

Annual Report 1998

SANPAOLO IMI



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1998 ANNUAL REPORT

SANPAOLO IMI

Sanpaolo IMI Società per Azioni

Registered office: Piazza San Carlo 156, Turin

Secondary registered office: Viale dell'Arte 25, Rome

Registered with the Turin Court, Company No. 4382/91

Parent Bank of the Sanpaolo IMI Banking Group

Member of the Interbank Deposit Guarantee Fund

Board of Directors

Luigi Arcuti (*)	Chairman
Luigi Maranzana (*)	Managing Director
Rainer Stefano Masera (*)	Managing Director
Carlo Albani Castelbarco Visconti	Director
Emilio Botín	Director
Pier Luigi Fabrizi (*)	Director
Giuseppe Fontana	Director
Gabriele Galateri di Genola e Suniglia (*)	Director
Divo Gronchi	Director
Juan Rodriguez Inciarte (*)	Director
Virgilio Marrone	Director
Mario Masini	Director
Iti Mihalich (*)	Director
Emilio Ottolenghi	Director
Stefano Preda (*)	Director
Enrico Salza (*)	Director
Remi François Vermeiren	Director

* Member of the Executive Committee

Board of Statutory Auditors

Lamberto Jona Celesia	Chairman
Aureliano Benedetti	Auditor
Angelo Miglietta	Auditor
Mario Paolillo	Auditor
Ruggero Ragazzoni	Auditor

General Management

Luigi Maranzana	General Manager
Rainer Stefano Masera	General Manager
Enrico Fioravanti	Deputy General Manager Legal & Corporate Affairs
Piero Gavazzi	Deputy General Manager Personal Financial Services
Amadio Lazzarini	Deputy General Manager Operations
Luciano Martino	Deputy General Manager Real Estate
Bruno Picca	Deputy General Manager Accounting & Planning
Vittorio Serafino	Deputy General Manager Commercial Banking

Independent Auditors

Arthur Andersen SpA

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AGENDA OF THE SHAREHOLDERS' MEETING

TURIN

1st calling: April 28, 1999

2nd calling: April 29, 1999

3rd calling: April 30, 1999

Extraordinary meeting:

1. Amendment of Arts. 1, 4 and 19 of the Articles of Association (name), Art. 8 (calling of meetings), Art.9 (speaking and representation at meetings), Art. 15 (appointment of deputy chairmen and managing directors, appointment of special committees of the Board of Directors), Art. 17 (holding of board meetings via videoconferencing links; issuing of copies and extracts of board minutes).
2. Mandate to the Board of Directors under Arts. 2443 and 2420 ter of the Italian Civil Code; related amendment of Art. 6 of the Articles of Association.
3. Change to the mandate granted under Art. 2443 of the Italian Civil Code by the shareholders in general meeting on July 31, 1998 relating to the exercise of subscription rights on ordinary shares reserved for employees.
4. Increase in the legal reserve up to the maximum prescribed in Art. 2430.1 of the Italian Civil Code, by transfer of the reserve created under Art. 7.3 of Law 218/1990, of additional paid-in capital, of the extraordinary reserve and of part of the difference arising on merger.

Ordinary meeting:

1. 1998 financial statements and accompanying reports of the Board of Directors and Board of Statutory Auditors; allocation of the merger difference and of the net income for the year; 1998 consolidated financial statements.
2. Transactions in treasury shares (resolutions pursuant to Arts. 2357 and 2357ter of the Italian Civil Code and Art. 132 of Legislative Decree 58 of February 24, 1998).
3. Appointment of the Board of Statutory Auditors for the three years 1999-2001, pursuant to Art. 19 of the Articles of Association.
4. Remuneration of the Board of Statutory Auditors.
5. Remuneration of the Board of Directors.

LETTER TO SHAREHOLDERS

Results

Shareholders,
In early 1998, at the time of proposing the merger between Sanpaolo and IMI, we set ourselves the challenging objective of a Group RoE of 15% from 2000.

Despite the instability of the financial markets during the second half of last year, we believe the 1998 results are on track for that goal. At 1,760 billion lire, Group net income was up by nearly 140%; earnings per share more than doubled from 526 to 1,256 lire; RoE amounted to over 11% compared with 4.7% in the previous year; the share price rose by over 70%.

These are important results that confirm the wisdom of the merger proposals you approved in July of last year. They have led to the formation of a group capable of generating substantial value for its investors, with the standing and financial resources to participate actively in the process of concentration underway in the European banking market.

These results were achieved by virtue of a strategy aimed at exploiting the Group's strengths. A particular focus was that of enhancing our competitiveness in the savings-management sector, in which the Group leads at national level and ranks among the key players in Europe. Its share of the market represented by mutual funds was 17.5% by the end of the year, while net commissions on funds under management almost doubled; commission income now covers all of the payroll.

Similarly high priorities were given to risk containment, and to effective deployment of capital resources: rationalization of the investment banking sector was initiated, involving centralization of the relevant activities of the two groups; dealing activity on foreign markets was curtailed; lending policy sought adequate returns at the level of the individual operation, rather than high volumes; substantial sums were invested in control systems.

Much effort went into raising productivity: despite the non-recurring costs associated with the merger and with the introduction of the Euro, savings were achieved in both personnel and other administrative costs. Another priority area was the recovery of doubtful loans: repayments rose and lending quality improved, enabling a considerably lower level of net writedowns.

The organization structure adopted by the combined enterprise is based on business areas, seen as the most appropriate means of maximizing return on investment, of assigning accountability for results and of adapting to market requirements. Each area is operationally independent, and will report its profitability and the capital it absorbs.

The challenges ahead

As envisaged in the original business plan for the merger of Sanpaolo and IMI, the process of amalgamation remains open-ended: at a stage in the history of our industry characterized by a pronounced trend towards concentration, the merger with IMI was seen as the essential first step in forming a group that would become the focus for further aggregation.

This explains the proposal to merge with Banca di Roma, by means of a public share-exchange offer. The expanded group would administer customer assets exceeding 650,000 billion lire, including 200,000 billion in managed savings. Its distribution network would number over 2,700 branches – one of the largest, and not just in Italy.

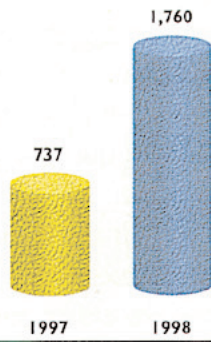
Getting bigger is clearly not an end in itself. It is justified only by the scope it creates for generating further value for shareholders. Given the proposed Group's distribution capacity, combined with a substantial potential for synergy in terms of costs and revenues, we believe that the level of returns achievable would be significant.

Turin, March 30, 1999

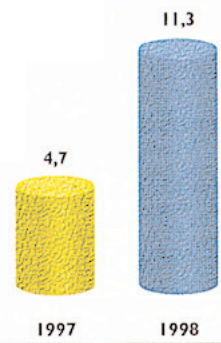
The group in figures

	1998		1997 (pro forma) (*)	Change
	(Euro/mln)	(L/bln)	(L/bln)	(%)
STATEMENT OF INCOME				
Net interest income	2,651	5,134	5,200	-1.3
Net commissions	1,738	3,365	2,344	+43.6
Net interest and other banking income	4,822	9,336	8,252	+13.1
Operating income	2,205	4,269	3,000	+42.3
Income before extraordinary items and minority interest	1,481	2,868	1,129	+154.0
Net income	909	1,760	737	+138.8
BALANCE SHEET				
Total assets	158,289	306,490	346,405	-11.5
Loans to customers	86,886	168,241	179,065	-6.0
Securities portfolio	25,728	49,816	54,870	-9.2
Equity investments	1,322	2,559	2,295	+11.5
Customer deposits and securities issued	97,399	188,590	206,126	-8.5
Subordinated liabilities	1,511	2,925	3,556	-17.8
Net shareholders' equity	8,668	16,784	16,494	+1.8
CUSTOMER ASSETS UNDER ADMINISTRATION				
Total	241,253	467,130	429,748	+8.7
• Direct deposits	97,399	188,590	206,126	-8.5
• Indirect deposits	143,854	278,540	223,622	+24.6
• Administered savings	60,545	117,232	116,089	+1.0
• Managed savings	83,309	161,308	107,533	+50.0
• Mutual funds	59,359	114,935	80,162	+43.4
• Portfolio management	16,280	31,523	16,893	+86.6
• Life insurance policies	7,670	14,850	10,478	+41.7
CREDIT QUALITY (%)				
RoE (Net income / Average shareholders' equity excluding current-year profits)	11.3	11.3	4.7	
Cost / Income ratio	54.3	54.3	63.6	
Net commissions / Net interest & other banking income	36.0	36.0	28.4	
LENDING RISK RATIOS (%)				
Net non-performing loans / Net loans to customer	2.3	2.3	2.8	
Net problem & rescheduled loans / Net loans to customers	1.9	1.9	2.0	
CAPITAL ADEQUACY RATIOS (%)				
Tier I capital / Weighted assets	9.7	9.7	9.9	
Total capital / Weighted assets	11.1	11.1	11.6	
SAN PAOLO IMI SHARES				
Number in issue (millions)	1,402	1,402	1,402	
Price (Euro; lire)				
• average	12.8	24,796	12,498	+98.4
• low	8.9	17,272	9,145	+88.9
• high	16.6	32,123	17,626	+82.2
Earnings per share (Euro; lire)	0.6	1,256	526	+138.8
Dividend per share (Euro; lire)				
• ordinary	0.5	900	300	+200.0
• extraordinary	-	-	726	n.s.
Ordinary dividend / Average share price (%)	3.6	3.6	2.4	+50.0
Shareholders' equity per share (Euro; lire)	6.2	11,971	11,764	+1.7
ORGANIZATION				
Average workforce	24,845	24,845	25,732	-3.4
Domestic branches	1,346	1,346	1,338	+0.6
Foreign branches and representative offices	75	75	75	-
Financial advisors	4,473	4,473	3,865	+15.7

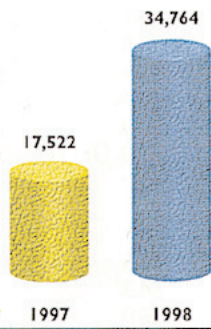
(*) The 1997 pro forma data have been calculated by aggregating the results of the two groups according to the criteria detailed in the Explanatory Notes. In particular, it should be noted that the number of shares has been calculated taking account of the effects of the merger and that the quotations refer to the shares of the incorporating company.



