 626, receiving relevant

documentation with a summary of the legal provisions and the instructions in relation to safety and prevention for the performance of their work activities. The documentation is also available on a dedicated site on the company intranet.



Gianni Allocco

### ACCIDENTS\*

	2003	2004	2005	Chg 2005/2004
Number of accidents	388	376	383	+1.9%
Frequency of accidents (number of accidents/annual working days)	1.67	1.61	1.64	+1.9%
Seriousness of accidents (number of accidents/number of days absence)	0.04	0.05	0.04	-20%

\*figures relate to the Commercial Banks.

## Security

The intensive training operation on the physical security of the branches continued, involving the branch directors and the new recruits in the areas of Turin and Bologna in 2005. The courses planned for the start of 2006 will involve the cities of Rome, Milan and Naples.

### ROBBERIES

	Number of robberies				Number of robberies/100 branches		
	2003	2004	2005	Chg.2005/2004	2003	2004	2005
Sanpaolo IMI*	230	263	225	-14%	7.8	8.7	7.4
System**	2,427	2,684	2,726	+1.6%	8.0	8.7	8.7

### THEFTS

	Number of thefts				Number of thefts/100 branches		
	2003	2004	2005	Chg.2005/2004	2003	2004	2005
Sanpaolo IMI*	18	30	36	+20%	0.6	1.0	1.2
System**	272	245	219	-11%	0.9	0.8	0.7

\*figures relate to the Commercial Banks

\*\*Source: ABI



Anna Iandolino



Fabio Grosso



### Creation of value

We intend to guarantee an adequate return, in the medium and long term, on the capital invested by shareholders through both dividend distributions and the increase of the market value of the shares on the Stock Exchange

### Customer orientation

We believe that looking after the interests of our customers in the best way possible is an indispensable condition for the Group's growth and for the enhancement of the shareholders' capital

### Integrity

We must ensure that the Group's business is constantly conducted in accordance with the principles of honesty, fairness and transparency

### Commitment to excellence

We have set ambitious profitability and performance targets, in line with the highest European levels, developing a strong sense of responsibility in all those involved in the pursuit of this objective

### Growth in observance of specific qualities

We want to treat each individual shareholder with the same respect and consideration we reserve for large investors

### Responsibility in the use of resources

We are well aware of the fact that the Bank's capital is made up of the resources of our shareholders and that it is our foremost duty to use them with care and attention as we are responsible for their future

Sanpaolo IMI is listed in both the Italian Stock Exchange and in the New York Stock Exchange (as American Depository Shares – ADS –, with a ratio of 2 ordinary shares/1 ADS) and is included in the most important European indices.

Sanpaolo IMI's has a fully paid up share capital of 5,239,223,740.80 euro, divided into 1,586,967,318 registered ordinary shares and 284,184,018 preference shares.

The preference shares, held by Compagnia di San Paolo, Fondazione Cassa di Risparmio di Padova e Rovigo and by Fondazione Cassa di Risparmio in Bologna, have the right to vote exclusively at the extraordinary meetings and enjoy a "preference" consisting of:

- a pre-emptive right in the event of capital repayment;
- the right to receive a share of the net profits, as reported in the financial statements, amounting to 5% of the nominal value of the shares;
- the right to accumulate uncollected dividends with those matured in the following two financial years.

The following agreements between shareholders are currently in force:

- an agreement, known as "Patto di unità di intenti" (Unity of Intent Agreement), signed on April 19, 2004 between Compagnia di San Paolo, Fondazione Cassa di Risparmio di Padova e Rovigo and Fondazione Cassa di Risparmio in Bologna. This agreement involves 13.7% of the ordinary share capital and has a three-year duration;
- an "Accord", finalized on April 21, 2004, between Fondazione Cassa di Risparmio di Padova e Rovigo and Fondazione Cassa di Risparmio in Bologna, Banco Santander Central Hispano S.A. and Italia Holding S.A. (Groupe Caisse d'Epargne), which will automatically expire 15 days before the first call of the Bank's Shareholders' Meeting held to approve the 2006 financial statements. It binds a total of 25.42% of the ordinary share capital.

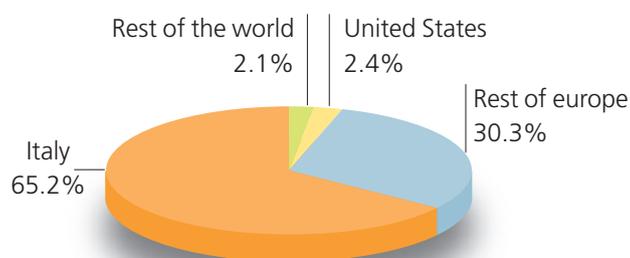
According to these agreements, the parties have agreed to consult each other about the status of their respective interests and to refrain from dealing in the Bank's shares as well as the related rights.

## SHAREHOLDERS OF SANPAOLO IMI

	% on share capital	
	total share capital (1,871,151,336 shares)	total ordinary share capital (1,586,967,318 shares)
Compagnia di San Paolo	14.22	6.85
Banco Santander Central Hispano	8.44	9.96
Fondazione CR Padova e Rovigo	7.04	4.00
Fondazione CR Bologna	5.55	2.85
Giovanni Agnelli & C.	4.97	5.86
Assicurazioni Generali	2.00	2.36
Mediobanca	1.75	2.06
Morgan Stanley & Co. International Ltd	1.75	2.06
Banca Monte dei Paschi di Siena	1.51	1.78
Società Reale Mutua di Assicurazioni	1.50	1.77
Caisse Nationale des Caisses d'Epargne	1.50	1.77
Ente Cassa di Risparmio di Firenze	1.50	1.77
Fondazione di Venezia	1.47	1.73

Updated to 31/03/2006

## GEOGRAPHICAL DISTRIBUTION OF THE ORDINARY SHARE CAPITAL



On the basis of the Shareholders' Register and the information available, Sanpaolo IMI has approximately 230,000 shareholders. Over 98% of the total shareholders are natural persons, whereas approximately 88% of the ordinary share capital is held by legal persons. From the geographical perspective, 65% of the ordinary capital share is held by Italian shareholders and the remaining 35% is held primarily by shareholders based in Europe (30%) and in the US (2.4%).

## TARGETS AND RESULTS ACHIEVED

### Improvement targets stated in the 2004 Social Report

### Actions and results achieved in 2005

Achievement of profitability and performance targets for Sanpaolo IMI to place it in the top league of European financial institutions.

During 2005 actions were taken in line with the 2003-2005 strategic plan. In particular, the following financial results were achieved:

- Net profit: 1,983 million euro (target: 1,760 million euro)
- ROE: 17% (target: 14,8%)
- Cost/income ratio: 57% (target: 55%)

Maintenance of a corporate governance model in line with the best international standards, in particular in terms of guaranteeing maximum transparency.

Standard & Poor's confirmed its positive assessment of our corporate governance model, awarding it a score of 7/10.

Continued focus on relations with the shareholders and the financial community, through the professional and transparent handling of communications and the continuous updating of the Group's Internet site.

- The number of meetings with institutional investors increased compared to 2004, with 216 meetings, compared to 194 in the previous financial year. Investor targeting activities also contributed to improve their effectiveness.
- Improvement of the contents and accessibility of the Group's Internet site, demonstrated by its rise of 20 places (from 110th to 90th place) in the Webranking™ for the first 150 major European companies\*.

\* Ranking by the company Hallvarsson & Halvarsson.

## Credit rating

In 2005 all the ratings awarded to Sanpaolo IMI indicating the high quality of the Bank's assets, its sound financial ratios, the continuous profitability of its traditional operations and its positive growth prospects, were confirmed.

### RATING

#### Fitch

Short term debt	F1+
-----------------	-----

Medium/long term debt (Senior)	AA-
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#### Moody's Investor Service

Short term debt	P-1
-----------------	-----

Medium/long term debt (Senior)	Aa3
--------------------------------	-----

#### Standard & Poor's

Short term debt	A-1
-----------------	-----

Medium/long term debt (Senior)	A+ (positive outlook)
--------------------------------	--------------------------



Rosario Pedicini

## Shareholders' Meeting

<b>Functions</b>	Body that expresses the will of the shareholders and represents the primary platform for dialogue between shareholders and directors.
<b>Meetings held in 2005 and items on the agenda</b>	<p>April 29, 2005 (ordinary):</p> <ol style="list-style-type: none"> <li>1. Financial statements as at December 31, 2004 and Board of Directors and Board of Auditors reports; allocation of the profit for the financial year; Group consolidated financial statements as at December 31, 2004;</li> <li>2. Approval of purchases and sales of own shares;</li> <li>3. Appointment of the Board of Auditors for the financial years 2005/2006/2007 (in accordance with the procedures set forth in Art. 20 of the Articles and by laws);</li> <li>4. Determination of the remuneration for the members of the Board of Auditors;</li> <li>5. Resolutions concerning the remuneration for the Directors.</li> </ol>
<b>Attendance</b>	Attendance at the meeting of April 29 was 52.9% of the ordinary share capital. To encourage greater attendance, the shareholders are not required to deposit their shares before the meetings are held. In addition, the shareholders may appoint a proxy to exercise their right to vote (proxy voting).
<b>Voting system</b>	Each share confers the right to one vote. Preference shares do not confer any rights to vote at ordinary meetings.

## Inclusion in ethical indices

Ethical indices are characterized by the criteria used to select the securities included in them. The choice of securities is made placing importance, alongside financial performance, on conduct that reflects corporate social responsibility. They represent an important

reference point for asset managers, whether their policy is to replicate the index or to adopt stock picking strategies using the index as a benchmark.

Sanpaolo IMI is included in some of the main European ethical indices:

Name	Provider	Country	Launch data	Data of inclusion of Sanpaolo IMI	Notes
FTSE4Good	Eiris	UK	07/2001	March 2002	Inclusion of Sanpaolo IMI confirmed also thanks to the commitment on the environmental side and to the obtainment of the ISO 14001 environmental certification.
ASPI Eurozone	Vigeo	F	07/2001	June 2004	Sanpaolo IMI inclusion in the index was confirmed. Sanpaolo IMI is the only Italian bank in this index, which includes 120 European companies and represents an important benchmark for the French SRI market.
Ethical Index Euro	E. Capital Partners	I	05/2002	May 2002	It includes the 150 most highly-capitalized companies selected on the basis of positive and negative screening criteria and best in class approach.
Avanzi SRI Index Euro/Europe	Avanzi SRI	I	08/2005	August 2005	These two indices include approximately 160 companies with high social responsibility profiles, from all sectors and listed in the main stock markets.

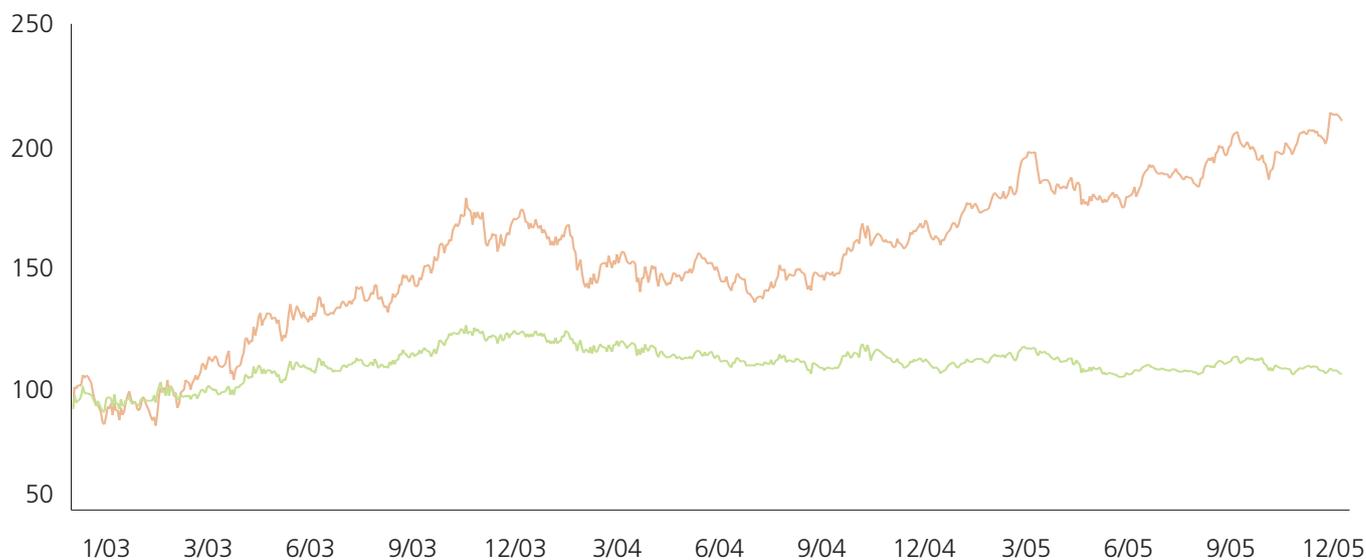
## Performance of the stock in 2005 and dividend policy

In 2005 the stock of Sanpaolo IMI increased by 24.7%. In the early months of 2006 the share price performed well, with an increase as at March 31 of 11.7% from the start of the year. In 2005 the profit per share was 1.06 euro, an increase of 56% compared to 2004.