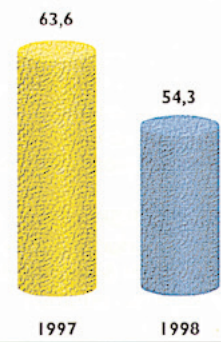
Net income of the Group (billions of lire)



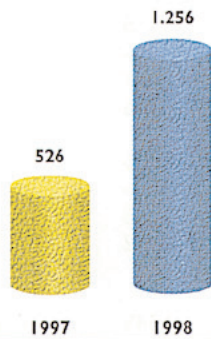
Group RoE (in %)



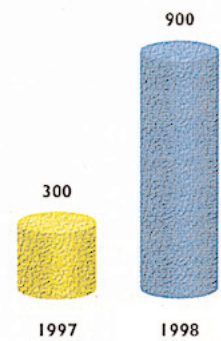
Average market capitalization (billions of lire)



Cost income ratio (in %)



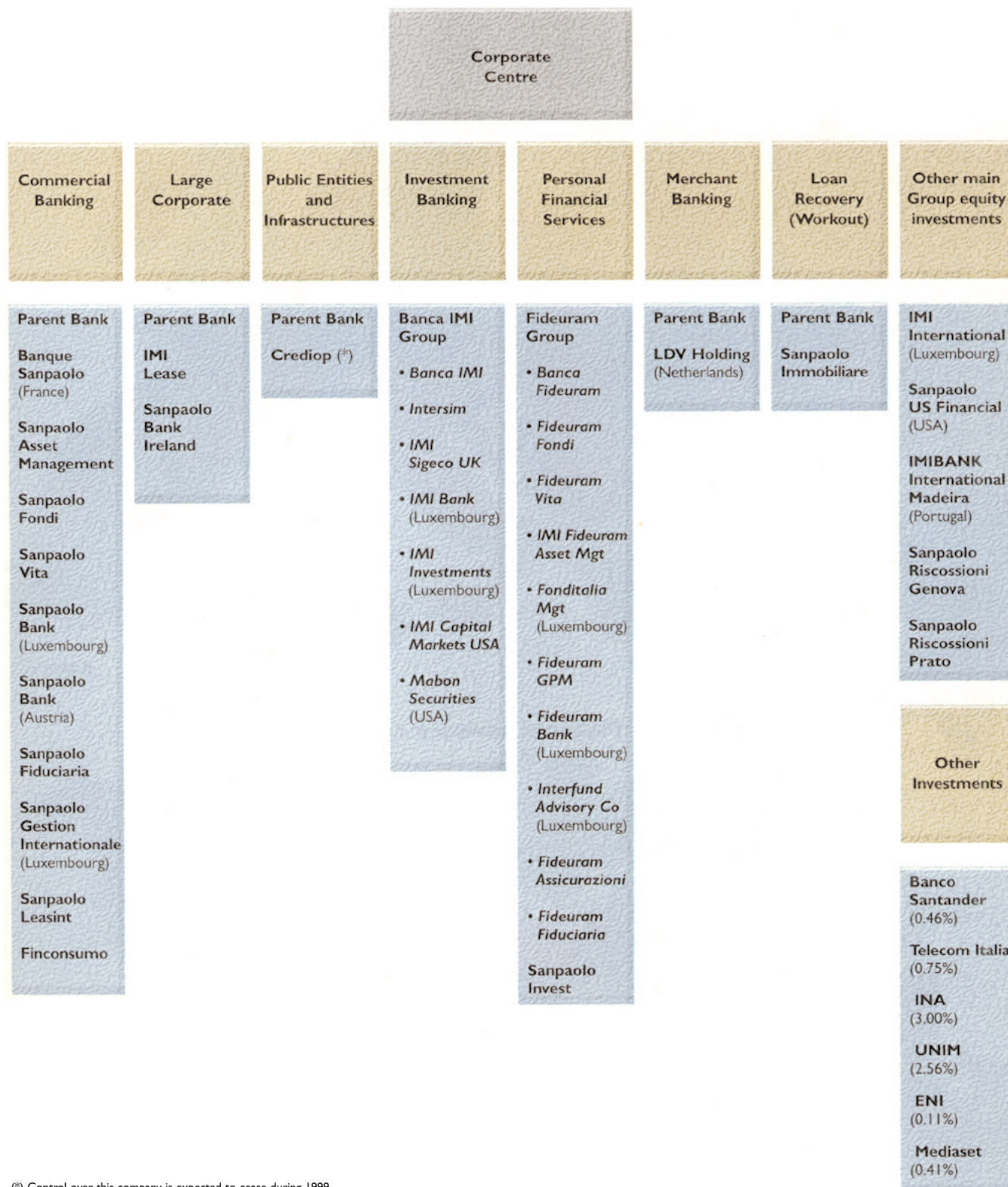
Earning per share (of lire)



Ordinary dividend per share (of lire)

Group structure

(as of December 31, 1998)

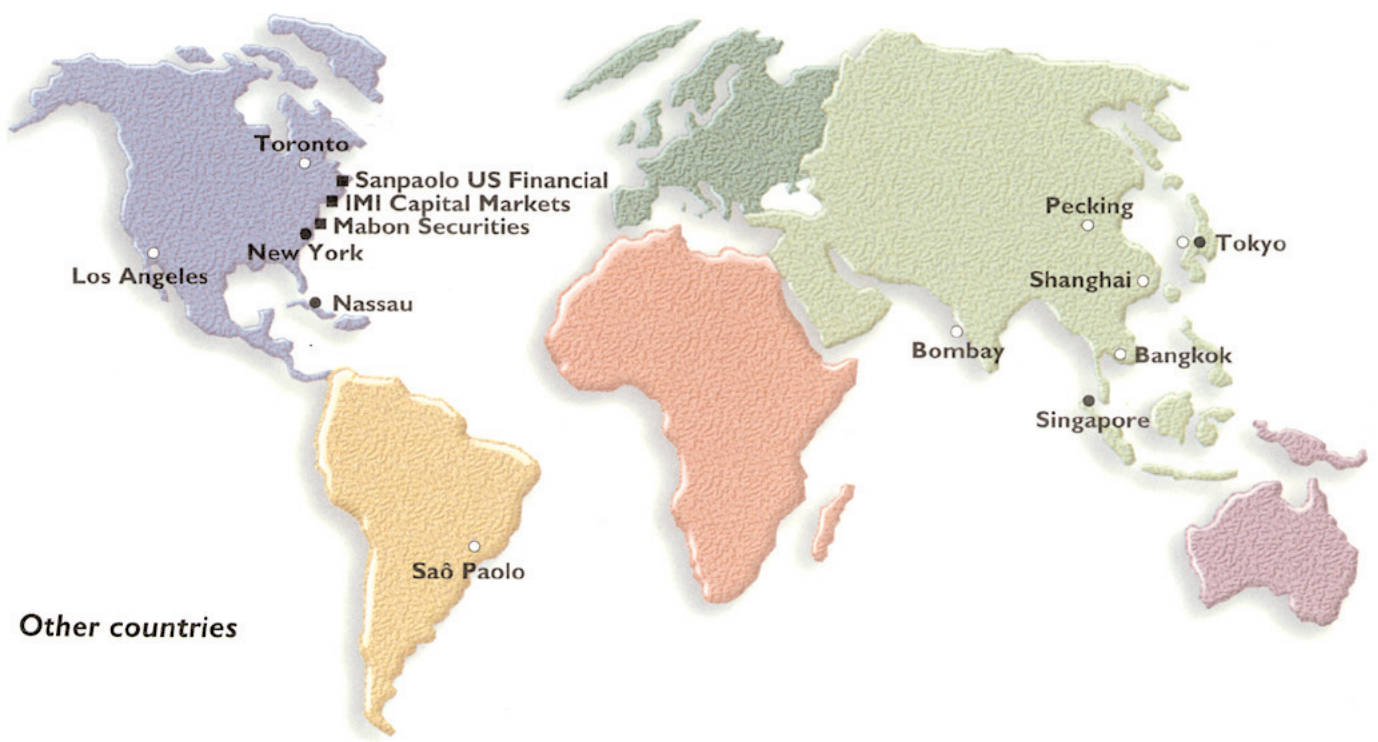
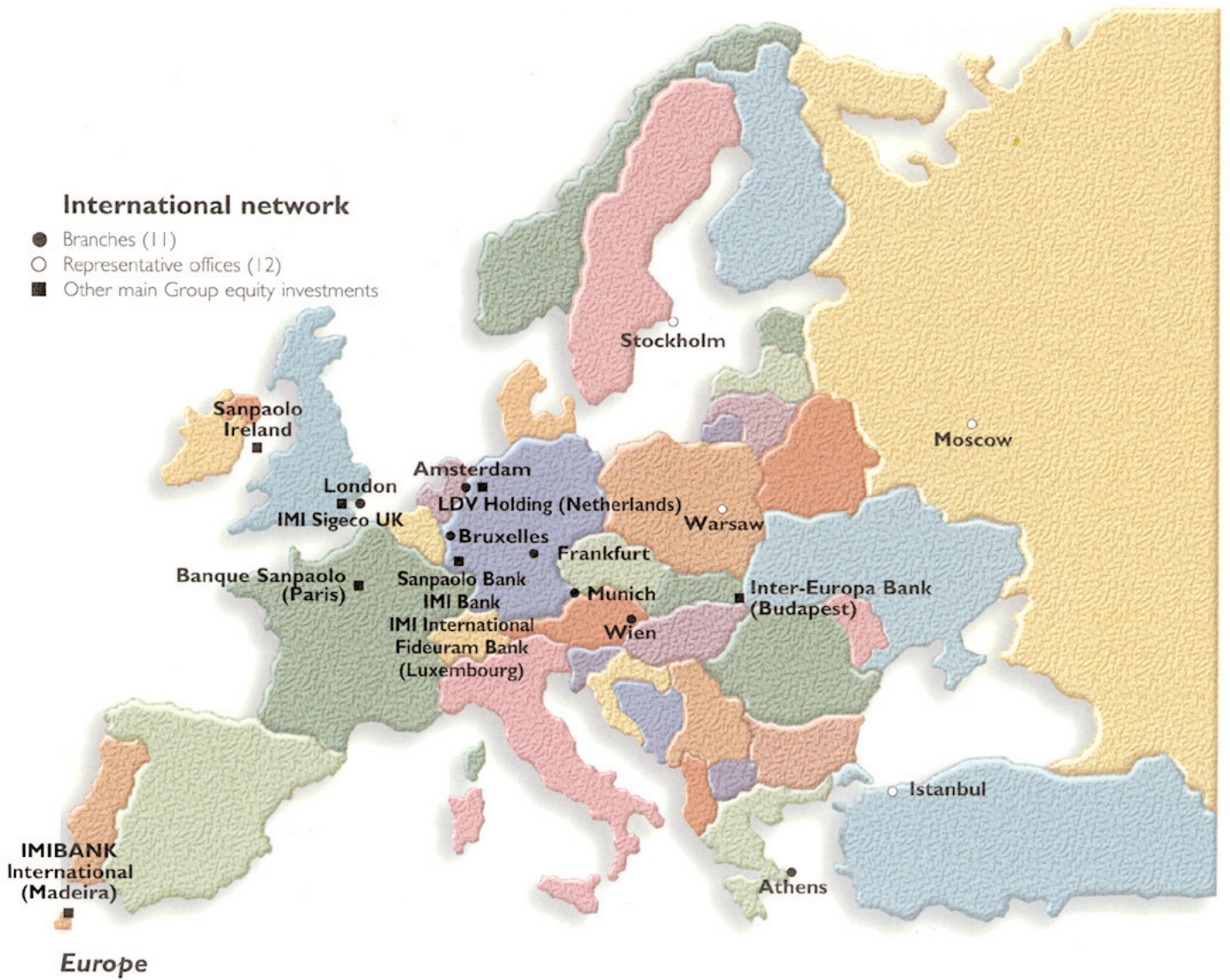


(*) Control over this company is expected to cease during 1999.