With regard to the trend in the stock during the 2003-2005 Business Plan, Sanpaolo IMI achieved an absolute performance of 113.2%. The chart below also shows the stock's over-performance of 14% compared to the Italian sector index.

### PERFORMANCE

- Performance SPIMI gen 03 / dic 05
- Performance SPIMI vs MIBBANK gen 03 / dic 05



The table below includes further information and indicators on shares that are relevant for the shareholders:

	2003	2004	2005
Listing for the period (€)			
- average	8.158	9.826	11.836
- low	5.796	8.799	10.201
- high	11.346	11.072	13.420
Market capitalization (€ mil.)	18,996	19,753	24,719
Dividend per share (€)	0.39	0.47	0.57
Pay out ratio	74%	63%	54%
Dividend yield (dividend/average yearly price)	4.78%	4.78%	4.82%

## Relations with the investors and the market

The Investor Relations Function ensures the continuity, fairness and transparency of financial communications with the shareholders. The financial community - analysts, institutional investors and rating agencies - is kept informed of Group activities, strategies and results through the Group's continuously updated website and constant direct contact, in full compliance with the rules relating to the disclosure of price sensitive information.

During 2005 external communication operations consisted of:

- 216 meetings with institutional investors, with 56% attendance by management and top management;
- 27 road shows in Europe and in the US;
- 5 banking conferences, organized by the principal international brokers;
- 3 meetings with rating agencies;
- 4 conference calls (each involving approximately 100 persons on average) to present the periodic results for the Group;
- 22 meetings with financial analysts, with management attending in 23% of cases.

In 2005 the Investor Relations Function continued to play a central proactive role in communication initiatives aimed at the main European SRI investors. In addition to completing questionnaires sent by investors, research companies and SRI analysts, in 2005 a conference call dedicated to CRS themes was also organized. Sanpaolo IMI is the only Italian bank that continues to open itself up to comparison to the market and the stakeholders by appointing independent rating agencies to carry out analyses and assessments of the Group's corporate governance and social responsibility procedures. In this regard, Standard and Poor's renewed its award to Sanpaolo IMI of a Corporate Governance score of 7 on a scale of 1 to 10, which reflects S&P's current assessment corporate governance processes taking into consideration international best practice. As regards CSR, the rating agency Avanzi SRI Research awarded the Group the overall score of 7.29 on a scale of 1 to 10. Both reports are available in the section External Assessments (126).

## New Market Abuse legislation

After 15 years since the first directive on insider trading, the European community legislator considered it appropriate to intervene once more on the matter – in line with the objectives for the integration, by 2005, of the European financial services market – and produced the new market abuse legislation on insider dealing and, for the first time, on market manipulation. This legislation was implemented by the Italian legislation through the 2004 Community Law (law no. 62 of April 18, 2005).

With regard to the legislation concerning corporate information, in particular, special emphasis was placed on the procedures for disclosure to the market of price sensitive information, the regulation of internal dealing operations and the improvement of institutional communication and financial analysis and consultancy, in order to guarantee greater transparency to the investors, also in relation to potential conflicts of interest. With regard to the impacts on Sanpaolo IMI Group operations, we note that the in depth examination required as a result of the recently issued Consob regulations on the matter was carried out, also linking up with the principal business associations concerned (ABI – Assonime). At the end of this process internal procedures were put into place aimed at ensuring the compliance of the Bank's organizational structure with the new legislation and guaranteeing maximum transparency and fairness to the market.



Mario Andresi



### Creation of value

We want to play responsibly a leading role in actively contributing to the support and development of the domestic economy

### Customer orientation

We consider the territory to be a network of relationships to serve with a spirit of service

### Integrity

We want to adopt and transform the concept of corporate citizenship into concrete behaviors, ensuring the utmost transparency in our actions

### Commitment to excellence

One of our most ambitious objectives is to become market leader in the financial services for the communities

### Growth in observance of specific qualities

We intend to combine the breadth of an international group with a strong presence in the communities, promoting local cultures and facilitating access to credit and to basic financial services, even to smaller entities and economies, in order to encourage greater participation in economic and community life

### Responsibility in the use of resources

We pay maximum attention to the direct and indirect social consequences of the actions that we perform or finance

## Contribution to the stakeholder Community

The contribution of the Group to the communities and to the society in which it operates is vast and varied. For simplicity purposes, the various community contributions have been classified into four categories: activities belonging to the company's core business, which in the case of a financial institution comprises loans and advisory services aimed at promoting local economies and supporting the territory; commercial initiatives within the community (sponsorships); collaboration with non profit entities and organizations and long-term participation in social initiatives; occasional activities to support social and cultural initiatives and projects, in the form of donations.



Maria Carla Raino

## Activities belonging to the company's core business

The promotion of local economies, support of the communities and the public sector and, more generally, of the country's economic growth over the long-term are priority commitments of the Sanpaolo IMI Group. Support provided for the entrepreneurial system – including initiatives in favor of innovation, internationalization and growth of companies – was covered in detail in the section on customers. Support for the public sector, on the other hand, is provided by Banca OPI, Group company specialized in financing and advisory services for public entities.



Luciano Pavesio

*The promotion of local economies, support of the communities, the public sector and the country's economic growth over the long-term are priority commitments of the Sanpaolo IMI Group*



Banca OPI is the Group bank specialized in loans and financial assistance to Public Entities and Local Public Utilities, as well as for infrastructural projects. The mission of Banca OPI is to offer and develop a range of products and services prevalently aimed at the public sector, from specialized consulting to investment financing, with traditional and innovative tools, such as the issue of bonds and structured financing transactions, with particular focus on large infrastructural works.

In 2005, Banca OPI confirmed its role as “territorial bank”. In fact, special attention has been paid to local economies and to development of the infrastructural system. Moreover, Banca OPI is the primary point of reference for infrastructures in Southern Italy, as it is able to direct significant amounts of financial and planning resources toward large investments, essential for economic growth and for the promotion of business in the area. In 2005, over 25% of contracts were located in Southern Italy.

In 2005, strong support was demonstrated in favor of initiatives of a marked socio-environmental nature, which represented 33% of total loans and showed an increase of approximately 50% compared to the previous year, from 2.1 to 3.2 billion euro.

The system of urban transport, social housing and urban redevelopment is the segment of greatest intervention by the Bank, together with the

intermodal transport sector (in particular, harbors and regional railways), confirming a strong focus on initiatives supporting eco-compatible development of the territory.

The Bank also confirms its commitment to the sectors of social, environmental and water-related services and to health, education and social housing. Of notable mention are the loans granted to the Marino di Grado Hospice (19 million euro) for the realization of a regional rehabilitation centre, as well as participation in the project financing program for construction and management of hospitals in Castelfranco Veneto and Montebelluna (20 million euro).

In terms of social housing, loans were granted to the public housing programs for the cities of Brescia and Milan (approximately 85 million euro) and support was provided to that of the city of Goteborg (43 million euro).

Financing in the hydro-environmental sector amounted to 188 million euro, while loans to the education sector totaled 161 million euro.

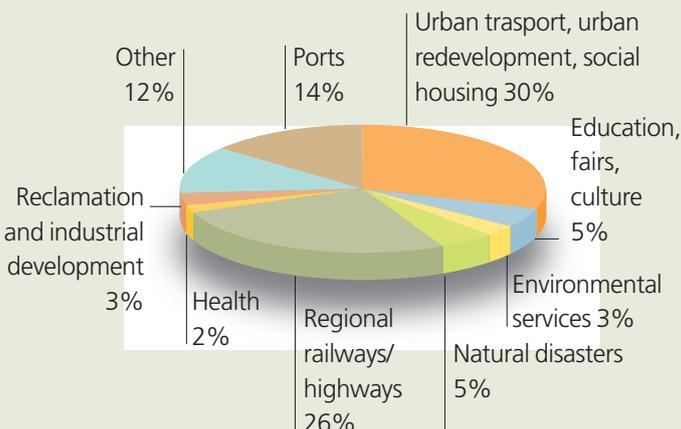
Particularly important transactions in this segment include those in favor of the Milan and Turin Polytechnics and “Federico II” University in Naples.

Regarding the sectors in which the Bank provided advisory services, approximately 76% of total investments involved the transport and logistics sector (1,188 million euro) and management of water resources (over 1,628 million euro).

Other sectors in which advisory services were carried out include social housing (16%) and parking and urban redevelopment (6%).

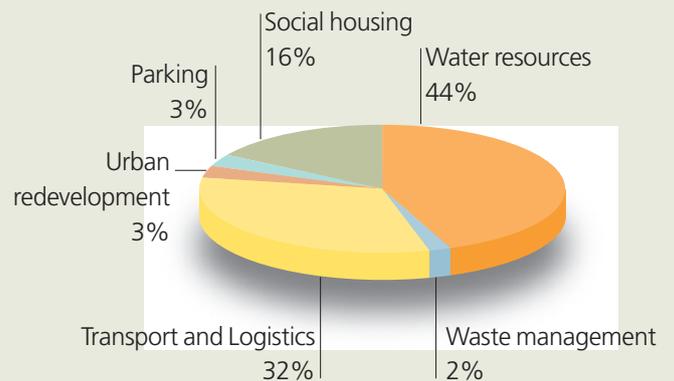
**SOCIO-ENVIRONMENTAL FINANCING**

(Total loans: 3.2 billion euro)



**SECTORS INVOLVED IN ADVISORY ACTIVITIES**

(Total investments: 3.7 billion euro)

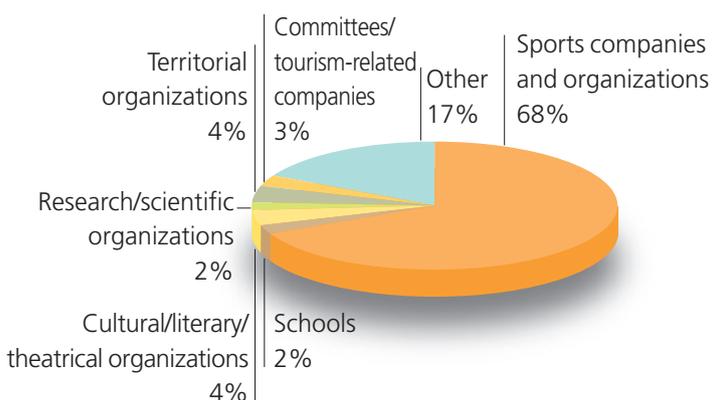


## Sponsorships

During 2005, the Commercial Banks of the Group maintained a high level of sponsorship of sports, cultural and scientific events and initiatives, both at local and national level, for a total of over 29 million euro. Sanpaolo IMI sponsorships during 2005 mainly regarded the Turin 2006 Winter Olympics. In addition to the main investment in the Olympics and Para-Olympics, several related preparatory and supplementary events were sponsored as well. These included the Sports Events (though which the main Olympic sites were tested), the "Meno Uno Paralimpico", "Paralympic Day", the New Year's Festival held by City of Turin (which celebrated the kick-off to the year of the Games) and the Turin Piedmont Media Center (which accommodated hundreds of journalists from around the world during the Olympics). In its continued focus on the territory and on sports, support was also provided to a series of sports organizations in North-East of Italy. Contributions were also made to support initiatives linked to the topic of corporate social responsibility, including the Rovigo Award for CSR and sponsorship of events aimed at promoting micro-credit (with particular focus on the Euro-Mediterranean region).

*Sanpaolo IMI sponsorships during 2005 mainly regarded the Turin 2006 Winter Olympics*

### DISTRIBUTION OF 2005 SPONSORSHIPS BY SECTOR



## OLYMPICS AND PARA-OLYMPICS

2005 was the most intensive year in terms of promotion of Sanpaolo IMI's role as Principal Sponsor of the XX Winter Olympics and Official Partner of the Turin 2006 IX Winter Para-Olympics, as well as Official Bank of the Games. Sanpaolo IMI had enormous faith in this event right from the start and was the first company to decide on a sponsorship. This was a decision consistent with the beliefs of a company that shares the values inherent in the Olympics, including commitment, dynamism, transparency and the importance of human relationships. The most significant events of the year included a Road Show, which – between April and December 2005 – visited 23 cities across Italy, with stands, events and shows based on the Olympic theme. The Art&Sport contest was held in each leg of the tour, in collaboration with Visa International, and aimed at children and youth from 9 to 13 years of age and from over 1,300 schools, with 30,000 children producing artwork on the theme of winter sports and the Olympics and Para-Olympics. The Road Show initiative was widely successful in terms of public attendance as well as appreciation of the Group's commitment in supporting the Olympic event and



promoting it across the country.

Throughout the Winter Olympics, Sanpaolo IMI guaranteed banking services in the Olympic sites, setting up temporary branches and extending the hours of branches located in areas near the competition sites and in areas with a constant stream of Italian and international visitors.

A final mention goes to over one hundred employees of the company, mainly new recruits, who were torch-bearers for the Olympic Flame during its journey across Italy from 8 December 2005 to 10 February 2006.



## Collaboration with non profit organizations and investments in the community

Group activities in favor of the community demonstrate a particular focus on direct involvement and long-term collaboration with non profit organizations, local entities and other sectors of society, aimed at developing initiatives in favor of the weaker segments of the population and handling specific social, health and humanitarian issues.

*Micro-credit is not merely  
an additional tool with respect  
to traditional financial services;  
it represents a new way  
of understanding credit, the creditor  
and the evaluation of creditworthiness*

### Micro-credit projects

The most significant initiatives that provide a direct link between the specific characteristics of the Bank and its positive role in society include micro-credit projects.