Group operating network

(as of December 31, 1998)





CONSOLIDATED FINANCIAL STATEMENTS AND REPORTS

Reclassified consolidated statement of income

	1998		1997	Change (%)
	(Euro/mln)	(L/bln)	(pro forma) (L/bln)	
Interest income and similar revenues	9,981	19,326	22,851	-15.4
Interest expense and similar charges	-7,330	-14,192	-17,651	-19.6
NET INTEREST INCOME	2,651	5,134	5,200	-1.3
Net commissions and other dealing revenues	1,738	3,365	2,344	+43.6
Profits/(losses) on financial transactions and investment income	325	628	546	+15.0
Profits of companies carried at equity and dividends on equity interests	108	209	162	+29.0
NET INTEREST AND OTHER BANKING INCOME	4,822	9,336	8,252	+13.1
Administrative costs	-2,495	-4,832	-5,053	-4.4
• <i>personnel</i>	-1,543	-2,988	-3,154	-5.3
• <i>other administrative costs</i>	-780	-1,511	-1,513	-0.1
• <i>indirect taxes and similar dues</i>	-172	-333	-386	-13.7
Other operating income, net	185	359	435	-17.5
Adjustments to tangible and intangible fixed assets	-307	-594	-634	-6.3
OPERATING INCOME	2,205	4,269	3,000	+42.3
Provisions for risks and charges	-125	-242	-138	+75.4
Adjustments to loans and provisions for guarantees and commitments, net	-532	-1,029	-1,469	-30.0
Writedowns of financial fixed assets, net	-67	-130	-264	-50.8
INCOME BEFORE EXTRAORDINARY ITEMS	1,481	2,868	1,129	+154.0
Net extraordinary income	159	308	323	-4.6
INCOME BEFORE TAXES AND MINORITY INTEREST	1,640	3,176	1,452	+118.7
Income taxes	-630	-1,220	-572	n.s.
Change in reserve for general banking risks	-8	-16	-11	+45.5
Net income attributable to minority interests	-93	-180	-132	+36.4
NET INCOME FOR THE YEAR	909	1,760	737	+138.8

Reclassified consolidated balance sheet

ASSETS	31/12/98		31/12/97	Change
	(Euro/mln)	(L/bln)	(pro forma) (L/bln)	
Cash and deposits with central banks and post offices	421	815	775	+5.2
Loans	109,982	212,954	246,799	-13.7
• due from banks	23,093	44,713	67,734	-34.0
• loans to customers	86,889	168,241	179,065	-6.0
Dealing securities	23,385	45,280	49,132	-7.8
Fixed assets	5,635	10,911	12,109	-9.9
• investment securities	2,343	4,536	5,738	-21.0
• equity investments	1,322	2,559	2,295	+11.5
• intangible fixed assets	302	585	527	+11.0
• tangible fixed assets	1,668	3,231	3,549	-9.0
Differences arising on consolidation and on application of the equity method	58	113	228	-50.4
Other assets	18,808	36,417	37,362	-2.5
Total assets	158,289	306,490	346,405	-11.5
LIABILITIES AND SHAREHOLDERS' EQUITY				
	31/12/98		31/12/97	Change
	(Euro/mln)	(L/bln)	(pro forma) (L/bln)	
Payables	125,161	242,346	281,772	-14.0
• due to banks	27,762	53,756	75,646	-28.9
• due to customers and securities issued	97,399	188,590	206,126	-8.5
Reserves	2,240	4,338	2,818	+53.9
• for taxation	1,120	2,556	1,309	+95.3
• for employee termination indemnities	436	844	820	+2.9
• for risks and charges	418	810	573	+41.4
• for pensions and similar obligations	66	128	116	+10.3
Other liabilities	20,315	39,335	40,982	-4.0
Subordinated liabilities	1,511	2,925	3,556	-17.7
Minority interests	394	762	783	-2.7
Shareholders' equity	8,668	16,784	16,493	+1.8
• capital	4,345	8,413	8,413	-
• equity reserves	3,414	6,611	7,343	-10.0
• net income for the year	909	1,760	737	+138.8
Total liabilities and shareholders' equity	158,289	306,490	346,405	-11.5
GUARANTEES AND COMMITMENTS				
	31/12/98		31/12/97	Change
	(Euro/mln)	(L/bln)	(pro forma) (L/bln)	
Guarantees given	11,023	21,344	24,109	-11.5
Commitments	19,984	38,695	63,086	-38.7

Report on operations

Economic background

The international economy

The world economic scene was dominated during 1998 by a series of industrial and financial crises that originated in Asia and spread through their nature and scale - to Russia and Latin America, with repercussions also on the financial markets in industrialized nations. The resulting restructuring of investors' portfolios during the summer and fall affected both share prices and yields on government stocks (the latter touching record lows). The policy-makers in OECD countries responded promptly: the IMF and other international institutions provided debt funding of over \$40 billion to Brazil; the US Federal Reserve reversed its monetary policy, cutting interest rates (three times) by a total of 75 basis points.

The US economy

The US was only marginally affected by the series of crises among the emerging economies, and continued to enjoy the longest period of expansion for 30 years. GDP rose by around 3.9% (as in 1997); consumer spending grew by 4.8%, partly reflecting a reduced willingness to save; gross fixed investment was 11.5% up on the previous year.

Japan

Japan's economy was severely affected by the crisis in the region and continued to struggle, as the persistent weaknesses in the national financial system became more pronounced. The resulting 'credit crunch' and a loss of confidence throughout the business community were reflected in sluggish internal demand; the economy slid into technical recession during the second quarter. In November, the government responded with an impressive financial package (worth 24,000 billion yen) designed to stimulate growth and representing a major shift in the nation's budgetary policy.

The European Union

1998 will go down in history as the year of Monetary Union. The European Council summit in the first three days of May removed any lingering doubts regarding Italy's participation in the Euro. It also established the fixed parities to be applied to the participating currencies as from January 1, 1999. The markets were convinced, and the resulting relative stability of European exchange rates provided an effective insulation against the prevailing volatility of the international financial markets.

Despite the adverse conditions at world level, the EMU economies averaged GDP growth of 2.8%. Internal demand was a significant part (3.4%) of this, while demand from abroad (notably among the emerging economies), and hence exports, slackened towards the end of the year.

At the beginning of December, except in Italy the Euro-area reference interest rates were cut by 30 basis points to 3%; the Italian official discount rate was reduced to 3.5%, but fell into line at the year end. This marked

completion of the convergence of money-market rates among the member countries, at the levels of those with the lowest rates.

The domestic scenario

The Italian economy

Italy's economy grew more slowly than those of the principal Euro-area nations; the rise in GDP amounted to just 1.4%. A positive feature was an upturn, albeit less than expected, in capital investment: a rise of 3.5% compared with 0.8% in 1997.

Many factors contributed to a muted overall performance, including:

- a hesitant rise in consumer spending (1.9% against 2.6% in the previous year), partly explained by slight growth in disposable incomes and the lapsing of government incentives for scrapping old cars;
- a generalized decline in the competitiveness of Italian industry, evidenced by negative figures for direct investment and an increase in labor unit costs (of 0.6%, compared with a reduction of 1.9% in the Euro area as a whole);
- persistence of the upward trend in imports combined with weakening export growth, further eroding the trading surplus and contributing to a significant reduction in the balance of payments on current account.

The process of reforming the nation's public finances culminated during the year with Italy's admission to the current stage of European monetary union. While the ratio to GDP of the budget deficit was the same as in 1997 (2.7%), that of the national debt declined from 121.6% to 118.7%.

Domestic interest rates fell, as the prospects for participation in monetary union became firmer and finally, in May, a certainty. The official discount rate declined from 5.5% in January 1998 to 3% by the end of the year, reflecting the Bank of Italy's decision to align official rates to those of the other participants in monetary union.

In a year of wide fluctuations, the Italian stockmarket gained 41%, notwithstanding the de-stabilizing effect on the international markets of the Russian and Asian crises. It thus outperformed the major exchanges in Europe and elsewhere, underscoring the considerable attractions for investors at home and abroad of a market benefiting from lower interest rates and a high level of business restructuring and merger activity.

The banking industry

The process of concentration within the Italian banking industry continued during 1998, reflecting the need for organizations of sufficient size to address the wider and more competitive European market. The changes were not confined to the small- and medium-sized banks (the main protagonists in the past) but primarily affected the large banking organizations.

On the operations front, direct deposits with the banking system rose by 4.1%; both ordinary customer deposits and new bond issues contributed to the increase. Lending grew by 6%, and was marked by a bias towards the medium/long-term. Business was particularly brisk in the personal mortgages sector, stimulated by incentives for home improvement and the marked decline in interest rates.

Strong growth in commission revenues derived from management, dealing and advisory services boosted results at the level of net interest and other banking income. The trend was helped by a preference among small investors for mutual funds, portfolio management and insurance products. The upturn in commissions more than counterbalanced the erosion of interest margins. Combined with general savings in costs and a lower level of provisions for loan losses, it enabled Italian banks to close much of the profitability gap with their competitors in Europe.

Group objectives and operating sectors

The new group

1998 was the year of the foundation of the Sanpaolo IMI Group, as a result of the merger by incorporation of Istituto Mobiliare Italiano by Istituto Bancario San Paolo di Torino.

As described in the prospectus addressed to shareholders, the merger between Sanpaolo and IMI combines the strengths of a large commercial bank with those of a leading investment bank, the former deploying an extensive, grassroots distribution network and with a well-established presence in the personal customer and small/medium-sized business segments, while IMI brings substantial business operations in the sectors represented by dealings in the capital markets, medium- and long-term lending and asset management.

While July 31, 1998 was the date of approval by the respective shareholders' meetings, the merger took legal effect on the following November 1 and applies retrospectively for accounting and tax purposes from January 1, 1998. The attached 1998 financial statements are thus those of the new group. The technical details of the merger and its implications for the Group's capital structure are described in the explanatory notes.

Market positioning

The combined enterprise is positioned as a multi-specialist banking group, with commercial banking as its core business. It ranks among the leaders at national level in the personal financial services sector (asset management services provided via a financial sales network) and in investment banking.

It is the point of reference among Italy's banking organizations in all the various sectors, ranking first in term of total assets, customer assets under administration and customer loans. The relevant market shares are as follows (pro forma reconstructed values as of December 31, 1998; sources: Bank of Italy and Assoreti):

	Market share (%)
Customer assets under administration	11.0
• Direct deposits	9.2
• Indirect deposits	12.4
• Mutual funds	17.5
Loans to customers	11.4
• Short-term	6.4
• Medium- and long-term	16.5
	Market share (%)
Domestic branch network	5.0
Domestic network of financial advisors	22.6

At European level, the Group ranks 21st in terms of assets (based on the figures as of June 30, 1998 published in *The Banker*), and 11th for market capitalization (as of December 30, 1998; source: Reuters).

Savings management is a particular strength. Sanpaolo IMI controls 17.5% of the domestic market (source: Assogestioni) and is among the leading organizations in the sector at European level.

Group objectives

As specified in the business plan associated with the merger, the Group has set itself the objective of maximizing value for the shareholder. This aim is expressed in terms of a target RoE of over 15% from 2000, doubling the market's present benchmark return on investments in Italian banks (estimated at around 7.5% at present interest rates).

This target will be reached primarily through measures to maximize revenues, improve operating efficiency and contain risk. In the case of commission income, the aim must be to achieve a level at the end of the next three years sufficient to cover total administrative costs; the cost-to-income ratio (operating costs to total revenues) must be held below 50%; lending quality must be improved, enabling a progressive reduction in loan writedowns. Attention will also focus on effective use of - and hence an adequate return on - the capital invested by shareholders.

These objectives imply a high degree of accountability for the results by the management team. This thinking was behind the introduction of a stock-option scheme reserved for the Bank's senior managers, approved by the Board on February 9, 1999 (within the terms of a resolution of the shareholders' meeting held on July 31, 1998). The plan entitles some 50 managers, including the Managing Directors - General Managers, to subscribe for up to 7 million Sanpaolo IMI shares at a price equal to the volume-weighted average of those applying during the final quarter of 1998. The details of the scheme are provided in the explanatory notes to the Bank's 1998 financial statements.

Business sectors

With the aim of responding effectively to a changing competitive environment, the Group has been organized into business areas each with considerable management freedom. The functions of regulation and support are exercised by a Corporate Center.

The principal business areas are: Commercial Banking, Large Corporate, Public Agencies & Infrastructure, Investment Banking, Personal Financial Services, Merchant Banking and Loan Recovery.

Commercial Banking

This area's brief is to develop the segments represented by personal customers, small businesses and small/medium-sized enterprises; it runs the domestic branch network. Its role includes sourcing the relevant financing and savings-management products.

Commercial Banking operates the Parent Bank's branches. Its foreign presence is represented by Banque Sanpaolo's 52 branches in Paris, Lyon and the Côte D'Azur, and a 32.5% interest in Inter-Europa Bank, Hungary (19 branches).

Its operations are supported by certain 'captive' companies active in savings management (Sanpaolo Asset Management, Sanpaolo Fondi, Sanpaolo Vita, Sanpaolo Bank Lux, Sanpaolo Bank Austria, Sanpaolo Fiduciaria, Sanpaolo Gestion Internationale). The area also includes leasing (via Sanpaolo Leasint) and consumer credit (Finconsumo).

A process of segmentation of the area's customer base now underway aims at improving both profitability and efficiency, through more accurate targeting and, hence, better service. The segments identified are personal and family customers, small businesses, and affluent private clients.