Micro-credit is not merely an additional tool with respect to traditional financial services; it represents a new way of understanding credit, the creditor and the evaluation of creditworthiness. It provides opportunities for the creation of employment and the establishment of businesses, facilitating access to credit even to those who cannot provide collateral and who would be excluded from traditional banking channels. For some time now, Sanpaolo IMI has focused its attention on customer segments not always included within the realms of traditional banking activities, with a view consistent with the principles of corporate social responsibility rather than charity.

The first micro-credit initiative in which Sanpaolo IMI participated is the Social Micro-Credit Project of Compagnia di San Paolo launched in 2003. The

Foundation provided almost 2.1 million euro, distributed between funds to guarantee loans, for 1.6 million euro, and funds destined for use in operational management, monitoring and communications initiatives. Sanpaolo and Sanpaolo Banco di Napoli have taken on the role of operating partners, with the objective of assessing and disbursing the credit requested at particularly favorable rates. It is one of the most far-reaching initiatives in Italy and involves four geographical areas: the provinces of Genoa, Rome, Naples and Turin, and also extends to several Municipalities in the Cuneo and Asti regions. The initiative also benefits from the active involvement of four non profit organizations acting as points of reference in their respective communities: Fondazione Antiusura Santa Maria del Soccorso of Genoa, Fondazione Risorsa Donna of Rome, Fondazione San Giuseppe Moscati of Naples and Fondazione Don Mario Operti of Turin.

These reference organizations have received equal amounts of guarantee funds and have thus taken on the role of guarantors; in addition, they collect the applications, evaluate the projects, carry out an assessment and assist the beneficiaries in the project development process, with verification and follow-up activities carried out by volunteers with relevant experience in the banking or entrepreneurial sector.

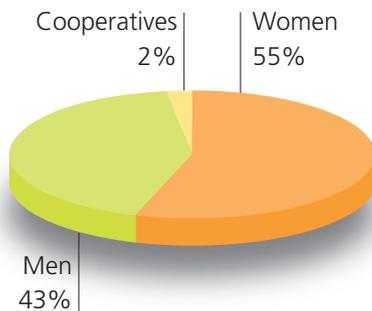
Given the positive results of the project (high number of applications received and low insolvency rates), Sanpaolo and Sanpaolo Banco di Napoli have decided to bear a part of the credit risk from February 2005, and they have authorized loans for up to double the amount of guarantee funds provided by Compagnia di San Paolo.

According to data at the end of December 2005, over 600 applications have been submitted, of which 139 (88 in 2004 and 51 in 2005) have been

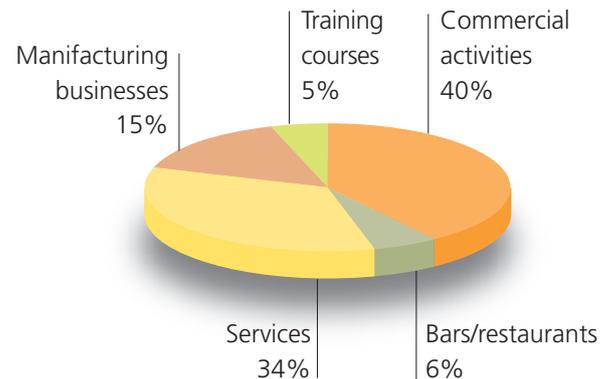


Alessandro Bovolenta

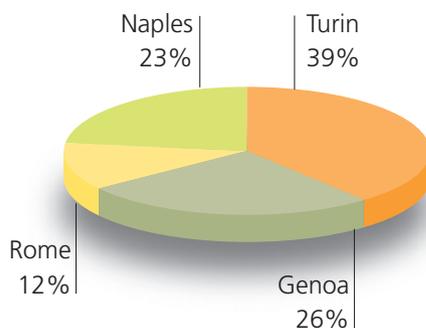
## DISTRIBUTION OF PROJECTS BY BENEFICIARY\*



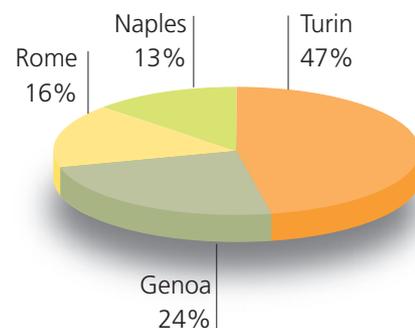
## DISTRIBUTION OF PROJECTS BY TYPE\*



## GEOGRAPHICAL DISTRIBUTION BY AMOUNT\*



## GEOGRAPHICAL DISTRIBUTION BY NUMBER OF PROJECTS\*



\* Data refer to all projects financed in 2004 and 2005

approved and financed, for a total amount of almost 1.6 million euro and an average loan amount of around 11,000 euro. The latest available data indicate that the majority of applicants are women (55%), while there is an equal split between Italians and foreigners. Most applicants are young: over 60% are under 40 years of age and only 13% are over 50. The projects financed regard, in particular, business in the commercial and services sectors, but also include restaurants and manufacturing businesses; moreover, 5% of funds disbursed have been used for training purposes (nursing courses, driving school, etc.). Other examples of businesses include a wine exporting business, a nursery school, the inauguration of an art gallery and the opening of a literary coffee shop where cultural activities are held.

A total of 8 loans have already been entirely repaid, the funds of which will replenish the amount available for new projects. Taking advantage of the Group's presence throughout the country, two additional micro-

credit projects were launched in 2005, with as many Banks of the Group filling the role of operating partners.

The first, which involves the Province of Venice, is aimed at immigrant women, to facilitate their access to credit and the development of employment opportunities. Fondazione di Venezia – promoter of the project – has provided 200,000 euro as guarantee funds and obtained participation of the non profit cooperative organization Terre in Valigia Servizi, with Cassa di Risparmio di Venezia acting as operating partner. The second project was launched in July 2005, through a signed agreement between the Adriatic Area of Sanpaolo and Fondazione Antiusura Jubilaeum. The Foundation assists potential loan beneficiaries in obtaining financing and provides the guarantee for concession of the loan from the "Fondo Statale antiusura" (State Usury Prevention Fund), while Sanpaolo is operating partner with its 38 branches in the Abruzzo Region. The objective is to prevent and combat usury by granting loans to individuals and to households.

## Collaboration with non profit organizations

Initiatives involving collaboration with non profit organizations and associations in the socio-environmental, cultural, artistic, scientific and sports fields are an important part of Sanpaolo IMI's relationship with society. Several initiatives have arisen from the proximity to the problems and needs of local communities, while others have a national or international connotation.

In many cases, Sanpaolo IMI has made its branches available for the collection of funds, via no-fee bank accounts and with the support of specific information provided at the branch and through the Internet site. Particular mention goes to three initiatives: the first in favor of the populations of South-East Asia struck by the tsunami, organized by the Italian Red Cross and launched on 31 December 2004, with over 537,000 euro collected; the initiative "Che colore ha il sorriso dei bambini" (What color are the children's smiles) for the collection of donations for children of the Bambino Gesù Children's Hospital of Rome, launched in April 2005 and exceeding 9,000 euro in funds; and finally the collection of funds started in December 2005 to build the "padiglione Piera Cutino" (Piera Cutino pavilion) at the Cervello Hospital of Palermo, an initiative promoted by the research association Piera Cutino Onlus, which aims to promote, improve and sustain healthcare for patients afflicted by thalassemia, with 19,000 euro collected so far.

As in past years, Sanpaolo IMI renewed its invitation for customers to support UNICEF projects in favor of children by purchasing greeting cards and small gift items during the Christmas period. This initiative resulted in the collection of around 153,000 euro. Particular attention continues to be focused on the disbursement of personal loans at special conditions in order to support and provide financial assistance to organizations and associations committed to social activities. Agreements are currently in place with ANFASS, A.N.D.I. – Associazione Nazionale Disabili Italiana, Unione Nazionale Ciechi – Portatori Handicap Fondazione Provinciale Comunità Comasca; AiBi Amici dei Bambini, Amici di Don Bosco and Fondazione Nidoli, which work in the field of international adoptions.

Agreements are also in place with various institutions committed to the fight against usury.

These aim to combat illegal debt, help those undergoing difficulty and promote initiatives devoted to disseminating a culture of reeducation of spending,

facilitating, among other things, access to bank credit by individuals not otherwise eligible according to the ordinary assessment methods of banks.

On the local front, Cassa di Risparmio di Padova e Rovigo has launched a project in collaboration with Fondazione La Casa Onlus to encourage the purchase of a home by people living in conditions of social hardship (young couples, immigrants, returning emigrants), granting them mortgages at special rates and thereby facilitating full integration into society and into the local economy.

## Product-linked devolutions to non profit organizations

Several products created for customers contain special charity programs in favor of non profit organizations or specific projects.

Blue Profits Solidarietà is an index-linked policy placed in 2004 and characterized by assignment, by the Group, of part of the subscription proceeds in favor of humanitarian initiatives. More specifically, a total of 800,000 euro – of which 700,000 already disbursed – were assigned in favor of five initiatives promoted by three different charities in 2005: the purchase of drugs for the medical facilities of Emergency in war zones; the construction of a school in Burkina Faso and the establishment of machine shops for the construction of solar-powered cookers in Chad (initiative of MAGIS); the restoration of premises to house the headquarters of AIL and the patients of Hematology Center of La Sapienza University of Rome and support for home care of patients of hematology centers in Italy (initiatives of AIL – Italian association against leukemia, lymphoma and myeloma).

Executive is a program that rewards the most loyal current account holders of the MultiBenefit line. By





Archive

using products or services of the Bank, account holders can accumulate points that can be redeemed for prizes from a catalogue or used to make donations to the non profit organizations selected. In 2005, these organizations were the AIRC, Associazione Italiana per la Ricerca sul Cancro (Italian Association for the Research on Cancer); CIAI, Centro Italiano Aiuti all'Infanzia (Italian Center for the Assistance of Children); ENPA, Ente Nazionale Protezione Animali (National Association for Animal Protection) and AUSER RisorsAnziani, Associazione Italiana per l'assistenza agli anziani (Italian Association for assistance to the elderly).

During the year, Executive holders were very receptive to the charitable initiatives proposed by the Bank, with the overall number of donations increasing significantly, up from 236 in 2004 to 1,481 in 2005, for a total amount of 61,500 euro. The increase was also fostered by the greater value recognized by the Bank in 2005 for points donated to charity: only 4,000 points were necessary for a donation of 100 euro, compared to the 6,500 points required previously.

A charity program was also established for the youth accounts. When opening an account, the Bank and the partner chosen by the youngster (following the selection of a gift from the four proposed) donate one



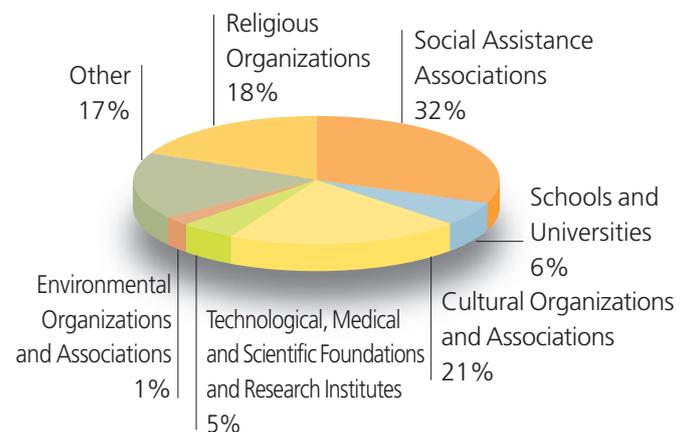
Piero Fogar

euro each to an initiative promoted by MAGIS (Movement and Action of the Italian Jesuits for Development) and named "Cinque pozzi a Dissin" (Five wells at Dissin). This project consists of the creation of several water wells at Dissin, in Burkina Faso, as well as the training of people in order to enable them to operate and maintain the wells in the future. The economic contribution of about 50,000 euro, of which 25,000 euro by the Group and 25,000 euro by partners, enabled the project to be completed in 2005.

## Donations

Donations made by the Commercial Banks of the Group in 2005 within their respective regions totaled almost 2.4 million euro, distributed in small individual amounts.

### DISTRIBUTION OF 2005 DONATIONS BY TYPE OF BENEFICIARY



To better respond to local needs, each territorial area, along with the various Commercial Banks, can act independently in their respective regions. Regarding Sanpaolo and Sanpaolo Banco di Napoli, the ceilings are assigned annually to the areas and the supervisory and control mechanisms are managed centrally, using a common information system. Selection of the projects and of the beneficiaries takes place in accordance with guidelines that include, among other aspects, respect by the non profit organizations of the principles of legality, fairness, honesty and good faith outlined in the Ethical Code and following a rotation principle.

## BLOOD DONORS

The Sanpaolo IMI Group Blood Donors celebrate 40 years in 2006. It has become a consolidated tradition for the Bank to host collective blood donor facilities every three months in its premises of Turin, Moncalieri, Rome, Naples and, shortly, Milan, and to directly support this important community service, which involves thousands of colleagues, both current and retired, and their families every year. In fact, for the year 2005, over 4,000 individuals of the Group took advantage of paid leave in order to give blood.

## Research and relations with the community

The process of relating to and sharing with the community allows adaptation of Group initiatives to the varying requirements of local communities. This is carried out by employees of the Group as part of the relationships established while performing their daily duties. In addition, specific advisory and research committees have been established (the Committees on local economies and the Association for Study and Research for Southern Italy) which, as a result of their location and objectives, are evidence of the Group's attention to Southern Italy. The media also play an important role in the process of exchange and communication with the community.

## Consultative committees

Consultative committees on the local economy consist of representatives from local economies and communities as well as members of Sanpaolo Banco di Napoli, with the aim of improving knowledge of the economy in the specific territory and trends in the development of financial services needs for companies and private customers. Two consultative committees are currently active – one in the Apulia Region and one in the Calabrian-Lucanian area, which, during 2005, handled crucial issues such as the relationship between the size of companies and economic development or the prospects of Southern Italy in developing relationships with Euro-Mediterranean economies.



Antonello Serrao

## THE TSUNAMI EMERGENCY

The Sanpaolo IMI Group quickly intervened at the beginning of 2005 to help the populations of South-East Asia struck by the tsunami, allocating 250,000 euro to this cause. This amount, directed through Fondazione La Stampa – Specchio dei Tempi Onlus, was destined for both immediate intervention as well as the reconstruction of permanent structures, in collaboration with local humanitarian and religious organizations.

The Foundation was able to complete three projects as a result of Sanpaolo IMI's donation:

- 150,000 euro were used toward the construction of an elementary school in Habaraduwa, Sri Lanka, already operating and able to hold 250 students in 12 classrooms;
- 50,000 euro were used for the construction of a kindergarten – already working – in India, in the Tamil Nadu region at about 140 Km from Madras, in a community where about one quarter of the population died in the tsunami;
- 50,000 euro were used for the purchase of twenty-five boats – already delivered – with nets for fishermen in Sri Lanka.

## The Association for Study and Research for Southern Italy

The Association for Study and Research for Southern Italy ([www.srmezzogiorno.it](http://www.srmezzogiorno.it)), composed by Companies of the Sanpaolo IMI Group and related Foundations, carries out a role of cultural and economic promotion of issues regarding the economic structure and development policies in Southern Italy. In 2005, in addition to periodic publications (*La Rassegna Economica*, *Dossier Unione Europea*, *Focus Mezzogiorno* and *Osservatorio sul project financing nel Sud*), the Association published two books: “*Le vie del mare: lo sviluppo del sistema portuale meridionale nel contesto meridionale*” (The sea: development of the harbor system in the South) and “*Il sistema agroalimentare nel Mezzogiorno. Le sfide dell’Industria agroalimentare nelle realtà territoriali*” (The agricultural and food system in Southern Italy. Challenges of the agricultural and food industry in territorial contexts), presented in conferences held in Rome, Naples and Bari. Furthermore, it has completed numerous lines of research and organized focus groups and study seminars on the following issues:

1. infrastructures, regional public organizations and local public services agencies;
2. productive activities in Southern Italy and development policies;
3. solidarity and the world of non profit organizations.

## Media relations

Relations with the media are the responsibility of the External Relations office; its activity respects the criteria of transparency, precision, clarity and timeliness, in full respect of the regulations in force for the disclosure of price-sensitive information to markets. During 2005, the official communications activities comprised the following:

The Group’s website ([www.grupposanpaoloimi.com](http://www.grupposanpaoloimi.com)) represents an effective tool for external communication, and the “Media Relations” section contains a series of analyses and links, including:

- a press kit, containing useful information on the Group (financial data and statements, shareholders, organizational structure, corporate governance, etc.);
- a section dedicated to press releases, where journalists can find the material distributed during press conferences;
- a press review section, containing all the major interviews with corporate executives;
- a section related to the new advertising campaign.

In the site, it is also possible to search for any press releases issued from the year 2000, classified by year and by topic, and to download the photographs of the Top Management of the Group and of the headquarters. It is also possible to register to be part of a mailing list and receive press releases in real time.



Annalisa Mari

<b>Press releases</b>	<b>85</b>
- relative to financial results	4
- relative to the Business Plan	1
- relative to appointments of the Group’s top management	4
- relative to the reorganization of Group activities	2
<b>Press conferences and meetings</b>	<b>40</b>
- relative to presentation of the Business Plan, with the participation of 50 journalists and operators	1
- relative to the Olympic project and for a preview presentation of the new advertising campaign	1
- relative to the Road Show “Una Città coi Fiocchi”	23
<b>Interviews</b>	<b>35</b>
<b>Official announcements</b>	<b>79</b>



### Creation of value

We want to establish an efficient system of relationships with our commercial partners and external collaborators, in order to achieve a common perspective of growth and economic advantage

### Customer orientation

We select our partners on the basis of the qualitative level that they are able to guarantee, preferring those who can ensure maximum effectiveness and reliability for us and for our customers

### Integrity

We base our relationships with suppliers on the principles of mutual transparency and fairness, ensuring that our external collaborators respect the same criteria of integrity and honesty to which we aspire

### Commitment to excellence

We choose our suppliers on the basis of their level of performance and of the guarantees provided, in order to achieve, through their collaboration, the most innovative and mutually profitable solutions

### Growth in observance of specific qualities

We maintain supplier relationships across the entire country, promoting the socio-cultural context of each region as much as possible and respecting the negotiating requirements of each interlocutor

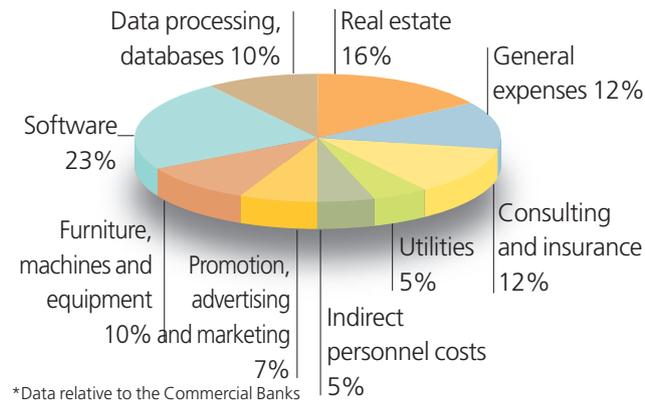
### Responsibility in the use of resources

We contribute to the overall results of the Bank by implementing initiatives aimed at cutting costs and reducing waste

During 2005, Sanpaolo IMI dealt with about 13,500 suppliers, for a total turnover of around 1 billion euro.

Purchases are handled centrally for the Commercial Banks of the Group, with preference given to the best conditions available in the various reference markets, except for specific freedom of expenditure for small purchases of head offices and of the Commercial Banks. The processes of supplier selection, market comparison and assignment of supplies take place according to specific and defined criteria that ensure objectivity, transparency, efficiency and effectiveness of the choices. The agreements with suppliers imply the extension of the contractual conditions to all the Group companies, in particular regarding goods and services purchase where it is possible to have economies of scale.

#### DISTRIBUTION OF 2005 TURNOVER BY SECTOR\*



## Group Suppliers Register

The Group Suppliers Register was completed in 2005 and contains suppliers of the various banking areas subject to integration, with measures to rationalize and provide uniformity to the names registered, to the company evaluation and selection criteria and to existing contractual relationships. In addition, a standard pre-assessment questionnaire was introduced and sent to all potential suppliers, with the objective of collecting significant, uniform and structured information. That information includes, among other things, data on the possession of environmental and quality certifications, on the presence of research and development activities, on monitoring and inspection of the products and services provided, on the performance of transparency verifications with respect to the operating and administrative processes, on the presence of personnel training programs and refresher courses and, finally, on activities that are outsourced. With a view to simplifying procedures and reducing invoice payment times, the supplier invoicing processes have been standardized, centralizing the collection and monitoring of expenses and payments in the relevant

structure of the Purchasing Department. In 2005, an average payment time of up to 60 days from the invoice issue date was recorded for over 60% of cases, and up to 90 days for over 80%, essentially in accordance with the agreements between parties. These statistics include the verification by the Bank of the accuracy of the supply received, in addition to cases of deferment of payment for reasons outside of the control of the Bank, but rather as a result of breach of contract (anomalies, incompleteness or other) by the supplier. This indicator can therefore be improved, and the recording system will be further enhanced in 2006 by calculating average times net of delays attributable to suppliers.

## Sharing the Ethical Code

In 2004, about 1,000 suppliers received information on the requirement to adhere to the contents of the Group's Ethical Code, on the obligation to respect – in the execution of contractual activities – the principles contained therein and on the consequences in cases of violation. In 2005, reference to the Ethical Code in assigning supplier contracts was further consolidated and included in all new contracts, as well as in contracts under renewal.

## Disputes

The situation in terms of extrajudicial disputes, linked to the introduction of the euro, is essentially positive; two positions have been settled, while the remaining two positions are pending and currently being defined. In terms of legal disputes, in addition to a decline in physiological litigation (evictions, lease disputes, etc.), a lawsuit has been filed by a security firm protesting against the tariffs adopted by Sanpaolo IMI, as well as by the banking system overall.



Luciano Cassiogo

A photograph of a forest path covered in fallen autumn leaves, with a semi-transparent green box in the center containing the text "Environmental Report".

Environmental Report





### Creation of value

We believe it is essential to consider environmental protection as an opportunity for the Group and for its customers

### Customer orientation

We must look to the future with the knowledge that the quality of the environment may be impacted also by the way in which we provide our products and services to customers

### Integrity

We are aware of the direct or indirect consequences of the actions we promote or finance; consequently, we must take into account also the environmental impact for future generations

### Commitment to excellence

We want to adapt our objectives to international best practices

### Growth in observance of specific qualities

We intend to exercise our role as national economic player in a responsible and sensible manner, taking care to respect the environmental heritage of each of the region in which we operate

### Responsibility in the use of resources

We want to avoid any type of waste and actively promote initiatives aimed at saving energy and natural resources, in accordance with the technologies at our disposal and under a positive cost/benefit scenario

## OBJECTIVES AND RESULTS ACHIEVED

### Improvement objectives outlined in the 2004 Social Report

### Actions and results achieved in 2005

Environmental certification ISO 14001	The Environmental Management System was implemented in June 2005 and certified according to UNI EN ISO 14001:2004 in November
Continued pursuit of improvement in energy efficiency, particularly with respect to:	Solutions providing the greatest energy efficiency were adopted during restructuring works and for new premises; to this end, the most significant interventions involved a total area of about 27,000 m2.
<ul style="list-style-type: none"> <li>● participation in the GreenLight Program</li> </ul>	Works to improve the efficiency of lighting systems were carried out in an additional 70 operating points and the procedure to include these in the official GreenLight list was initiated.
<ul style="list-style-type: none"> <li>● introduction of LCD monitors for each new branch</li> </ul>	New branches and those subject to restructuring were provided with LCD monitors during the year. New equipment was also provided to several buildings under head office. This measure, which affected 5,000 workstations, allows for a reduction in consumption of electrical energy, also as a result of lower requirements for air conditioning.
<ul style="list-style-type: none"> <li>● monitoring of fuel consumption in large office buildings</li> </ul>	For larger buildings, a good level of energy efficiency of the plants was observed, via monitoring of fuel consumption in relation to real climatic trends (“degree-days”) for the site during the 2004-2005 winter season.

*In 2002, Sanpaolo IMI joined the UNEP Statement of financial institutions for the environment and for sustainable development, thereby confirming its commitment to adopt sustainable practices that respect the environment, across all levels of operations*

## Sanpaolo IMI 's commitment to the environment

The environmental issue is of interest to our Group as regards both direct and indirect aspects. Significant direct environmental aspects, which are those upon which the Group exercises direct influence and control, include the consumption of energy and paper, while the production of waste from the use of consumer goods, emissions into the atmosphere and the consumption of water have a lower environmental impact. Indirect environmental aspects are those linked to the activities of third party organizations with which the Group does business (such as customers). In fact, through our activities and through the products and services we offer, we can impact the behavior of our interlocutors with respect to the environment. In 2002, Sanpaolo IMI joined the UNEP Statement of financial institutions for the environment and for sustainable development (  33), thereby confirming its commitment to adopt sustainable practices that respect the environment, across all levels of operations. The commitments made were implemented through a series of projects and initiatives.

## UNEP STATEMENT

### 1. Commitment to sustainable development

“We regard sustainable development as a fundamental aspect of sound business management”.

### 2. Environmental Management and Financial Institutions

“We will endeavor to pursue the best practice in environmental management”.

“We will work towards integrating environmental considerations into our operations, asset management, and other business decisions, in all markets”.

“We encourage the financial services sector to develop products and services which will promote environmental protection”.

### 3. Public awareness and communication

“We recommend that financial institutions develop and publish a statement of their environmental policy and periodically report on the steps they have taken to promote integration of environmental considerations into their operations”.

“ We will foster openness and dialogue relating to environmental matters with relevant audiences”.

## SANPAOLO IMI'S COMMITMENT

The commitment to sustainable development is included in our mission and is part of Sanpaolo IMI's value system. This commitment is summarized in our environmental policy (  29), also available on the Group's website.