Commercial Banking's highly challenging objectives are: a growth-rate for total assets administered that exceeds the system average; rapid development of payment and other services revenues; high asset quality; and 'exclusive' relations with chosen business customers.

Large Corporate

This area engages in lending and service provision to medium-sized and large business customers. In the domestic market, it currently focuses on groups with a turnover exceeding 1,000 billion lire. This threshold will be gradually reduced to 200 billion lire.

In Italy, it operates via a number of central functions, plus six area offices in Turin, Milan, Padua, Bologna, Rome and Naples.

Its foreign operations are conducted via the Parent Bank's 11 branches and 12 representative offices abroad. Its lending and service-provision activities address the entire international customer base. Large Corporate includes two wholly-owned subsidiaries: Sanpaolo Ireland, and IMI Lease, engaged respectively in export financing for Bank major customers and large-scale leasing operations.

The area's objectives reflect events in the more mature markets: manage the transition from an interest-based to a fee-based business by developing an integrated set of services, as well as lending.

*Public agencies
& infrastructure*

Following the scheduled departure in 1999 of Crediop (on sale of the controlling interest to the Franco-Belgian Dexia Group), this area will constitute the Group's presence in the sector of financial-services provision to public-sector organizations (notably, financing of capital projects and major infrastructural schemes) - a traditional activity of both Sanpaolo and IMI.

The area has no territorial organization of its own; relations with the relevant large customers will be handled by a central department, and those with the remainder through the offices of Commercial Banking's domestic branch network.

The area's objective is to remain among the leading operators in the public-works financing sector, in which the Group has an approximately 16% market share.

Investment Banking

In the wake of the merger, the Investment Banking area underwent a wide-ranging reorganization aimed at centralizing within Banca di Intermediazione Mobiliare IMI (Banca IMI) and its subsidiaries the relevant activities formerly carried on by San Paolo and IMI. Apart from ensuring effective coordination of operations, this decision sought a single focus for managing the various types of risk necessarily inherent to the sector.

Banca IMI will take over San Paolo financial trading book activity, together with the interest in the San Paolo Group's stockbroking company Intersim. Banca IMI's London branch, currently being established, will be the focus for the investment activities currently performed by San Paolo's London Branch and IMI Sigeco UK. The finance-sector operations of San Paolo's New York branch will transfer to IMI Investment, the Banca IMI subsidiary that heads Group operations in the US market.

Banca IMI plans to place great emphasis on risk-free revenues, from both sales and services, in the context of optimal deployment of resources, and stable revenues.

*Personal Financial
Services*

This area's mission is to manage the distribution of savings-management services via the network of financial advisers. Its market mainly consists of personal customers and one-man businesses that respond favorably to door-to-door methods of offering services, and have a savings potential in the middle-upper band.

This activity is conducted via Banca Fideuram and Sanpaolo Invest, which respectively deploy 3,168 and 1,305 financial planners together representing Italy's largest network of professionals of this type. The area includes the captive companies controlled by Banca Fideuram that provide a range of specialized savings-management services (Fideuram Fondi, Fideuram Vita, IFAM, Fonditalia, Fideuram Bank Lux, Fideuram Fiduciaria, Fideuram GPM, Interfund Advisory, ISAC, Fideuram Assicurazioni and Turis).

The area's objectives are to maintain service excellence and raise the productivity of the network.

Merchant Banking

The Merchant Banking area's mission is to acquire and manage minority interests in listed companies and those being groomed for listing, with a view to capital gains on their subsequent divestment. The area also promotes and participates in closed investment funds. Its activities are pursued via specialized staff employed by the Parent Company and via LDV Holding BV.

Loan recovery (Workouts)

This area manages non-performing loans, with the aim of maximizing recoveries and generally reducing the level of such loans as rapidly as possible. It also includes Sanpaolo Immobiliare, which specializes in the recovery of non-performing mortgage loans.

The area's medium-term objective is a drastic reduction of the level of non-performing loans after writedowns.

Corporate Centre

The Corporate Centre exercises the parent-bank functions, formulating business strategy, setting the strategic direction, managing the Group's equity interests, control and administration and handling external relations. It includes the operations-management units (systems and organization, back-office management, logistics, purchasing), short-, medium- and long-term treasury operations, and management of the Bank's properties with a view to their efficient utilization.

Business-area income statements

Adoption of an organization structure based on business areas enables both greater responsiveness to market requirements and clearer management accountability for sector results. Profitability will be determined for each area, using sector-specific income statements and relating results to the portion of the Group's capital it absorbs. This basis is similar to that adopted by IMI before the merger for its business units, and to a lesser degree (given the greater complexity of a large commercial bank) by Sanpaolo.

The new organization officially took effect on November 1, 1998, coinciding with the date the new group commenced operations. The first figures based directly on performance measurement by business area will be those for the first half of 1999 and for the full year.

However, the revised operating structure of the Group can be appreciated from the table below, which shows an approximate allocation of 1998 operating income and total assets at the year-end:

	<i>in billions of lire</i>									
	Commercial Banking	Large Corporate, Public Agencies & Infrastructure	Investment Banking	Personal Financial Services	Merchant Banking	Loan Recovery (Workout)	Corporate Centre	Total Business areas	Crediop	Group Total
Operating income	2,436	469	449	456	51	-157	193	3,897	372	4,269
Total assets	80,006	60,998	59,994	7,416	638	3,540	85,682	298,274	33,379	331,653

The above figures are provisional, given that the boundaries of the business areas are still subject to adjustment, while internal transfer prices remain to be finalized. Also, the scope of Large Corporate and certain other areas will be reviewed during 1999.

Government Agencies & Infrastructure is restricted to the relevant Parent Bank activity; Crediop is excluded in view of the scheduled divestment of control of this company during this year.

Geographic distribution of operations

The following analysis of total revenues and revenue-earning assets reflects the territories of the branches and consolidated companies:

	<i>in billions of lire</i>			
	Italy	Other EU countries	Other countries	Group
Total revenues	19,563	3,845	1,346	24,755
Revenue-earning assets	207,794	40,701	14,269	262,760

Group results

Overview of performance

Despite the adverse economic conditions that marked the second half of the year, the Group's 1998 results were consistent with the objectives identified in the business plan associated with the merger. At 1,760 billion lire, consolidated net income was a substantial improvement on 1997 (737 billion lire, as shown in the pro forma aggregate for the two companies). The corresponding comparison of earnings per share is between 1,256 lire in 1998 and 526 lire in 1997.

On the same basis, Group RoE measured as the ratio of net income to average shareholders' equity in the year (excluding current-year profits) climbed from 4.7% to 11.3%.

The substantially improved result was largely determined by a 43.6% jump in net commissions, attributable to both the managed savings and payment services sectors. Control of operating costs was also relevant, generating savings of 4.4% and significantly reducing the cost-to-income ratio; calculated from total costs (including depreciation and amortization) and net interest and other banking income, the latter indicator improved from 64% to 54%.

The combination of higher commissions and lower costs more than compensated for the 1.3% reduction in net interest income, caused by falling market interest rates and an easing of business volumes. The upturn in operating income amounted to 42.3%.

Another significant influence in the rise in net income was a 25.1% decrease in provisions and writedowns against loans and investments, reflecting improved asset quality. Net non-performing loans fell by 23.6%, while there was a 12.5% reduction in the combined total after writedowns of problem loans, rescheduled loans and loans in process of rescheduling.

Changes in accounting policies

The 1998 financial statements reflect certain changes in Group accounting policies (described in the explanatory notes) to bring these into line with international accounting practice. The main change relates to the valuation of non-performing and other problem loans, which are now stated on a basis that directly reflects their partial or total return. The effect on the 1998 statement of income was not significant, the differences being all but covered by IMI's risk reserves.

Also as described in the explanatory notes, the format of the statement of income has been revised to present a more meaningful picture of the results of the combined enterprise.

Net interest income

The first item of note in the results disclosed by the statement of income is a reduction in net interest income of 66 billion lire, to 5,134 billion.

	1998	1997 (pro forma)	Change
	(L/bln)	(L/bln)	(%)
Interest income and similar revenues	19,326	22,851	-15.4
Interest expense and similar charges	-14,192	-17,651	-19.6
Net interest income	5,134	5,200	-1.3

Business volumes and average rates

As a basis for analyzing the interest margin, the table below shows the average levels of the relevant assets and liabilities, the related interest earned and incurred and the corresponding average rates.

The downward drift in interest rates, accelerated in Italy's case by the process of convergence associated with qualifying for participation in the European single currency, progressively eroded the return on the Group's liquid funds; the decline amounted to an average of one percentage point compared with 1997. Also, liquid funds were depleted by the high level of dividends paid in 1998 (a total of 1,440 billion lire including extraordinary dividends of 1,020 billion).

Other factors in the decline in net interest income were lower treasury operating volumes and reduced levels of customer deposits and loans. The decline in treasury volumes reflected reduced activity in the interbank market and a smaller securities portfolio, given the diminishing opportunities for profitable dealings in the financial markets in conditions of stabilizing interest-rate forecasts. Another factor in the reduction of the securities portfolio was a strategy favoring risk-free assets at the expense of those involving higher levels of risk. Customer-related volumes in decline included the types of direct deposit with the highest servicing cost (e.g. CDs, deposits linked to repurchase agreements) and short-term lending; these trends resulted from a policy aimed at improving return on funds deployed while containing risk.

The effects of the decline in volumes were cushioned by a widening of the average spread between interest rates charged to borrowers and paid to depositors.

in billions of lire

	1998			1997 (pro forma) ^(*)		
	Average level	Interest	Average rate	Average level	Interest	Average rate
Interest-earning assets	288,488	19,309	6.69	302,487	23,096	7.64
• loans to customers	162,407	12,646	7.79	165,581	14,545	8.78
- in lire	137,087	11,328	8.26	137,477	13,248	9.50
- in foreign currency	25,320	1,318	5.20	26,105	1,297	4.97
• due from banks	44,459	2,230	5.01	55,632	3,080	5.54
- in lire	25,321	1,277	5.05	28,496	2,001	7.02
- in foreign currency	19,138	952	4.97	27,136	1,079	3.98
• securities	52,171	2,955	5.66	56,159	3,860	6.87
- in lire	38,339	2,279	5.94	42,483	3,069	7.22
- in foreign currency	13,832	676	4.89	13,676	790	5.78
• repurchase agreements	29,451	1,478	5.02	25,115	1,612	6.42
- in lire	23,899	1,276	5.34	21,427	1,475	6.88
- in foreign currency	5,552	202	3.64	3,689	137	3.71
Non interest-earning assets	43,165			43,993		
Total assets	331,653	19,309		346,480	23,096	
Interest-bearing liabilities	273,751	14,175	5.18	284,731	17,896	6.26
• due to customers	89,494	3,461	3.87	97,220	5,049	5.19
- in lire	68,681	2,446	3.56	78,500	4,296	5.47
- in foreign currency	20,814	1,015	4.88	18,720	753	4.02
• securities issued and subordinated liabilities	85,035	5,565	6.54	89,671	6,930	7.73
- in lire	70,229	4,808	6.85	79,331	6,315	7.96
- in foreign currency	14,806	757	5.11	10,340	615	5.95
• due to banks	62,296	3,413	5.48	64,840	3,856	5.86
- in lire	32,834	1,893	5.76	27,203	2,125	7.81
- in foreign currency	29,462	1,520	5.16	38,637	1,731	4.48
• repurchase agreements	36,926	1,737	4.70	33,001	2,061	6.25
- in lire	31,826	1,518	4.77	28,254	1,845	6.53
- in foreign currency	5,099	219	4.29	4,747	216	4.55
Non interest-bearing liabilities	41,337			42,808		
Shareholders' equity	16,565			17,941		
Total liabilities and shareholders' equity	331,653	14,175		346,480	17,896	
Net interest income		5,134			5,200	

(*) Derived by combining San Paolo and IMI data, restated on mutually consistent bases.