- An Environmental Management System with ISO 14001 certification has been implemented.
- In terms of direct environmental aspects, the Group policy aims to monitor and, where possible, reduce the consumption of energy, progressively increase the supply of renewable energy sources, reduce emissions of gases into the atmosphere and implement proper management of the waste produced by the operating units throughout the country.
- The Ethical Funds apply environmental criteria in the selection of investments.
- Attention to environmental issues by corporate customers is one of the elements taken into consideration during the loan assessment phase, especially for medium to long-term loans.
- We apply the Equator Principles, which are social and environmental guidelines for project financing.
- Financing of works to protect and develop the territory and financial advisory services in the environmental services sector (Banca OPI). Analysis and development of projects in the environmental field (FIN.OPI).
- The Social Report publishes the policies, procedures and measures adopted by the Group to promote the integration of environmental requirements within its activities.
- The Group's knowledge is made available through its daily relations with customers, as well as through the Group website and its Intranet portal.
- The Group participates in multi-stakeholder projects on environmental issues (UNEP and the Carbon Disclosure Project) and implements constructive action as part of ABIENERGIA, with an impact on the entire national banking sector.
- All individuals working in the Group have received a guide on more responsible use of energy resources in the workplace.



**PRINCIPAL ENVIRONMENTAL INDICATORS**

(Data refer to the Group at the national level, except for Banca Fideuram and branches abroad)

<b>Consumption</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Change 05/04</b>
Electricity* (millions of kWh)	260.0	261.2	262.5	+0.5%
Thermal energy* (millions of kWh)	166.3	160.5	140.6	-12.4%
from gas (millions of m <sup>3</sup> )	14.1	13.9	11.8	-15.1%
from oil and other liquid fuels (millions of liters)	3.10	2.72	2.67	-1.8%
Total energy* (millions of kWh)	426.3	421.7	403.2	-4.4%
Paper (kg)**	4,125,000	5,088,000	5,325,000	+4.7%
of which rolls for large printers	893,000	1,207,000	1,397,000	+15.7%
of which paper for photocopies, letters	2,791,000	3,400,000	3,369,000	-0.9%
of which other paper	441,000	481,000	559,000	+16.2%
<b>Waste and emissions</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Change 05/04</b>
Waste (Kg)***	5,382,000	5,139,000	5,120,000	-0.4%
paper and cardboard	4,186,000	3,512,000	3,630,000	+3.4%
packaging	757,000	874,000	1,026,000	+17.4%
cartridges, tapes and film	67,000	104,000	99,000	-4.8%
hazardous waste	43,000	104,000	76,000	-26.9%
office machinery	211,000	246,000	195,000	-20.7%
other waste	118,000	299,000	94,000	-68.6%
Waste recycling (%)***				
recycling of paper and cardboard	n.a.	99	99	
recycling of packaging	60	60	60	
recycling of cartridges, tapes and film	35	40	50	
recycling of hazardous waste	0	0	90	
recycling of office machinery	30	15	60	
recycling of other waste	0	0	0	
Emissions (millions of Kg of CO <sub>2</sub> )	136.0	104.3	90.9	-12.8%
from electricity	96.0	66.8	57.7	-13.6%
from gas and oil	390.0	37.5	33.2	-11.5%

\*for some Companies of the Group, the value is estimated based on the expense sustained.

\*\* some Companies of the Group are not included.

\*\*\* public services of waste withdrawal are not included.

## ENVIRONMENTAL PERFORMANCE INDICATORS\*

Consumption, waste and emissions	2003	2004	2005	Change 05/04
Electricity by workstation (kWh/workstations)	6,636.2	6,589.0	6,547.0	-0.6%
Electricity by surface area (kWh/m <sup>2</sup> )	141.7	140.0	134.2	-4.1%
Thermal energy by surface area (kWh/m <sup>2</sup> )	90.6	86.0	71.9	-16.4%
Total energy by surface area (kWh/m <sup>2</sup> )	232.3	225.5	206.1	-8.6%
Water (m <sup>3</sup> /year per employee)**	25.0	23.1	24.5	+6.1%
Paper per employee (kg/actual workforce)***	108	127	141	+11.0%
Number of sheets consumed per day per employee	68	79	85	+7.6%
Waste produced per employee (kg/actual workforce)****	145	139	136	-2.0%
Emissions per surface area (kg of CO <sub>2</sub> per m <sup>2</sup> )	74.0	56.0	46.5	-16.8%
from electricity	53.0	36.0	29.5	-18%
from gas and oil	21.0	20.0	17.0	-15.0%
Emissions per workstation (kg of CO <sub>2</sub> /workstations)	5,230.3	2,632.0	2,267.0	-13.9%

\*The following parameters were used for the calculation:

- net surface area: 1,957,998 m<sup>2</sup> (+ 4.8% compared to 2004)

- workstations (considering the presence of other external operators/companies working in the area under examination): 40,102 (+1.2% compared to 2004)

- actual number of staff (net of staff absent over the long-term): 38,369 employees (+ 1% compared to 2004).

\*\*estimated consumption.

\*\*\* some Companies of the Group are not included.

\*\*\*\* public services of waste withdrawal are not included.

### Energy consumption

Energy consumption refers mainly to:

- fuel used for heating and re-circulating air during the winter;
- electricity, used to power the office machinery and data processing centers, air conditioning and chilling systems and, where the winter climate is mild, heat pump-based heating systems, as an alternative to traditional fuel-based systems.

This environmental aspect is handled by the Energy Manager. The policies and procedures of the Group as regards energy management comprise the following:

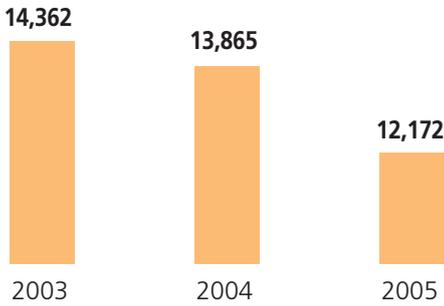
- the progressive application of standardized equipment throughout the entire country and the installation of high efficiency office machinery;
- the absence of hazardous products and, where possible, replacement of products harmful to the environment with products having a lower environmental impact;



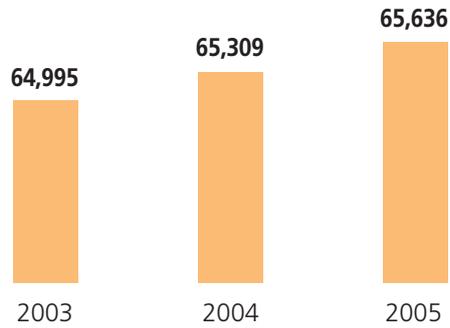
Alberto Cappetini

- maintenance of all equipment in order to ensure maximum energy efficiency;
- the progressive increase in supply from renewable sources of energy;
- increasingly effective monitoring of energy consumption also as a result of progressive improvement in the specific IT procedures.

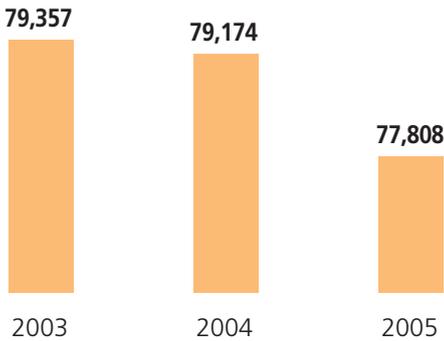
**CONSUMPTION OF THERMAL ENERGY**  
(toe)



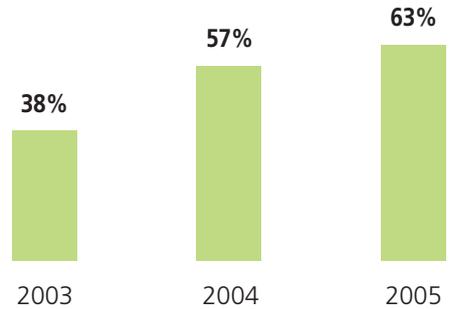
**ELECTRICITY CONSUMPTION**  
(toe)



**TOTAL ENERGY CONSUMPTION**  
(toe)



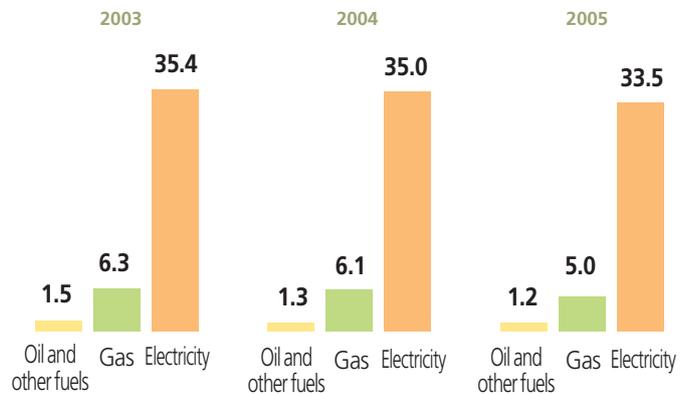
**HYDROELECTRIC ENERGY**  
(% of total electricity consumption)



The following trends were recorded in 2005:

- consumption of electricity remained essentially stable (+0.5% compared to 2004), despite the increase in consumption by data processing centers (linked to further expansion of the processing capacity to accommodate the greater need for services) and the increase in total area of the Group (+4.8%), due to expansion of the banking network as well as other Companies of the Group. In light of this increase and the slight rise in number of staff, unit consumption of electricity recorded a decrease (-4.1% with respect to electricity by surface area, - 0.6% for electricity per workstation).
- total thermal energy consumption showed a considerable decrease (-12.4%), due to real estate disposals and to the replacement of heating systems (from boiler to heat pump) in Central and Southern Italy.

**ENERGY CONSUMPTION BY SURFACE AREA**  
(toe\*10<sup>-3</sup>/m<sup>2</sup>)



**Comparative data**

A recent study by the Turin Polytechnic indicates the following parameters of average energy consumption in offices for the climactic zone of Northern Italy:

- Gas = 8-9 toe\*10<sup>-3</sup>/net m<sup>2</sup> of area
- Electricity = 42.5-45 toe\*10<sup>-3</sup>/net m<sup>2</sup> of area

In pursuing objectives for the reduction of consumption, the collaboration of each person working for the Group is of fundamental importance. To this end, at the end of 2005, all personnel received a practical guide containing a series of tips on how to use work equipment and systems in a more environmentally-aware manner. The brochure, called "Salva l'ambiente con un click" (Click to save the environment), was prepared by ABIENERGIA, sponsored by the Ministry for the Environment and the Italian Federation for Rational Use of Energy, and in collaboration with the Energy Managers of several associated banks, including Sanpaolo IMI. The Group has also participated proactively in ABIENERGIA for the realization of other initiatives, such as the stipulation of agreements for the purchase of electricity on the free market (mainly hydroelectric energy) and participation in conferences and training courses for Energy Managers in the banking sector.

*The Group has reduced energy consumption and increased further the use of hydroelectric energy, that reached 63% of total electricity in 2005*

**Atmospheric emissions**

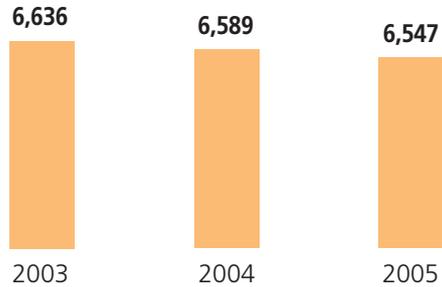
The use of energy for the management of operations in Group premises leads to emissions of carbon dioxide, the gas considered to be the main culprit of global warming.

Atmospheric emissions have been reduced as a result of the following actions:

- use of hydroelectric energy, which does not generate greenhouse gases;
- prevalent use of natural gas, which generates lower atmospheric emissions than other fuels;
- use of systems to recover the heat produced by electronic processors in the data processing centers;
- where allowed by the climactic conditions, use of heat pumps in the branches.

CO<sub>2</sub> emissions generated by plants in buildings of the Group (combustion for the operation of heating systems) and emissions from the use of electricity produced by thermoelectric plants are quantified. Atmospheric emissions showed a reduction, mainly attributable to the increased use of hydroelectric energy and to the reduction in energy consumption, especially in certain buildings.

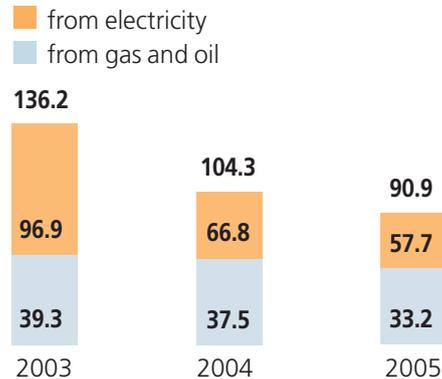
**ELECTRICITY BY WORKSTATION**  
(kWh/workstation)



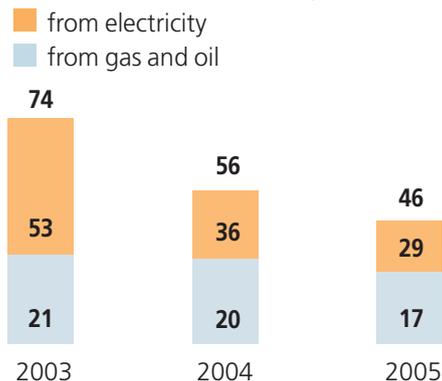
**Comparative data**

*ABIENERGIA determined (using the latest data provided by the GRTN – Operator of the National Transmission Grid – for 2003) that consumption in the credit sector, compared to the number of employees in the sector, amounts to an estimated average annual consumption of 6,800 kWh per employee in the large, national banking groups. Analysis of the same source for 2004 shows average annual consumption of 6,600 kWh per employee.*

**EMISSIONS** (millions of Kg of CO<sub>2</sub>)



**EMISSIONS PER SURFACE** (millions of Kg of CO<sub>2</sub> per m<sup>2</sup>)



### The GreenLight Program

Improvement in lighting systems can contribute significantly to energy savings and to the consequent reduction in greenhouse gases, in addition to optimization of the quality of artificial lighting to the benefit of employees.