Net interest and other banking income

At 9,336 billion lire, net interest and other banking income was up by 1,084 billion compared with 1997; commissions, profits on financial transactions and the combined results of companies carried at equity all improved.

	1998 L/bln	1997 (pro forma) L/bln	Change (%)
Net interest income	5,134	5,200	-1.3
Net commissions	3,365	2,344	+43.6
• on management, dealing and consultancy services	2,352	1,514	+55.4
• on loans and guarantees	332	289	+14.9
• on collection and payment services	245	175	+40.0
• on deposit and current accounts	357	294	+21.4
• on other services	79	72	+9.7
Profits/(losses) on financial transactions	628	546	+15.0
Profits of companies carried at equity and dividends on equity investments	209	162	+29.0
Net interest and other banking income	9,336	8,252	+13.1

Net commissions and other dealing revenues

These rose by 43.6%, reaching 3,365 billion lire. All the main sources of commission income contributed to the increase: the combined total for management, dealing and consultancy climbed by 55.4% to 2,352 billion lire, on the strength of rising levels of managed savings and dealings in equities. Commissions on collection and payment services were 40% up, boosted by increased recourse to telematic services by personal and business customers alike.

The resulting increase in the ratio of commissions to net interest and other banking income was from 28.4% in 1997 to 36%.

Profits on financial transactions and dividends on shares

These totaled 628 billion lire, 15% higher than in 1997. An exceptionally good first half-year was followed by a slowdown, as the crisis that developed in Japan and South-East Asia and spread to Russia and Latin America caused volatility in the international financial markets.

Profits of companies carried at equity and dividends on equity investments

This figure rose by 29% compared with 1997, to 209 billion lire. The combined profits of companies carried at equity were 160 billion lire, having risen by over 45% largely by virtue of the performances of the Group's insurance companies (Sanpaolo Vita e Fideuram Vita). The combined dividends on minority interests from merchant banking were unchanged, at 49 billion lire.

Operating income

At 4,269 billion lire, operating income improved on the corresponding result in 1997 by 1,269 billion.

	1998	1997 (pro forma)	Change
	L/bln	L/bln	(%)
Net interest and other banking income	9,336	8,252	+13.1
Administrative costs	-4,832	-5,053	-4.4
• <i>personnel</i>	-2,988	-3,154	-5.3
• <i>other administrative costs</i>	-1,511	-1,513	-0.1
• <i>indirect taxes and similar dues</i>	-333	-386	-13.7
Other operating income	359	435	-17.5
Adjustments to tangible fixed assets	-306	-366	-16.4
Adjustments to intangible fixed assets	-288	-268	+7.5
Operating income	4,269	3,000	+42.3

Administrative costs

Together with the upturn in revenues, containment of administrative costs was a key factor in the rise in operating income. At 4,832 billion lire, the total was down by 1.6% ignoring the effects of the introduction of IRAP (which included abolishing health-service contributions), and by 4.4% including these.

The savings were confined to the Parent Bank, which cut its spending by 4.2% (or over 7% including the IRAP effect mentioned above). The slight increase in levels across the subsidiaries was mainly related to business expansion in the savings-management and investment banking sectors.

The personnel expenses amounted to 2,988 billion lire (excluding leaving incentives of 47 billion, which are treated as extraordinary expense), a saving of 0.9% on the 1997 total, or 5.3% including the effect of IRAP.

The level of other administrative costs was unchanged at 1,511 billion lire. This total includes the full 1998 cost associated with the introduction of the Euro (38 billion lire) entirely expensed during the year; expenditure of 38 billion lire on software, whose benefits are expected to extend over a number of years, was deferred among intangible fixed assets.

Indirect taxes and similar dues totaled 333 billion lire, down by 13.7%. The caption was affected by a new VAT basis for additions to fixed assets (under Art. 36 bis of Presidential Decree 633/72), whereby the tax is treated as an incidental cost to be charged to the asset account and reflected in the depreciation provisions, rather than expensed as an indirect tax. There was also a reduction in duty on stock-exchange transactions, following the introduction of exemption for sales of securities in organized markets.

Other operating income

At 359 billion lire, other operating income was down by 17.5%. The reduction partly arose from the above-mentioned change in the system of duties on stockmarket transactions, which led to a lower level of recoveries from customers.

Adjustments to tangible and intangible fixed assets

Depreciation and amortization charges totaled 594 billion lire, 6.3% lower than in 1997. However, the previous year's charges included some 45 billion lire in extraordinary writedowns; ignoring these, the total was up by 1.5% as a result of the new rules relating to VAT on capital purchases, mentioned above.

Income before extra-ordinary items

Income before extraordinary items amounted to 2,868 billion lire, higher than in 1997 by 1,739 billion. The improvement reflected a reduction of 470 billion lire in the combined total of provisions for risks and charges and amounts written off loans and investments.

	1998	1997 (pro forma)	Change
	L/bln	L/bln	(%)
Operating income	4,269	3,000	+42.3
Provisions for risks and charges	-242	-138	+75.4
Adjustments to loans and provisions for guarantees and commitments	-1,029	-1,469	-30.0
• writedowns and losses, net	-1,279	-1,799	-28.9
• provisions for guarantees and commitments	-33	-16	+106.3
• recoveries	283	346	-18.2
Adjustments to financial fixed assets	-130	-264	-50.8
• writedowns of equity investments, net	-80	-252	-68.3
• writedowns of investment securities, net	-50	-12	+316.7
Income before extraordinary items	2,868	1,129	+154.0

Adjustments to loans; provisions

Provisions for risks and charges totaled 242 billion lire, having increased by 75.4% mainly due to a higher level of provision for the outcome of pending legal disputes. An improving picture as regards problem loans, mainly during the second half year, justified a reduction of 30% in provisions for lending losses. Net of reinstatements, these totaled 1,029 billion lire, analyzed below:

- 1,279 billion lire in writedowns net of reinstatements plus losses on settlements and bankruptcy cases;
- 33 billion lire in provisions for guarantees and commitments;
- less 283 billion lire in reinstatements following recovery of principal amounts written off in earlier years (181 billion) and of default interest also previously eliminated (102 billion).

Adjustments to financial fixed assets

At 130 billion lire, the total of these was down by 50.8%. 80 billion lire referred to permanent losses on equity investments carried at cost, including 31 billion and 21 billion respectively on the Group's interests in Apokè Six and Banco del Desarrollo (Chile). The remaining 50 billion lire related to writedowns of investment securities obtained on conversion of loans to borrowers in Russia and others affected by country risk.

Net income

Net income amounted to 1,760 billion lire, an improvement of 1,023 billion on the 1997 result.

	1998	1997 (pro forma)	Change
	L/bln	L/bln	(%)
Income before extraordinary items and taxes	2,868	1,129	+154.0
Extraordinary income, net:	308	323	-4.6
• net gains on disposals of properties and equity investments	45	173	-74.0
• other extraordinary income, net	263	150	+75.3
Income before income taxes	3,176	1,452	+118.7
Income taxes	-1,220	-572	+113.3
Change in reserve for general banking risks	-16	-11	+45.5
(Income)/Loss attributable to minority shareholders	-180	-132	+36.4
Net income	1,760	737	+138.8

Extraordinary items

Net extraordinary income amounted to 308 billion lire, a similar level to that in 1997. Favorable items included 166 billion lire in prepaid taxes relating to earlier years, credited in 1998 by virtue of extending the application of IAS 12 (the International Accounting Standard) on deferred taxation, which was previously restricted to the Parent Bank (with a reference period of four future years). Extraordinary expense included 47 billion lire in leaving incentives offered to employees.

Income taxes

The charge for income taxes of 1,220 billion lire implies an effective tax rate of 38.4%. It is not directly comparable with the 1997 figure due to the introduction of IRAP and the extension of the reference period for the treatment of deferred taxation.

Operating volumes and organization

Customer deposits

Confirming the trend of the last two years, there was a further significant shift in customers' investment preferences in favor of professionally-managed savings, given the shrinking yields on money-market investments as European interest rates converged, in the run-up to introducing the single European currency.

The Group took full advantage of the changing market scenario, securing a significantly increased volume of customer assets. Overall, these totaled in excess of 467,000 billion lire by the end of the year, having risen by 8.7%. Indirect deposits grew by 24.6% to 278,000 billion lire, including managed savings exceeding 161,000 billion, 50% up. Direct deposits declined by 8.5%, to 188,590 billion lire.

The trend in investor decisions showed through in the structure of deposits business. The proportion of total deposits represented by managed savings rose from 25% to nearly 35%; that of direct deposits fell from 48% to 40%.

	31/12/98		31/12/97 (pro forma)		Change (%)
	L/bln	%	L/bln	%	
Direct customer deposits	188,590	40.4	206,126	48.0	-8.5
• ordinary	87,494	18.7	94,629	22.0	-7.5
• securities issued	101,096	21.7	111,497	26.0	-9.3
Indirect customer deposits	278,540	59.6	223,622	52.0	+24.6
• managed savings	161,308	34.5	107,533	25.0	+50.0
• administered savings	117,232	25.1	116,089	27.0	+1.0
Total customer deposits	467,130	100.0	429,748	100.0	+8.7

Domestic market shares

Total deposits in the domestic market rose by 10.8% compared with a system average of 7%. The resulting increase in market share was from 10.6% to 11.0%. In the case of indirect deposits, the rise was from 11.2% to 12.4%; the share of direct deposits declined from 10.0% to 9.2%.

	%	
Market shares	31/12/98	31/12/97 (pro forma)
Direct deposits	9.2	10.0
Indirect deposits	12.4	11.2
Total deposits	11.0	10.6

Direct deposits

The decline of 8.5% in direct deposits during the year mainly reflected reductions of 24.2% in the level of CDs and 15% in that of deposits linked to repurchase agreements.

	31/12/98		31/12/97 (pro forma)		Change (%)
	L/bln	%	L/bln	%	
Current accounts and savings deposits	58,160	30.8	62,716	30.4	-7.3
Certificates of Deposit	23,349	12.4	30,816	15.0	-24.2
Bonds	74,425	39.5	76,890	37.3	-3.2
Commercial paper	2,701	1.4	3,242	1.6	-16.7
Repurchase agreements	16,974	9.0	19,962	9.7	-15.0
Other	12,981	6.9	12,500	6.0	+3.8
Direct customer deposits	188,590	100.0	206,126	100.0	-8.5

Instruments maturing in over 18 months were the most affected in the drop of 24.2% in certificates of deposit. The longer-dated certificates are penalized by redemption rates; at the same time, they are being displaced as a result of the business emphasis towards managed savings.

The reduction of 7.3% in the combined total of deposits on current and savings accounts was entirely attributable to foreign business, this element falling by 47%. The corresponding domestic total was 6% up, primarily reflecting the poor showing of alternative investments. Other factors in the improvement were the volatility in the financial market and an upturn in corporate liquidity, derived from profits and favorable cash flow.

There was a slight decline in the level of deposits in the form of bonds during 1998. Normal and early redemptions in conditions of a decline in medium/long-term lending, together with applications for early redemption of fixed-rate loans, were all but offset by new issues of structured products, including zero-coupon bonds linked to international stockmarket indices or baskets of equities in specific sectors.

Analysis by currency, term, rate and residence

The easing of deposit levels was mainly apparent among lira deposits, largely reflecting the sharp downturn in CDs, over two-thirds of which are denominated in lire.

An analysis by term reveals a shift towards demand deposits, echoed in the popularity of current and deposit accounts in the domestic market.

There was an increase in the proportion of deposits originating with Italian residents. Despite a healthy sector performance by Banque Sanpaolo, non-residents' deposits declined overall; the effect was confined to the latter months of the year and followed the rationalization of Group operations abroad.

Deposits	31/12/98		31/12/97 (pro forma)		Change (%)
	L/bln	%	L/bln	%	
in lire	152,144	80.7	167,866	81.4	-9.4
in foreign currencies	36,446	19.3	38,260	18.6	-4.7
on demand	57,210	30.4	57,166	27.7	+0.1
maturing within 12 months	53,214	28.2	66,570	32.3	-20.1
maturing beyond 12 months	78,166	41.4	82,390	40.0	-5.1
• fixed-rate	35,653	18.9	37,201	18.0	-4.2
• floating	42,513	22.5	45,189	22.0	-5.9
from Italian residents	146,211	77.5	155,938	75.7	-6.2
from residents of other EU countries	26,693	14.2	31,798	15.4	-16.1
from residents elsewhere	15,686	8.3	18,390	8.9	-14.7

Managed and administered savings

Managed savings, which rose by around 54,000 billion lire, were the driving force in the substantial (24.6%) rise in the level of indirect deposits

	31/12/98		31/12/97 (pro forma)		Change (%)
	L/bln	%	L/bln	%	
Managed savings	161,308	57.9	107,533	48.1	+50.0
• mutual funds	114,935	41.3	80,162	35.8	+43.4
• portfolio management	31,523	11.3	16,893	7.6	+86.6
• insurance policies	14,850	5.3	10,478	4.7	+41.7
Administered savings	117,232	42.1	116,089	51.9	+1.0
Total indirect customer deposits	278,540	100.0	223,622	100.0	+24.6

The Group maintained its lead in the Italian market on the strength of these results. In the case of mutual funds, our market share at the end of the year stood at 17.5%; in the life insurance sector it amounted to 5.3%, rising to 11.7% among the banks in the sector.

By the year end, the combined assets of the Group's mutual funds had reached just under 115,000 billion lire, inflows having amounted to nearly 35,000 billion. The proportion represented by equity funds increased, by 26% and 41% in the cases of Sanpaolo Fondi and Banca Fideuram respectively.

Portfolio management services were also a significant contributor to the rise in managed savings, on the strength of the element invested in mutual funds; assets under management climbed by more than 14,000 billion lire to pass 31,500 billion.

Index-linked, unit-linked and other new types of insurance with a high financial content led the way in substantial growth of the portfolio of policies placed by the Group, these reaching almost 14,900 billion lire by the year end - an increase of over 4,400 billion. The results of Sanpaolo Life in Ireland were especially encouraging; this wholly-owned subsidiary of Sanpaolo Vita was formed to develop innovative policies for the Italian market, and in its first three months of operations achieved premium income of over 700 billion lire - entirely related to unit-linked policies.

The level of administered savings edged up by 1% during the year to 117,232 billion lire. The effect of the marked shift towards managed savings was more than offset by appreciation in the values of equities and other securities, reflecting lively stockmarket performances in Italy and elsewhere in Europe.

Lending

Lending activity was much influenced by a Group policy based on severely selective criteria for new loans, adopted with the twin aims of containing risk and maximizing return at the level of the individual contract.

The customer loans portfolio declined by almost 11,000 billion lire (6%) to just over 168,000 billion at the year end.

Lending	31/12/98		31/12/97 (pro forma)		Change (%)
	L/bln	%	L/bln	%	
Short-term	61,505	36.6	66,542	37.0	-7.6
Medium- and long-term	102,840	61.1	108,493	60.2	-5.2
Non-performing loans	3,896	2.3	5,103	2.8	-23.7
less: IMI reserve for lending losses	-	-	-1,073	-	-
Customer loans portfolio	168,241	100.0	179,065	100.0	-6.0

The decline was most marked among short-term loans, where the level decreased by 7.6% to 61,505 billion lire. An acceleration in the rate of decline in the second half of the year was entirely due to curtailment of corporate-sector lending activity among the Parent Bank's foreign branches. This arose from a strategy aimed at improving the return on the Group's lending, and involved cutting back on lending by the foreign network.

The level of medium/long-term loans stood at 102,840 billion lire at the end of the year. The more modest decline (5.2%) than in short-term loans reflected a recovery of volumes during the second semester. The decrease primarily arose in the corporate segment also in this case, partly as a result of the stringent criteria applied to new loan applications, and partly due to external factors. The latter included intensified competition at home and abroad, a trend among businesses towards self-financing and recourse to the capital markets, a sluggish increase in capital investment and lower levels of debt among certain large public groups. The total was also affected by early repayments from large borrowers.

Market shares

The Group's share of the lending market declined from 12.8% at the end of 1997 to 11.4%. In the case of short-term loans, the reduction was from 7.8% to 6.4%; in that of medium/long-term lending, from 18% to 16.5%.

Shares of lending market	%	
	31/12/98	31/12/97 (pro forma)
Short-term	6.4	7.8
Medium/long-term	16.5	18.0
Total	11.4	12.8

By customer segment

An analysis of the loans portfolio by customer segment reveals a mixed picture of change during 1998. There was a significant increase in the level of lending to consumers (6.4%), while the total absorbed by family businesses and companies outside the finance sector eased by 5%. Larger reductions applied in the cases of finance companies (26%) and government agencies (6.2%). Together, the proportion of the total portfolio represented by financial companies decreased from 13.5% to 10.7%.

Loans portfolio	31/12/98		31/12/97 (pro forma)		Change (%)
	L/bln	%	L/bln	%	
Consumers	18,697	11.1	17,566	9.7	+6.4
Family businesses and non finance-sector companies	86,262	51.3	90,800	50.4	-5.0
Finance companies	17,969	10.7	24,278	13.5	-26.0
Governments and public bodies	42,397	25.2	45,176	25.1	-6.2
Other	2,916	1.7	2,318	1.3	+25.8
less: IMI reserve for lending losses	-	-	-1,073	-	-
Total customer loans	168,241	100.0	179,065	100.0	-6.0

By type of loan

Among consumers, the levels of mortgages and personal loans grew by 4.3% and 12.1% respectively. Demand for the former was stimulated by a revival in the real-estate market, combined with interest rates reduced to a level that restored the attractions of borrowing for home purchase. The Bank responded with products index-linked to the new EURIBOR, which were well-received by customers.

The combined total of loans in the hands of family businesses, companies, governments and public bodies declined during the year; the only types of lending that contrasted with the weakening trend were leasing (up by 11.5%) and advances linked to repurchase agreements; the latter fluctuated widely during the year, reflecting their purely monetary nature and relatively large transaction average.

Loans portfolio	31/12/98		31/12/97 (pro forma)		Change (%)
	L/bln	%	L/bln	%	
Consumers	18,697	11.1	17,566	9.7	+6.4
• Domestic network	18,690	11.1	17,562	9.7	+6.4
• overdrafts	1,252	0.8	1,358	0.8	-7.8
• personal loans	889	0.5	793	0.4	+12.1
• mortgages	15,671	9.3	15,019	8.3	+4.3
• other	878	0.5	392	0.2	+124.0
• Foreign network	7	0.0	4	0.0	+75.0
Family businesses, companies, governments, public bodies and other	149,544	88.9	162,572	90.3	-8.0
• Domestic network	132,393	78.7	139,967	77.7	-5.4
• overdrafts	15,942	9.5	19,204	10.7	-17.0
• repurchase agreements	4,604	2.7	3,616	2.0	+27.3
• import/export financing	2,632	1.6	3,198	1.8	-17.7
• leasing	2,576	1.5	2,310	1.3	+11.5
• installment-based loans	86,286	51.3	89,309	49.5	-3.4
• other	20,353	12.1	22,330	12.4	-8.9
• Foreign network	17,151	10.2	22,605	12.6	-24.1
less: IMI reserve for lending losses	-	-	-1,073	-	-
Total customer loans	168,241	100.0	179,065	100.0	-6.0

By currency, term, rate and residence

The decline in lira-based lending was a relatively modest 4.5%, while that in foreign currencies amounted to 16.8%. Factors in the latter downturn included the curtailed lending activity at the foreign branches, together with stabilization of the lira and the progressive convergence of lira interest rates with those associated with the other European currencies.

A lower rate of decline applied to loans repayable in more than 12 months, reflecting the increased levels of mortgages and personal loans to consumers.

The cutback in lending via the foreign branches is apparent also from a rise in the proportion of the portfolio in the hands of Italian residents, from 85% at end-1997 to 88%.

	31/12/98		31/12/97 (pro forma)(*)		Change (%)
	L/bln	%	L/bln	%	
in lire	142,322	84.6	148,999	82.7	-4.5
in foreign currencies	25,919	15.4	31,139	17.3	-16.8
on demand	22,305	13.3	24,961	13.9	-10.6
repayable within 12 months	47,651	28.3	51,878	28.8	-8.1
repayable beyond 12 months	92,515	55.0	96,714	53.7	-4.3
• <i>fixed-rate</i>	40,385	24.0	41,702	23.2	-3.2
• <i>index-linked</i>	52,130	31.0	55,012	30.5	-5.2
unspecified duration	5,770	3.4	6,585	3.6	-12.4
to Italian residents	148,339	88.2	153,755	85.4	-3.5
to residents of other EU countries	13,165	7.8	16,432	9.1	-19.9
to residents elsewhere	6,737	4.0	9,951	5.5	-32.3
secured by mortgage	32,481	19.3	33,214	18.4	-2.2
secured by lien or backed by guarantee	41,146	24.5	48,096	26.7	-14.4
unsecured	94,614	56.2	98,828	54.9	-4.3

(*) Loans are shown prior to the reclassification of IMI's provisions of 1,073 billion.

Problem loans

The combined total of loans categorized as non-performing, underperforming, rescheduled, being rescheduled, and unsecured loans to parties subject to country risk amounted to 7,473 billion lire at the end of 1998, having fallen during the year by over almost 2,000 billion compared with the pro forma figure at the end of 1997. The reduction partly arose from a higher level of repayments and a slowing of reclassifications to the 'problem' categories. Another factor was a change in accounting policy in line with the international standards for valuing lending assets, which involves discounting the loans to their net present value on a basis that reflects the financial cost of their total or partial non-performance.

Loans portfolio	31/12/98		31/12/97 (pro forma)		Change (%)
	L/bln	%	L/bln	%	
Non-performing	3,895	2.3	5,097	2.8	-23.6
Underperforming, rescheduled, being rescheduled	3,149	1.9	3,600	2.0	-12.5
Customer loans subject to country risk	190	0.1	345	0.2	-44.9
Normally-performing loans	161,007	95.7	171,096	95.0	-5.9
less: IMI reserve for lending losses	-	-	-1,073	-	-
Total customer loans	168,241	100.0	179,065	100.0	-6.0
Non-performing and under-performing loans to banks	8	-	6	-	+33.3
Loans to banks subject to country risk	213	-	394	-	-45.9

On an after-writedowns basis, non-performing loans amounted to 3,895 billion lire, down by 23.6%, and representing a ratio to total lending of 2.3% - also improved, despite the lower total portfolio. Accruing default interest caused non-performing loans before writedowns to edge up by 0.7%. Coverage as measured by the ratio of total writedowns to the gross total of non-performing loans was substantial, at 55.5%; including amounts written off, the coverage ratio was 66.4%.

After writedowns, loans classed as underperforming, rescheduled and being rescheduled were down by 12.5% at 3,149 billion lire, a ratio to total lending of 1.9%. Ignoring writedowns, the decline amounted to 7.9%. The coverage represented by the relevant writedowns stood at 23.6%; including amounts written off, the coverage ratio was 32.5%.

Lending exposure subject to country risk, in the form of unsecured cash loans, totaled 421 billion lire after writedowns, comprising 208 billion and 213 billion relating to lending to customers and other banks, respectively. The reduction during the year was 43,1% on an after-writedowns basis (23,8% ignoring writedowns). Coverage rose from 18% to 39%, largely reflecting writedowns equal to 60% against amounts due from borrowers in the Russian Federation.

Operations in the financial markets

The Group reduced its volume of own-account dealings in the financial markets during 1998, as part of a strategy aimed at containing risk and increasing the 'risk-free' element of revenues. On the other hand, client-account dealing volumes were up, as were placings and corporate-finance operations.