In 2003, Sanpaolo IMI joined the GreenLight Program, which is based on voluntary agreements stipulated by large-scale users of lighting in the services, public administration and industrial sectors with the European Commission, undertaking to improve the lighting technologies and management methods in their premises. Sanpaolo IMI received the “GreenLight Award 2005” for the measures carried out up to 2004. In 2005, this commitment continued with intervention in another 70 branches, in addition to the 115 of 2004.

Moreover, the use of electronic equipment, which reduces the energy used for lighting by about 20%, was tested in one of the Turin head offices, with a consequent 2% reduction in total energy used in the building, corresponding to an annual decrease of about 50 tons of CO<sub>2</sub> emissions.

### Mobility management

Better mobility management can contribute to reducing the congestion levels of urban traffic and air pollution, with subsequent advantages at the environmental, social and economic levels. In this context, both companies as well as individual workers play an important role.

For this reason, the Mobility Manager of Sanpaolo IMI, with an approach based on information, participation, coordination and organization of workflow, aims to encourage individuals and organizations to adopt an efficient and integrated use of all tools at their disposal (means of transport, technologies, organizational models), focusing on the choice of environmentally and socially sustainable methods.

Actions undertaken in 2005 regarded the launch of an internal communication campaign and preparatory activities for realization of the first Home-Work Travel Plan. Together with the development of internal communication processes, activities were extended to the 7 main Italian urban centers (based on number of employees), where, during the initial months of 2006, the respective mobility managers have been identified for coordination of the relative projects, according to a logic which, on the one hand, aims for affirmation and sharing of the Group's reference values and, on the other, focuses on the adoption of concrete solutions that respect the territories' individual characteristics.

## Indirect environmental aspects

### Supporting renewable energy

The Group aims to support development in the renewable energy sector, with initiatives in the various fields of activity.

Through FIN.OPI, company of the Group which acts as direct venture capital investor in the public sector, investment opportunities in the field of renewable energy, both in terms of the traditional wind power sector as well as the less mature sectors of mini-hydroelectric and biogas/biomass plants, are constantly monitored. In particular, FIN.OPI proposes to take on the role of financial partner to industrial operators in



*Daniele Volpicelli*

projects for the production of energy from renewable sources. FIN.OPI also participates in the directive committee of BEI/FEMIP (European Investment Bank/Mediterranean Program for Renewable Energy) for the development of financial initiatives to support the implementation of renewable energy in the Mediterranean area.

In addition, Sanpaolo IMI, through Banca OPI, company of the Group specialized in financing for the public works and infrastructure sector, is co-sponsor and main investor in FIDEME, the first European fund specialized in loans for renewable energy. FIDEME had disbursed total loans of 30 million euro as of the end of 2005, enabling the development of 20 projects, mostly promoted by small and medium-sized companies, for a total investment value of 255 million euro. It is estimated that the development of said projects, with respect to wind power plants and other technologies for renewable energy, will allow to avoid about 190,000 tons of CO<sub>2</sub> emissions each year.

In terms of financing, the Group created an ad hoc loan in 2006 for photovoltaic technology, which enables the direct transformation of sunlight – the main form of renewable energy – into electricity.

### Evaluation of environmental risk in granting loans

Attention to environmental issues by companies is one of the elements taken into consideration during the loan assessment phase and in the structuring of project financing transactions for infrastructural works. These considerations provide the Bank with an opportunity to positively impact the behavior of said companies with respect to the environment and to minimize environmental risk in the credit portfolio of the Bank itself.

Environmental risk may impact banking activities through two principal channels. On the one hand, it can have a direct impact on the repayment ability of the counterparts (for example, insufficient attention to the eco-compatibility of products and production processes by a company could represent a source of risk of default and economic loss that may have to be sustained by the Bank). On the other hand, inadequate attention to environmental values in loan granting processes and in the evaluation of counterparts, including small ones, may have a negative impact on a bank's reputation, which can reduce the value of banking activities. In fact,

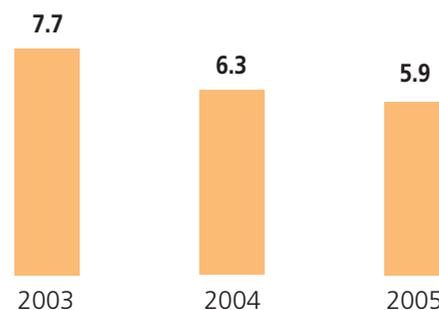
### SOCIAL AND ENVIRONMENTAL GUIDELINES FOR PROJECT FINANCING

At the beginning of 2006, the Group adopted the Equator Principles, a set of voluntary international guidelines for project financing activities, developed by a group of international banks on the basis of criteria by the IFC (International Finance Corporation), a subsidiary of the World Bank. The objective of the Equator Principles is to identify and manage social and environmental risk profiles in order to ensure that projects financed, particularly for large-scale works with a high environmental impact, such as gas pipelines, dams or energy stations, are carried out respecting the values of social responsibility and best practices, as regards, for example, the protection of human health and security, aspects relative to construction work, protection of cultural heritage and biodiversity and the socio-economic impacts on local communities.

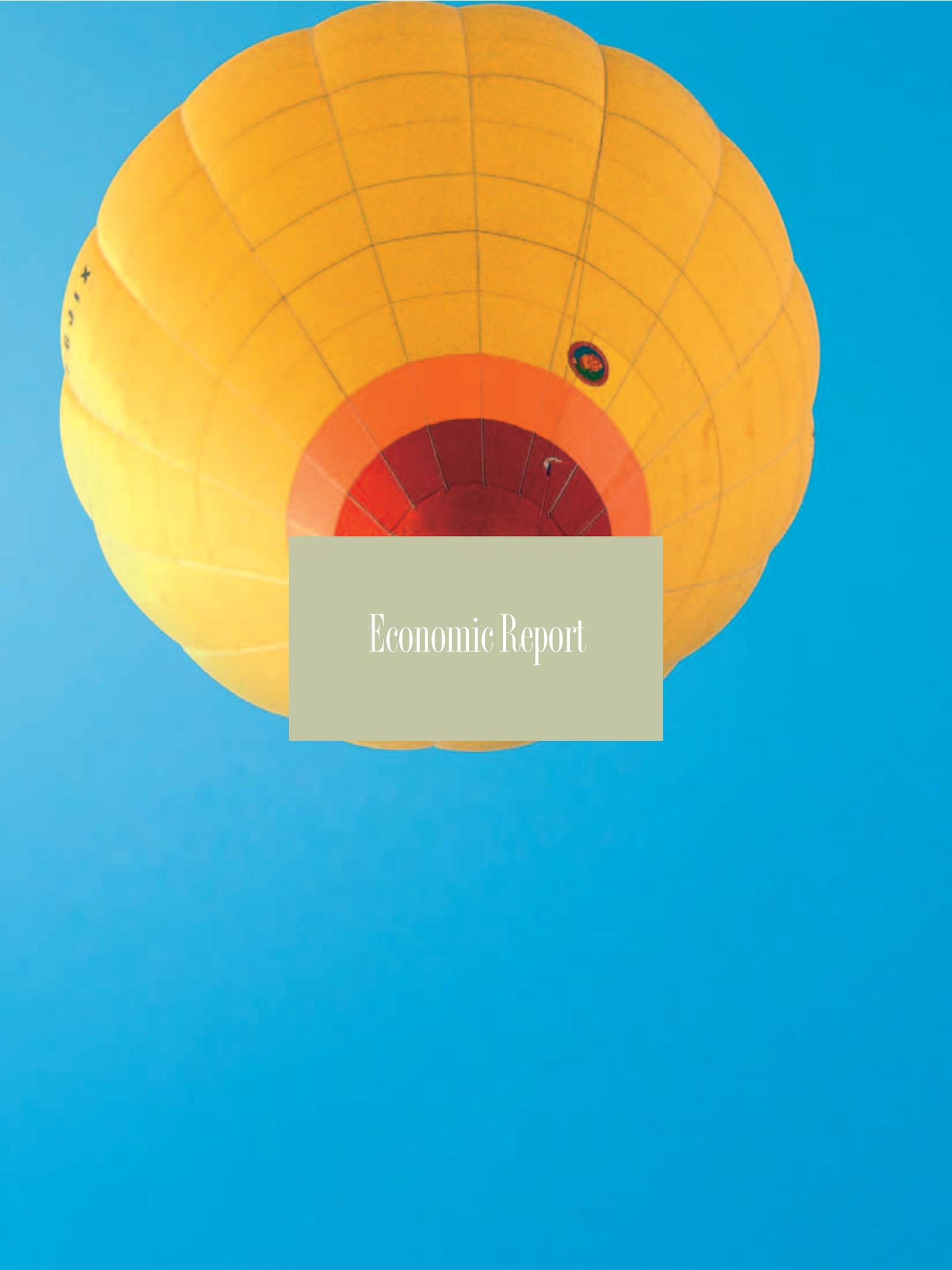
## *Sanpaolo IMI joined the Equator Principles for the management of social and environmental risks in project financing*

lack of attention to environmental considerations in lending may damage a bank's relationship of trust with customers, investors and the market. Since 2003, the amount of environmental risk of the loan portfolio of Sanpaolo IMI has been measured via an indicator representing the percentage of loans issued to companies operating in productive sectors with high environmental impact and danger (calculated on the basis of figures on productive activities provided by the European Bank for Reconstruction and Development in its manual for the management of environmental risk).

### LOANS TO SECTORS WITH HIGH ENVIRONMENTAL RISK (% of total loan portfolio of the Commercial Banks)



Banca OPI, Group company specialized in financing for public works and infrastructures, is particularly attentive to the environmental impact of any infrastructural project proposed. In fact, a positive evaluation of the environmental impact of the infrastructure, conducted on a case-by-case basis by external consultants, along with a comparison with the official evaluation by the relevant regional or national bodies, is a fundamental requirement for financing.



# Economic Report



## Economic-financial performance in 2005

Results for the Sanpaolo IMI Group for 2005\* show improvement of all main profitability, efficiency and asset quality indicators compared to 2004. The profitability ratio amounted to 17.2%, compared to 11.9% in 2004, while the cost-to-income ratio decreased to 57% from 63% in 2004. The ratio of net non-performing loans/net loans remained at excellent values (0.8%). This performance was made possible by positive growth of all revenue types, with progressive development during the second half of the year, and constant monitoring of costs.

Total operating income, which represents revenues, including those related to the insurance business,

increased by 10.6%, thanks to positive development of the main components. Net operating income, which benefited from the reduction in adjustments, grew 13.1% compared to 2004. The increase in pre-tax operating profit was equal to 53.4%, also as a result of measures to contain operating costs and to lower provisions for risks and charges.

Net profit for 2005, which benefited from the effects of the Italenergia Bis transaction for 136 million euro, was equal to 1,983 million euro, with an increase of 57.9% compared to the 2004 pro-forma figure of 1,256 million euro, resulting in a net profit per share of € 1.06.

### ECONOMIC AND FINANCIAL DATA AND INDICATORS

	2005	2004 <sup>(1)</sup>	Change 2005/2004
<b>RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME (€/mil)</b>			
Net interest income	3,795	3,683	+3.0%
Net commissions	3,476	3,254	+6.8%
Income from credit disposals, assets held to maturity and repurchase of financial liabilities	58	-13	n.s.
Dividends and income from other financial assets and liabilities	526	264	+99.2%
Profits (losses) on equity shareholdings	116	82	+41.5%
Income from insurance business	431	329	+31.0%
<b>Total operating income</b>	<b>8,402</b>	<b>7,599</b>	<b>+10.6%</b>
Net adjustments to loans	-489	-539	-9.3%
Net adjustments to other financial assets	-1	-62	-98.4%
<b>Net operating income</b>	<b>7,912</b>	<b>6,998</b>	<b>+13.1%</b>
Personnel costs	-2,839	-2,841	-0.1%
Other administrative costs	-1,514	-1,525	-0.7%
Net adjustments to tangible and intangible assets	-437	-450	-2.9%
Other net income (expenses)	74	41	+80.5%
Impairment of goodwill	-47	-58	-19.0%
Profit (loss) on disposal of investments	17	3	n.s.
Net provisions for risks and charges	-143	-197	-27.4%
<b>Pre-tax operating profit (loss)</b>	<b>3,023</b>	<b>1,971</b>	<b>+53.4%</b>
Income taxes for the period	-948	-743	+27.6%
Pre-tax profit (loss) on discontinued operations	-35	76	n.s.
Profit (loss) attributable to minority interests	-57	-48	+18.8%
<b>Net profit</b>	<b>1,983</b>	<b>1,256</b>	<b>+57.9%</b>
Net profit per share (€) <sup>(2)</sup>	1.06	0.68	+55.9%

\* The income results for 2005 were prepared in accordance with the international accounting principles (IAS/IFRS), and 2004 data have been reclassified on a pro-forma basis according to said principles in order to allow for more uniform comparison.