	31/12/98		31/12/97 (pro forma)		Change (%)
	L/bln	%	L/bln	%	
Investment securities	4,536	9.1	5,738	10.5	-21.0
Dealing securities	45,280	90.9	49,132	89.5	-7.8
Securities portfolio	49,816	100.0	54,870	100.0	-9.2
Deposits with banks	44,713		67,734		-34.0
Funding from institutional banking organizations	9,544		10,005		-4.6
Funding from other banks	44,212		65,641		-32.7
Derivatives and forward transactions in foreign currencies (at nominal value)	671,001		858,380		-21.8

Own-account dealings and treasury operations

The volume of dealings on own account was constrained by a policy that sought to contain overall risk. Liquidity management by the Parent Bank was mainly concerned with the shortest maturities, with the twin aims of reducing risk and taking advantage of the slower convergence of short-term as against long-term rates. Banca IMI's dealings were also conditioned by a policy of exploiting opportunities for arbitrage without taking up entrenched positions. The benefits included containment of the losses arising from market volatility during the summer.

The decision to reduce overall risk was reflected in a 7.8% decline in the dealing securities portfolio (to around 45,300 billion lire) and a shift in its composition towards maturities of less than 12 months; these rose by 53%. The 21% decline in holdings of investment securities resulted from non-replacement of maturing government stocks, following a decrease in the types of deposit business connected to these.

	31/12/98		31/12/97 (pro forma)		Change (%)
	L/bln	%	L/bln	%	
Debt securities	47,481	95.3	52,236	95.2	-9.1
• government stocks	31,805	63.8	33,722	61.5	-5.7
• other	15,676	31.5	18,514	33.7	-15.3
Equities	2,334	4.7	2,634	4.8	-11.4
Lira-based securities	37,975	76.2	37,827	68.9	+0.4
Foreign currency securities	11,840	23.8	17,043	4.8	-30.5
Sight securities (including shares)	322	0.7	1,060	2.0	-69.6
Short-dated (within 12 months)	18,711	39.4	12,191	23.3	+53.5
Long-dated (beyond 12 months)	28,448	59.9	38,985	74.6	-27.0
• fixed-rate	16,058	33.8	26,678	51.1	-39.8
• index-linked	12,390	26.1	12,307	23.6	+0.7
Quoted securities	41,023	82.4	46,207	84.2	-11.2
Unquoted securities	8,792	17.6	8,663	15.8	+1.5

The objective of reducing market risk also affected dealing volumes in derivatives; together with forward transactions in foreign exchange, these were down on the level at the end of the previous year by 22%, at 671,001 billion lire. Among the instruments affected, those traded outside the organized markets were sharply down. A significant reduction in forex agreements was due to the stabilizing of exchange rates in the Euro area, an effect only partly offset by an increase in dealings in other currencies. By contrast the Group maintained a high level of activity in the organized markets, the Parent Bank securing a share of over 3% in the market in share options based on the FIB30, MIB30 and ISOALFA, as well as shares of 3.4% and 0.76% in dealings in the MIF (futures) and MTO (domestic options) markets. The Group's presence in the LIFFE market also remained substantial.

*Client-account dealings;
capital market and corporate
finance operations*

There was a reduction of around 12% in medium- and long-term funding sourced by the Parent Bank from international institutions and other banks. This reflected the slowing of lending outflows that resulted from the policy of reducing the risk profile of the asset base to maximize the return on the relevant investment.

The growing attractions of the stockmarket for small investors resulted in an appreciable rise in the relevant dealing volumes. Client-account trading via the subsidiary Intersim climbed by 59%, largely on the strength of the buoyancy of the equities market, to reach 141,000 billion lire.

Via Banca IMI, the Group extended its lead in the domestic market as regards new issues in both the banking and corporate sectors; in the latter case, these were up by 30% on the previous year. The major operations related to issues on the euromarket by Prada, Merloni Termosanitari and Cremonini, which were organized and placed jointly with IMI Bank (Lux). In the listed companies sector, IMI Banca organized a bond issue in the Italian market for Unicem.

Successful operations continued in the placing of banking-sector bond issues, which were up by 30% compared with the previous year. Issues were organized for, among others, Centrobanca, ICCRI, Mediocredito Lombardo, Mediocredito Centrale and the EIB. Banca IMI also acted as Sole Manager for a subordinated bond issue (Upper Tier II) by the Banca Intesa Group.

The Group's share-placing activities included a Global Coordinator's role in number of operations, largely conducted via Banca IMI, namely in the cases of Eni4, Alitalia, Saipem, Cremonini, Lazio and Sabaf, as well as acting as Lead Manager in the placings associated with the STMicroelectronics, Sol and Targetti Sankey flotations. The branch network achieved significant results in share-placing activities, securing market shares of around 10% in the cases of the Eni4 and BNL operations. Banca IMI was also appointed Sponsor (as defined by the new legislation on quotations) in connection with the stockmarket quotations of Sabaf, Lazio, STMicroelectronics, Banca Popolare di Verona – Banco di S. Geminiano e S. Prospero, Unim and Cremonini shares. Placings of foreign equities jointly with IMI Sigeco (UK) continued, involving participation in the Stet Hellas and Swisscom operations. Banca IMI also secured the Coordinator's role in the takeover bids for Esaote, Unicem, Serfi and Exor.

Activities in the field of consultancy on special financing included advising leading organizations at home and abroad. The Group acted as

Financial Advisor in a number of such operations, including the spin-off by INA of a substantial portion of its real estate portfolio - a first in the domestic market. Public sector clients of the Group's financial consultancy services included Rome-based ACEA.

In 1999, Banca IMI was mandated by Banca Monte dei Paschi di Siena to underwrite with institutional investors a stake of 19% in Banca Agricola Mantovana of which Banca Monte dei Paschi acquired control following a public offer.

Investments

Investments in companies other than those included in the line-by-line consolidation totaled 2,559 billion lire at the end of 1998, having increased from the pro forma level a year earlier by 11.5%.

	31/12/98		31/12/97 (pro forma)		Change (%)
	L/bln	%	L/bln	%	
Investments	2,559	100.0	2,295	100.0	+11.5
• <i>carried at equity</i>	1,106	43.2	1,002	43.7	+8.1
• <i>carried at cost</i>	1,453	56.8	1,293	56.3	+14.2
• <i>in listed companies</i>	1,046	40.9	868	37.8	+20.5
• <i>in other companies</i>	407	15.9	425	18.5	-4.2

The Group's investments in non-Group listed companies include interests of 3% in INA, 2.6% in UNIM, 0.5% in Banco Santander; 0.8% in Telecom Italia, 0.1% in ENI and 0.4% in Mediaset. The year-end total carrying value of 1,046 billion lire implies unrealized gains of over 500 billion.

Changes in the Group's investments during 1998 included:

- Subscription of a new share issue on capital increase by Sanpaolo Vita SpA, an investment of 50 billion lire forming part of a total injection of 85 billion to fund planned growth of the company's operations
- Disposal of the Group's 32% interest in Ruegg Bank AG, Switzerland, to Société Générale, for 43 billion lire, realizing a gain of 10.5 billion
- Disposal of Sotim Srl, a real estate and vacation-industry holding company (whose interests include a holding in Valtur SpA) to Fin.Cab. SpA, a Patti Group holding company, for 21 billion lire (carrying value).
- An increase in the interest in Inter-Europa Bank RT, Hungary, from 30% to 32.5% at a cost of 7.3 billion lire

The following transactions were in investments carried at cost:

- Acquisition of an interest in Banco Santander, which has subsequently been increased following the merger that led to the formation of Banco Santander Hispanoamericano. An approximately 0.5% interest in the Spanish bank was acquired for 170 billion lire during 1998; in early 1999, the holding was increased to around 1% in the merged enterprise, at a cost of 405 billion. The investment is a prelude to joint development of commercial ventures targeting specific market areas and segments.
- The acquisition and subsequent part resale, for 150 billion lire and 121 billion respectively, of an interest in the listed company Credito Bergamasco SpA; the remainder of the holding was sold in early 1999. The total gain on disposal was 1.1 billion lire.
- Disposal of part of the holding in Mediaset SpA for 28.5 billion lire, producing a gain of 11.7 billion.
- Disposal of the interests in Meliorbanca SpA (3.67%) for 10.6 billion lire and in Sitaf SpA (7.24%) for 11.3 billion. The gains amounted to 2.5 billion lire (gross) and 3 billion, respectively.

Since the year-end, the Group has increased its interest in INA from 3% to 3.7% at a cost of 114 billion lire.

Also in 1999, the Parent Bank acquired 9.7% of Banca Agricola Mantovana with an investment of approximately 400 billion lire. The purchase was related to Banca IMI's placing of 19% of BAM.

Structure of operations

During 1998, the Group again extended its network of ATMs and electronic-banking links, and expanded its team of financial advisors. The process among the domestic branches leading to specialization in particular market segments gathered momentum, while the operations of the Parent Bank's foreign branches were rationalized.

These changes were accompanied by substantial staff cuts.

The branch network

The Group's domestic branches numbered 1,346 at the end of 1998, little changed (up by eight) from the total a year earlier. Rather than on expansion, the focus was on advancing the process, begun in earlier years, of reorganizing the existing branches with a view to enhancing their market orientation.

However, a plan has now been approved for substantial enlargement of the network, involving 130 new openings over the next two years. Most of the new branches will be of the smaller type, with a bias towards the personal-customer segment, and located in central/southern Italy; the remainder will be strategically located throughout the country. The plan arises from a strategy aimed at internal growth in parallel with the search for fresh opportunities for amalgamation.

	31/12/98	31/12/97 (pro forma)	Change (%)
Banking branches and area offices	1,409	1,401	+0.6
• Italy	1,346	1,338	+0.6
- Parent Bank	1,289	1,285	+0.3
- Banca Fideuram	57	53	+7.6
• Abroad	63	63	-
- Parent Bank	11	11	-
- Banque Sanpaolo	52	52	-
Representative offices	12	12	-
Financial advisors	4,473	3,865	+15.8
- Banca Fideuram	3,168	2,813	+12.6
- Sanpaolo Invest	1,305	1,052	+24.0

There was no change in the number of the Parent Bank's foreign branches. Of the total of 11, seven are in Europe (Amsterdam, Athens, Brussels, Frankfurt, Munich, London and Vienna) and the other four in New York, Nassau, Singapore and Tokyo. Following the merger of San Paolo and IMI, these branches concentrate on corporate lending while capital markets business was transferred to the Banca IMI subsidiary.

Both networks of financial advisors were enlarged substantially during the year, from 2,813 to 3,168 in the case of Banca Fideuram and from 1,052 to 1,305 in that of Sanpaolo Invest.

The numbers of automated banking terminals and electronic banking links also grew significantly. The volume of transactions via the Bancomat ATMs in the domestic market rose by 14%, while those based on POS terminals were over 30% up. Telephone banking operations more than doubled. Links to the remote banking services increased by nearly 50%.

Employees

The Group's workforce numbered 24,527 at the end of 1998, 636 fewer than a year earlier:

The reduction was confined to the Parent Bank, where a program of leaving incentives and control of staff turnover reduced the headcount by 789.

There was a net increase of 153 in the combined total for the other Group companies, including 126 arising from consolidation on a proportional basis of 50% of Finconsumo. On a consistent basis of comparison, the increase amounted to 27, reflecting recruitment in the savings-management and investment banking business areas.

	31/12/98		31/12/97 (pro forma)		Change (%)
Employees at year-end	24,527	100.0	25,163	100.0	-2.5
• <i>Managers</i>	342	1.4	369	1.5	-7.3
• <i>Officials</i>	4,403	18.0	4,573	18.2	-3.7
• <i>Other grades</i>	19,782	80.6	20,221	80.3	-2.2
Average during the year	24,845		25,732		-3.4

Equity capital

Share-holders' equity

Shareholders' equity in the Group stood at 16,784 billion lire at the end of 1998. The year's movements are summarized below:

	<i>in billions of lire</i>
Shareholders' equity (pro forma) as of January 1, 1998	16,494
Decreases	
• Dividends	-1,440
• Capital tax	-87
Increases	
• Differences on foreign exchange and other adjustments	41
• Change in reserve for general banking risks	16
• Net income for the year	1,760
Shareholders' equity as of December 31, 1998	16,784

For the purposes of consistent comparison, opening shareholders' equity, 16,494 billion lire has been adjusted to reflect operations arising on the merger, as described in detail in the explanatory notes.