	2005	2004 <sup>(1)</sup>
<b>MAIN RATIOS (%)</b>		
ROE <sup>(3)</sup>	17.2	11.9
Cost/income <sup>(4)</sup>	57.0	63.4

<b>CONSOLIDATED BALANCE SHEET (€/mil)</b>	31/12/2005	31/12/2004	Change 31/12/05 - 31/12/04
Total assets	263,258	248,418	+6.0%
Loans to customers (excluding NPLs)	138,427	125,143	+10.6%
Shareholdings	819	839	-2.4%
Due to customers	92,306	86,380	+6.9%
Group shareholders' equity	13,483	12,035	+12.0%
Book value per share <sup>(5)</sup> (€)	7.22	6.48	+11.4%

<b>CUSTOMER FINANCIAL ASSETS (€/mil)</b>			
Total financial assets <sup>(6)</sup>	401,838	376,381	+6.8%
- of which direct deposits	165,230	158,760	+4.1%
- of which indirect deposits	262,232	238,793	+9.8%
- asset management	157,990	144,813	+9.1%
- asset administration	104,242	93,980	+10.9%

<b>LOAN RISK RATIOS (%)</b>		
Doubtful Loans/Loans to customers	2.4	2.8
Non-performing Loans/Loans to customers	0.8	0.9

<b>EQUITY SOLVENCY RATIOS (%)<sup>(7)</sup></b>		
Core Tier 1 ratio	6.6	6.7
Tier 1 ratio	7.2	7.4
Total risk ratio	9.2 <sup>(8)</sup>	11.3

<sup>(1)</sup> Pro-forma data reclassified on a homogeneous basis, including an estimate of the effects of IAS 32 and 39 and IFRS 4.

<sup>(2)</sup> Calculated based on IAS 33.

<sup>(3)</sup> Annualized net profit / Net shareholders' equity at the end of the period (excluding profit)

<sup>(4)</sup> Personnel costs, other administrative costs and amortization / Total operating income.

<sup>(5)</sup> Shareholders' equity / Number of shares issued

<sup>(6)</sup> Including omissions between direct deposits and asset management

<sup>(7)</sup> Solvency ratios at 31/12/2005 were calculated on the basis of general principles issued by the Regulatory Body, in line with the guidelines issued by the Basel Committee and by the CESB (Committee of European Banking Supervisors). For comparative purposes, values at 31/12/2004 have been calculated on a pro-forma basis and are IAS compliant.

<sup>(8)</sup> A program is underway to place subordinate loans in order to bring the total risk ratio above 10%; a first tranche has already been placed for 750 million euro, bringing the ratios to 9.7%.

## Calculation and allocation of added value

### Methodology

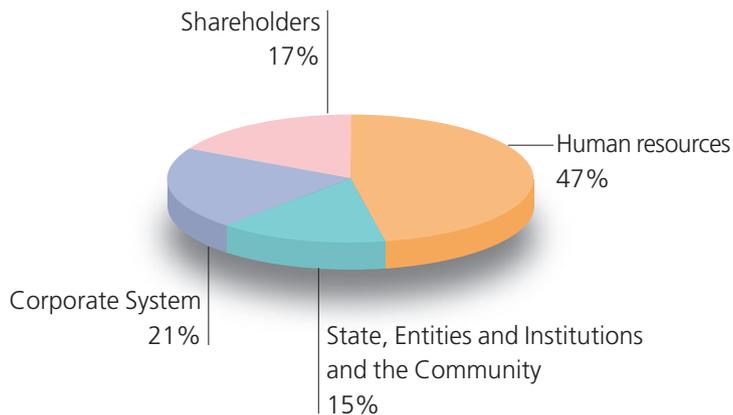
The added value of a company is defined as the wealth produced during the period, calculated as the difference between production and consumption of goods and services, and represents the accounting reconciliation between the financial statements and the social report. In fact, it is calculated according to a different classification of items in the statement of income, aimed at highlighting the creation process of the company's added value as well as its distribution, expressing, in monetary terms, the relationship between the company and the socio-economic system with which it interacts, with particular reference to the major stakeholders:

- human resources, in terms of salaries, social security charges, employee termination indemnity, pensions and similar commitments and remuneration for the network of financial planners;
- the State, Entities and Institutions and the Community, in the form of taxes (direct and indirect) and charity;
- the Corporate System as an investment that other categories of stakeholders make each year in order to maintain efficiency and allow growth of the company. In particular, for banks, the obligation of maintaining adequate capital levels for the protection of account holders (defined by the specific minimum regulatory capital requirements enforced by Regulatory Bodies) must also be taken into consideration;
- shareholders, in the form of dividends.

From the various configurations of Added Value under the methodological profile (according to the aggregation level of the income components), the Global Added Value has been adopted as the reference value, used in the ABI (Italian Bankers' Association) model for preparation of the Social Report in the credit sector, as it takes into account the specific features of the banking sector, integrated with the modifications following introduction of the IAS.

### Allocation of the Added Value

The total gross Added Value produced by the Group increased by approximately 948 million euro compared to the previous period (from 5,802 million euro to 6,750 million euro). This increase is a result of the growth in gross added value from ordinary operations due to an increase in net production which, in turn, led to a greater contribution by all items of which it is composed. All the various categories of stakeholders benefited from the growth in added value.



## CALCULATION OF THE TOTAL ADDED VALUE

	2005 (€/mil)	2004* (€/mil)
<b>NET PRODUCTION</b>		
Net interest income	3,795	3,683
Net commissions <sup>(1)</sup>	3,857	3,606
Dividends and income from financial assets and liabilities	526	264
Profit (loss) on equity shareholdings	116	82
Income from insurance business	431	329
Other net income and Income from credit disposals and financial assets held	132	28
<b>TOTAL NET PRODUCTION</b>	<b>8,857</b>	<b>7,992</b>
<b>CONSUMPTION</b>		
Other administrative costs <sup>(1)</sup>	-1,456	-1,471
Net adjustments to loans and provisions	-489	-539
Provisions for risks and charges	-143	-197
Net adjustments to financial assets	-1	-62
<b>TOTAL CONSUMPTION</b>	<b>-2,089</b>	<b>-2,269</b>
<b>GROSS ADDED VALUE FROM ORDINARY OPERATIONS</b>		
	<b>6,768</b>	<b>5,723</b>
Profit (loss) from discontinued operations and profit (loss) on disposal of investments	-18	79
<b>TOTAL GROSS ADDED VALUE</b>	<b>6,750</b>	<b>5,802</b>
Adjustments to tangible and intangible fixed assets	-437	-450
Impairment of goodwill	-47	-58
<b>TOTAL NET ADDED VALUE</b>	<b>6,266</b>	<b>5,294</b>
Cost of labor	-3,220	-3,193
- <i>personnel costs</i>	-2,839	-2,841
- <i>costs for the network of private bankers</i> <sup>(2)</sup>	-381	-352
Donations to entities and institutions and gifts <sup>(2)</sup>	-2	-3
Indirect duties and taxes <sup>(2)</sup>	-56	-51
<b>PRE-TAX OPERATING PROFIT</b>	<b>2,988</b>	<b>2,047</b>
Income taxes for the period	-948	-743
Income attributable to minority interests	-57	-48
<b>NET PROFIT</b>	<b>1,983</b>	<b>1,256</b>

<sup>(1)</sup> The figure differs from that of the Reclassified Statement of Income due to specific recording under a separate item of the amounts indicated by note (2).

<sup>(2)</sup> Data disclosed in a separate item in the calculation of added value.

\* Pro-forma data including the estimate of the effects of IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

## ALLOCATION OF THE TOTAL GROSS ADDED VALUE

	2005 (€/mil)	2004* (€/mil)
<b>TOTAL GROSS ADDED VALUE</b>	<b>6,750</b>	<b>5,802</b>
<b>Allocated to:</b>		
<b>SHAREHOLDERS**</b>	<b>1,124</b>	<b>919</b>
Dividends to Sanpaolo IMI S.p.A. shareholders	1,067	876
Minority dividends	57	43
<b>HUMAN RESOURCES</b>	<b>3,220</b>	<b>3,193</b>
Cost of labor	3,220	3,193
- <i>personnel costs</i>	2,839	2,841
- <i>costs for the network of private bankers</i>	381	352
<b>STATE, ENTITIES/INSTITUTIONS &amp; THE COMMUNITY</b>	<b>1,006</b>	<b>797</b>
Indirect duties and taxes	56	51
Income taxes for the period	948	743
Donations to entities and institutions and gifts	2	3
<b>CORPORATE SYSTEM</b>	<b>1,400</b>	<b>893</b>
Adjustments to tangible and intangible assets	437	450
Impairment of goodwill, adjustments to merger and consolidation differences	47	58
Reserves and profits not distributed to Shareholders	916	385
<b>TOTAL GROSS ADDED VALUE</b>	<b>6,750</b>	<b>5,802</b>

\* Pro-forma data, including the estimate of the effects of IAS 32 and 39 (financial instruments) and IFRS 4 (insurance contracts).

\*\* Based on the available information regarding the shareholder structure and a dividend of 0.57 euro per share for 2005 profits, the added value allocated to shareholders includes – as an exception to ABI principles – dividends distributed by Sanpaolo IMI (339 million euro for 2004 profits and 377 million euro for 2005 profits) to Compagnia di San Paolo, Fondazione CR Padova e Rovigo, Fondazione CR in Bologna, Fondazione Cariplo, Ente CR Firenze, Fondazione CR Venezia, Fondazione CR Udine e Pordenone, Fondazione Monte dei Paschi di Siena, Fondazione CR Gorizia, Fondazione CR Carpi and Fondazione Cassa di Risparmio di Verona, the mission of which includes actions in the social, artistic and scientific fields for the benefit of the community.





*Improvement targets*





## CUSTOMERS

- Strengthening the relationship of trust with customers, starting from a careful analysis of their requirements and through a highly specialized service to provide a target response to the specific needs of the various customer segments.
- Maintaining a strong commitment with respect to transparency, also via the simplification of products and services and the development of new channels and methods for communication and information to and from customers.
- Stimulating the use of direct channels by customers, expanding the number of available functions and placing maximum attention on protecting security, in order to increase the ease of use of banking products and services.



## PEOPLE

- Investing in the skills and professional quality of people in order to encourage full achievement of individual potential and to attract, maintain and promote the most qualified resources, also by focusing on growth programs that take into consideration the various characteristics and requirements of people.
- Strengthening the corporate identity of the Group, with a particular focus on ethical awareness, simultaneously embracing all of the various cultures of the Companies that have been integrated as part of the recent rationalization processes implemented by the Group.
- Integrating the short-term and medium-term view into the incentives systems, through development of new remuneration systems to support the three-year plan, focusing on the achievement of quantitative and qualitative objectives.



## COMMUNITY

- Maintaining a close relationship and profitable interaction with the territory and with the local economies.
- Carrying on with initiatives aimed at favouring financial inclusion of weaker segments of population.



## SHAREHOLDERS

- Consolidating the Italian leadership position and the presence in the European top financial league, in accordance with the objectives outlined in the three-year plan.
- Maintaining a corporate governance model in line with the best international standards, with particular attention to guaranteeing the utmost transparency.
- Ensuring a strong commitment to transparency, timeliness, ease of access and completeness of communication toward the financial community.



## ENVIRONMENT

Striving for a reduction in the direct impact of activities on the environment, and of atmospheric emissions in particular, through:

- a progressive improvement in energy efficiency, while maintaining a suitable level of comfort for people and adhering to the qualified standards of current best practices;
- an increase, where possible, in the use of renewable sources of energy.

# Compliance statement by PricewaterhouseCoopers



PricewaterhouseCoopers SpA

## COMPLIANCE STATEMENT

To the Board of Directors  
Sanpaolo IMI SpA

- 1 We have carried out some testing and analysis of compliance of the 2005 Social Report of Sanpaolo IMI Group as of 31 December 2005 (hereinafter "Report") following the procedures summarized in paragraph 3 of the present document.
- 2 Our work has been conducted in accordance with the principles and guidelines established by the "International Standard on Assurance Engagements 3000" (ISAE3000) as presented by the International Auditing and Assurance Standards Board (IASB), applicable to this engagement. Our work has been performed with the aim of verifying, in accordance with *limited assurance engagement* principles, the Board of Directors' statement included in the paragraph "Introduction and methodology". This paragraph states that this Report has been drawn up referring to G3 Sustainability Reporting Guidelines (version for public comment) by GRI (Global Reporting Initiative) and considering the GBS (Gruppo di studio per il Bilancio Sociale) and ABI (Italian Banking Association) guidelines. The Board of Directors of Sanpaolo IMI Group is fully responsible for the contents of the Report completed in accordance with the above mentioned principles, our responsibility is attesting compliance to these principles.
- 3 In order to evaluate the Board of Directors' statement mentioned in paragraph 2, we performed the following verification procedures:
  - adherence and correspondence of economic and financial information to those reported in the Sanpaolo IMI Group consolidated Financial Statements as of 31 December 2005;
  - analysis of the methodology of obtaining data and management of quantitative and qualitative data, through:
    - Meetings with management representatives from Sanpaolo, Cassa di Risparmio di Padova e Rovigo, Sanpaolo IMI Asset Management and interviews with management representatives from Cassa di Risparmio di Bologna, Banca Popolare dell'Adriatico, Friulcassa e Cassa di Risparmio di Venezia in order to achieve a general understanding of procedures supporting the collection and the subsequent management of

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro I.v. C.F. n. P.IVA n. Reg. Imp. Milano 12979890155 Iscritta al n. 43 dell'Albo Consoci – Altri Uffici: Bari 70125 Viale della Repubblica 110 Tel. 0805429863 – Bologna 40122 Via delle Lame 111 Tel. 051526911 – Brescia 25124 Via Cefalonia 70 Tel. 0302219811 – Firenze 50129 Viale Milton 65 Tel. 0554627100 – Genova 16121 Piazza Dante 7 Tel. 010290411 – Napoli 80121 Piazza del Martiri 30 Tel. 0817644441 – Padova 35137 Largo Europa 16 Tel. 0498762677 – Palermo 90141 Via Marchese Ugo 60 Tel. 091349737 – Parma 43100 Viale Tanara 20/A Tel. 0521242848 – Roma 00154 Largo Fodhetti 29 Tel. 06570251 – Torino 10129 Corso Montevocchie 37 Tel. 011556771 – Trento 38100 Via Manzoni 16 Tel. 0461237004 – Trieste 34100 Viale Filzsent 90 Tel. 0422686911 – Trieste 34125 Via Cesare Battisti 18 Tel. 0403480781 – Udine 33100 Via Pascolle 43 Tel. 043225789 – Verona 37122 Corso Porta Nuova 125 Tel. 0458002581



- data transmitted to the department responsible for drawing up the Report;
- analysis, on a sample basis, of the documentation supporting the Report in order to confirm the reliability of data and information collected through meetings and interviews.
- analysis on the completeness and internal consistency of the qualitative information included in the Report. This activity has been performed following the guidelines stated above;
  - verification of the dialogue activities with employees, clients and a specific multistakeholders group, with reference to the methodology used and the analysis and correspondence of minutes of meetings with the information included in the report;
  - obtaining a representation letter signed by the legal representative of Sanpaolo IMI SpA relating to the completeness and reliability of the Report and of the information and data included in it.
4. Regarding the comparative data relating to the 2004 Social Report reference should be made to our agreed upon procedures report dated 8 April 2005.
  5. Based on the procedures we carried out, nothing has come to our attention that causes us to believe that the 2005 Social Report of Sanpaolo IMI Group as of 31 December 2005 is not in compliance with the principles and guidelines stated in the paragraphs "Introduction and methodology". The economic and financial data included in the Report correspond to those reported in the Sanpaolo IMI Group consolidated financial statements and the other data and information are consistent with the internal documentation provided.

Turin, 8 April 2006

PricewaterhouseCoopers SpA

Sergio Duca  
(Partner)

This report has been translated from the original, which was issued in Italian. We have not performed any control on the 2005 Social Report translation.

A photograph of a field of tall, thin grasses with scattered red poppies under a clear blue sky. The grasses are mostly brown and dry, with some green at the base. The poppies are bright red and are scattered throughout the field. The sky is a solid, clear blue. A semi-transparent green rectangular box is overlaid in the center of the image, containing the word "Attachments" in white serif font.

# Attachments



# External opinions

## Assessment of corporate governance

### STANDARD&POOR'S

Corporate Governance Score (CGS)	7/10
Ownership structure and external influence	7+
Shareholder rights and stakeholder relations	6
Transparency, disclosure and audit	8
Board structure and effectiveness	7

December 2005

Standard & Poor's confirms its Corporate Governance Score ("CGS") of CGS-7 assigned to San Paolo IMI

This score generally reflects strong corporate governance practices on an international basis of comparison. During 2005, the financial group further implemented and strengthened some of the positive changes that were previously initiated, such as the simplification of its management structure, and a reconfiguration of the board of directors.

The subcomponent of transparency, disclosure and audit was raised from 7 to 8, incorporating some additional improvements in reporting. Further material advances in the overall score, though, may prove to be challenging, reflecting primarily the existence of shareholder pacts, giving the 30% consortium that are part of these significant influence over the selection of the board and management, and thereby limiting the ability of the non-controlling majority (the remaining 70%) to appoint their own board candidates and ultimately influence the organization's strategic direction and risk profile.

Furthermore, while we have noted that the board's overall effectiveness is on the rise, during our interviews, several directors pointed out that more time should be spent on the broader strategic issues, a point that was also corroborated by our review of the board's discussions as reported in the board minutes.

## Social rating

For the second year, Sanpaolo IMI requested a social rating from the specialized company Avanzi SRI Research. The result of the assessment, reported below, highlights a significant improvement of the various components and of the total score (7.29 in 2006 compared to 6.59 in 2005).

### AVANZI SRI RESEARCH

Final score	7.29 (min. 0 – max 10)
Transparency	6.67
Principles	8.00
Stakeholder governance	7.11
Relations with stakeholders	7.33

March 2006

### Opinion

The 2005 assessment of Sanpaolo shows an improvement over the 2004 figure and reflects a good level of social responsibility, according to the Avanzi SRI Research assessment model.

Improvement was observed in all areas assessed. The highest increase was recorded in the assessment of principles, while transparency increased only slightly compared to the previous year. The improvement in stakeholder governance is also good, while that related to relations with stakeholders is not as pronounced.

In general, Sanpaolo Imi is a bank that is attentive to its relationship with stakeholders.

This behavior stems from a deep-rooted system of values that forms the basis for the new business plan, which, in addition to a strong focus on the territory, highlighted by the direct relationship of the areas with the company's top management, clearly expresses a commitment to the creation of value extended to all stakeholders and, in particular, to customers, employees, the community and the environment, in addition to shareholders.

The stakeholder governance system is positive and improving. The structure, whose main components include the Board of Directors, the Ethical Committee, as part of said Board, and the Social Responsibility Unit, which monitors and coordinates social, ethical and environmental issues within the Group, has demonstrated the capacity to adequately manage these aspects. The improvement, however, is still limited by a poor vision regarding sustainability issues. In particular, during the 2005 analysis, the same doubts identified the previous year with respect to the effective role of the Ethical Committee as strategic body emerged once again, while its supervisory role in terms of environmental and social aspects of bank activities has been clarified.

Relations with the principal stakeholders are good, with no critical items to report. As per the previous year, there is a lack of attention to social and environmental responsibility issues with the loan granting system and to criticism by several consumer associations regarding the bank's decision to manage certain problems internally.

## Brand equity: a study conducted by GfK Eurisko

Sanpaolo IMI regularly carries out assessments of its brand equity index – which, according to GfK Eurisko methodology, comprises visibility, corporate image and the propensity of people to become customers of a company – by participating in sector research carried out by specialized independent institutes, as well as by commissioning targeted studies.

The value of the brand, or brand equity, is increasingly important for a company, both in commercial terms as well as at the more general level of reputation.

In a context where brand equity of the Italian banking-financial sector declined over the last decade, Sanpaolo IMI has had a leading position for some time now, against the current trends in the system. In particular, during the second half of 2005, the Sanpaolo IMI brand was market leader in terms of corporate profile and reliability and, in December 2005, total spontaneous brand recognition amounted to 39%, significantly ahead of the main competitors.

These data are undoubtedly also due to the success of the advertising campaign launched in May 2005, which continued in subsequent phases after the summer, during the year-end holidays and during the Turin 2006 Winter Olympics and Para-Olympic Games, for which Sanpaolo IMI was Principal Sponsor and Official Bank.

# Table of indicators and contents

The table highlights the information and indicators included in the Social Report, selected from those required by the GRI, ABI and GBS guidelines, so that these contents can be rapidly and easily located within the document.

Guidelines			Indicator	Page
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# Glossary

**ABI:** Associazione Bancaria Italiana (Italian Bankers' Association).

**ADS (American Depositary Share):** shares in a non-US company deposited with a trustee negotiable on US capital markets. This allows US investors to purchase shares in foreign companies.

**Banking Ombudsman:** board founded in 1993 and promoted by the Italian Bankers' Association to settle disputes between banks and customers for values not exceeding 50,000 euro and for which no solution could be found through the bank's complaint department.

**Benchmark:** objective reference parameter for financial investments expressed by well known indices (MIB30, Dow Jones, etc.) or by other indices considered representative of the investment's risk/performance profile.

**CONFIDI (ConSORZI di Garanzia Collettiva Fidi):** Loan Collective Guarantee Consortia.

**CONSOB (Commissione nazionale per le Società e la Borsa):** Italian commission for Companies and the Stock Exchange.

**Corporate governance:** the set of criteria and processes used to govern a company.

**Corporate Social Responsibility** The European Commission Green Paper "Promoting a European framework for Corporate Social Responsibility" defines corporate social responsibility as follows "the companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. [...] Being socially responsible – the Green Paper goes on to say - means not only fulfilling legal expectations, but also going beyond compliance, and investing in human capital, the environment and in the relations with stakeholders".

**Creditworthiness:** the ability of a company to repay debt assessed on the basis of the company's economic and financial position.

**Disclosure:** the revelation of a fact or a circumstance in financial statements or other financial reports. The same term is used to indicate banking confidentiality under the circumstances established by law.

**Ethical fund:** an investment fund that invests in accordance with SRI criteria.

**Internal dealing:** transactions carried out on behalf of significant persons within the company who by virtue of the office they hold have access to information about facts capable of causing significant variations in the economic, financial and equity prospects of the company and able, if made public, to significantly influence the price of its listed financial instruments.

**Insider trading:** dealing in securities of a company by persons who, as a result of their position within the company or their professional activities, have become aware of confidential information not available in the public domain that, because of its nature, allows the persons utilizing it to make a choice based on asymmetric information, giving them an advantage over other investors in the same market.

**Intangible assets:** the set of intangible features of a company capable of generating economic value, in particular intellectual capital and the company's reputation.

**Internet banking:** banking service for customers accessed by means of an internet connection.

**Investment banking:** intermediation in the purchase and sale of financial instruments and, either jointly or separately, portfolio management.

**Investor targeting:** analysis of the characteristics of the investors in the market.

**ISO (International Organization for Standardization):** world federation of organizations setting national technical standards. The main reference standards issued include ISO 14001 (in relation to environmental management systems) and ISO 9000 (in relation to quality systems).

**Law 30/2003:** Empowers the government in matters relating to employment and the labor market.

**Law 185/90:** Italian law controlling the export, import and transit of armaments.

**Leasing:** a contract where one party grants to another party, on payment of a rental fee, the use of a good, with the option to purchase it at the end of the contract.

**Legislative Decree 151/2001:** Italian legislation concerning protection and support of maternity and paternity.

**Legislative Decree 626/1994:** Italian legislation concerning the improvement of the health and safety of workers in the workplace.

**MIB banking index:** stock exchange index grouping the banks listed on the Milan Stock Exchange.

**Microcredit:** loans for small amounts with preferential terms to persons that are usually excluded from the banking circuits, aimed at job creation and entrepreneurship.

**Multi-channeling:** offer of retail banking products and services through both traditional channels (branches) and virtual channels (POS terminals, ATMs, telephones, personal computers and microcircuit cards).

**Pay out ratio:** percentage of income distributed to the shareholders by means of dividends.

**SME:** small and medium enterprises.

**Out-of-court dispute:** dispute without legal action.

**Price sensitive (information):** information capable of influencing the price of a security.

**Private equity:** investments in the venture capital of unlisted company.

**Project financing:** financing method in which the lender mainly examines the profitability of one single project both as a source of repayment and as a guarantee against the exposure. This type of loan is generally for large, complex and expensive infrastructure projects, for example in the energy, chemical, mining, transport, environmental and telecommunication sectors.

**Rating:** assessment of the creditworthiness of a counterparty or possible counterparty performed by quantifying their probability of default.

**Remote banking:** banking service for business customers accessed by means of an internet connection.

**Retail banking:** retail market mainly including private customers, small companies and households.

**Roadshow:** series of meetings with institutional investors held in international financial markets.

**ROE (Return on Equity):** a profitability indicator. It is the result of net income divided by shareholders' equity.

**ROI (Return on Investment):** a profitability indicator. It is obtained from the ratio of operating income and invested capital. ROI measures the return on the capital invested.

**SEC:** Securities Exchange Commission.

**SRI (Socially Responsible Investment):** asset management performed in accordance with environmental and social criteria. Usually three different approaches can be seen: portfolio selection (securities are included or excluded depending on the environmental or social responsibility profile of the issuing companies); active shareholding (the exercise of rights such as the right to vote at meetings, resulting from the ownership of shares to influence the company's social responsibility policies); community investment (capital investments in marginal economies aimed at local development).

**Stakeholder:** This is a party, public or private, individual or organization, that has, direct or indirect, formal or informal, relations with the enterprise.

**Stock picking:** a method of investment management that involves the selection of individual securities.

**Sustainable development:** development meeting the needs of today's generations without jeopardizing the possibility for future generations to meet their needs (Brundtland Report - WCED World Commission for Economic Development - 1987).

**TOE (ton oil equivalent):** international measurement used when dealing with significant quantities of energy. Each TOE is equivalent to the quantity of energy obtained by burning 1,000 Kg of oil (41.8 GJ or 11.6 MWh).

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