Treasury shares

The following is a summary of Group transactions in Sanpaolo IMI shares during the year:

- There were no dealings in treasury shares by the Parent Bank; it held no such shares at the year-end.
- The subsidiary Banca IMI held 338,000 IMI shares (par value 1,690 million lire) at the year end, with a carrying value of 7,089 billion lire. A total of 7,485,918 IMI shares (par value 37,428 million lire) were purchased during the year for 195,664 million lire; 7,823,504 IMI shares (par value 39,118 million lire) were sold, the proceeds amounting to 205,672 million. As of the effective date of the merger, November 1, 1998, IMI Banca purchased 2,296,441 Sanpaolo IMI shares (par value 13,779 million lire) for 53,150 million lire, and sold 2,788,918 Sanpaolo IMI shares (par value 16,734 million) for 67,071 million lire. Including its holding at October 31, 1998 Banca IMI's year-end holdings of Sanpaolo IMI shares totaled 354,124 shares (par value 2,125 million lire), with a total carrying value of 10,347 million lire.
- The subsidiary IMI Sigeco UK had no holdings of IMI shares at the start of the year. During the year, it purchased 7,874,190 IMI shares (par value 39,371 million lire) for 205,952 million lire, and sold these before

the effective date of the merger (November 1, 1998) for 206,491 million lire. Between that date and the end of the year it purchased 152,235 Sanpaolo IMI shares (par value 913 million lire) for 4,142 million lire, and sold these for 4,159 million. It thus had no holdings of such shares at end of the year.

- At the start of the year, the subsidiary Intersim did not hold any Sanpaolo shares. During the year it purchased 605,718 Sanpaolo shares (par value 6,057 million lire), for 15,903 million lire, and sold 605,718 Sanpaolo shares (par value 6,057 million lire) for 15,848 million lire. After November 1, 1998 Intersim also bought 156,004 San paolo IMI shares (par value 936 million) for 4,210 million lire and sold 155,638 Sanpaolo IMI shares (par value 934 million) for 4,214 million lire. The company's holding at the year-end therefore amounted to 366 Sanpaolo IMI shares (par value 2 million lire), with a total carrying value of 11 million lire.

Regulatory capital and capital adequacy

The Sanpaolo IMI Group conforms with Bank of Italy requirements regarding capital adequacy.

	12/31/98 L/bln	12/31/97 L/bln
Shareholders' equity for supervisory purposes		
Tier 1 capital	15,577	16,609
Tier 2 capital	2,473	3,085
less: prescribed deductions	-224	-231
Total capital	17,826	19,463
Weighted assets		
Lending risk	140,900	147,025
Market risk	18,394	19,085
Other requirements	1,369	1,477
Total assets	160,663	167,587
Capital adequacy ratios		
Tier 1 capital / Total risk-weighted assets	9.7%	9.9%
Total capital / Total risk-weighted assets	11.1%	11.6%

Regulatory capital amounted to 17,826 billion lire at the end of 1998, comprising Tier 1 and Tier 2 capital of 15,577 billion and 2,473 billion respectively, after deductions. Tier 1 capital represents share capital and equity reserves in general, less intangible fixed assets. Tier 2 capital largely comprises the Bank's subordinated liabilities.

Regulatory capital reflects assets (including off balance-sheet assets) weighted for risk, totaling 160,663 billion lire, comprising 140,900 billion lire exposed to lending risk and 18,394 billion exposed to market risk.

The ratio of regulatory capital to total assets weighted for lending and market risk amounted to 11.1% at the year end, compared with a pro forma ratio 12 months earlier of 11.6%. Capital adequacy in relation to lending risks alone stood at 12.7 %, compared with a required minimum of 8%. At 9.7%, the ratio of Tier I capital to weighted assets compares with 9.9% (pro forma basis) at the end of 1997.

Risk management

Basic principles

The Group attaches high importance to the management and control of risks. The principles underlying this activity are clear lines of responsibility for risk-taking, risk-measurement and control systems consistent with best practice at international level, and organizational separation of the control functions from the operating business units.

The policies regarding the acceptance of lending and financial risks are formulated by the Parent Bank's board and executive committee, which are advised on these matters by the specialized Financial Risks and Lending committees.

The Parent Bank exercises top-level risk management and control functions, including that of final decision in cases of major exposure. In this connection, it is supported by the Risk Management unit (which reports directly to one of the managing directors) and a Risk Control Unit (part of the accounting and planning function).

The business units whose operations generate lending and/or financial risks act within prescribed parameters and are equipped with their own control functions.

Management and control of financial risks

Organization

The central role in the management and control of financial risks rests with the Parent Bank's board of directors, which sets the strategic direction and guidelines for exposures to market risk, allocates funding on the basis of the expected risk/return profiles, sets the operating limits for the Parent Bank and defines the guidelines to be followed by the subsidiaries.

The Financial Risks committee defines the criteria and techniques for measuring risk, sets the operating limits of the Parent Bank and its business units and monitors the risk profiles of the business units throughout the Group. The committee comprises the managing directors, the heads of the units tasked with the acceptance and control of risks, and the head of Risk Management. It meets at least once a month.

The Risk Management unit is responsible for developing the methods for monitoring business risk. It is supported in this connection by a Financial Analysis Development unit. The Risk Management unit also makes

recommendations regarding the system of operating limits imposed on the Bank's and Group's various lines of business.

The Risk Control unit measures the existing exposures of the various operating units, and monitors the latter's compliance with the limits set by the board, executive committee and Financial Risks committee.

The individual business units measure financial risk, and apply a system of limits that are consistent with the top-level system used by the Parent Bank.

Measurement techniques

The principal methods used by the Group to measure financial risk are:

- *Value at Risk (VaR)*;
- *Shift sensitivity*;
- *Worst-case scenario*.

VaR determines the largest loss that could arise on the financial portfolio over a period of 10 working days ahead at a 99% confidence level. It quantifies overall exposure using a broad-brush statistical technique. This linear parametric method estimates the fluctuations in the value of the portfolio, based on intrinsic volatility and historical correlations between the risk factors. The latter are defined for each currency in terms of short- and long-term interest rates, exchange rates and the behavior of share prices.

The shift-sensitivity technique quantifies the effects on the value of a financial portfolio of adverse changes in the relevant risk factors. Interest-rate risk is defined as the loss or gain on a portfolio occasioned by a parallel, uniform shift of 25 basis points in the interest-rate curve. The values obtained for each currency are combined using a simplified correlation matrix. The variability of non-linear positions is estimated on the basis of an increase of 100 basis points in inherent volatility. Risk on equities is quantified as the loss on holdings (on and off balance sheet) assuming a 10% decline in share prices.

The worst-case scenario method generates a Maximum Potential Loss measure, representing the worst among the financial results arising from a number of scenarios associated with a significant discontinuity among the market parameters, on the basis of a one-day holding period and aggregating the losses arising from the various risk factors. The assumptions regarding the discontinuity are made on a highly conservative basis; statistical checking of the parameters is always carried out to ensure that the extreme values are within the daily fluctuation range observed over the preceding two years, at a confidence level of 95%.

The measurement and control system operates at two levels:

- Within the individual company or operating unit, using models of the deterministic type - scenario analysis, analysis of sensitivity to the various risk factors, and worst-case simulation. Linked to the models is a detailed system of operating limits in the form of maximum levels of exposure at each of the reporting levels in the risk-taking organization structure.
- Within the Risk Control unit, which evaluates Group-level risk using parametric VaR techniques. These provide a consistent basis for monitoring the risk levels arising from financial activities across the various companies and business units, and for integrating the risk measurements carried out at local level.

The action plan aimed at establishing this system involves standardizing the measurement techniques adopted, and includes changes to both information systems and the organization. Highly relevant to this objective is the provision of a single IT platform for the Group as a whole, to ensure system compatibility (without detracting from the operating independence of the various companies), while providing a Group-level overview of the entire range of operations (banking and trading book).

The details provided below of the Group's market-risk exposures during 1998 are based on reconstructions of the relevant positions. As regards trading activities and in certain other cases, aggregation of the measurements actually obtained is precluded by the diversity of the models used; measurements based on other methods have been substituted in these cases.

Non-trading activities

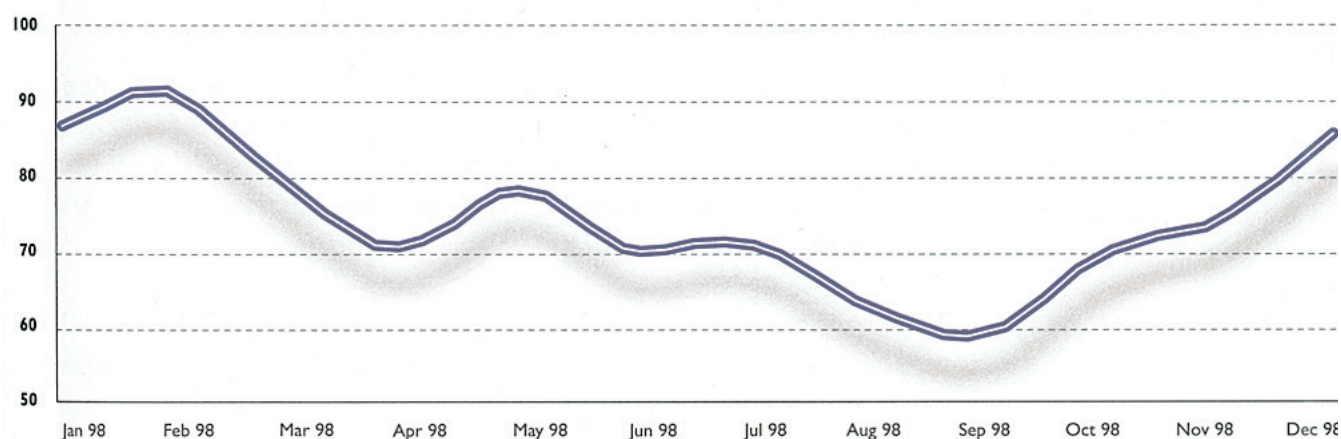
Banking Book activities

Market risk associated with lending ('banking book') operations is currently monitored on a shift-sensitivity basis. This will shortly be replaced by VaR techniques.

During 1998, shift sensitivity fluctuated between 58 billion lire and 91 billion, averaging around 74 billion.

The chart below shows the shift sensitivity picture as regards interest-rate risk during 1998.

SHIFT SENSITIVITY (in billions of lire)



The value of shift sensitivity as of the year end, calculated with reference to the Group' lending activities, amounted to 85.9 billion lire, compared with 70.6 billion a year earlier.

Gap analysis

The following table shows the gaps, within the various maturity bands, between the assets and liabilities sensitive to interest-rate movements, as of the end of 1998. Items subject to variable rates are included at the re-pricing date. The first repricing interval includes the dealing securities portfolio, stated at marked value, together with transactions without defined contractual re-pricing terms.

	<i>in billions of lire</i>						
	0-3 months	3-6 months	6-12 months	1-5 years	5-10 years	Over 10 years	Total
Assets	168,853	28,365	10,751	24,027	16,327	3,580	251,904
Liabilities	-157,793	-31,227	-9,345	-24,595	-16,316	-3,719	-242,996
Base gap	11,060	-2,862	1,406	-568	11	-139	8,908
Investment securities	1,454	1,004	244	816	923	97	4,536
Difference on hedging instruments	-321	-330	-139	1,321	-543	500	489
Total gap	12,193	-2,188	1,511	1,569	391	457	13,933
- cumulative	12,193	10,005	11,516	13,084	13,476	13,933	
Gap ratio (assets/liabilities)	1.08	0.93	1.16	1.06	1.02	1.12	

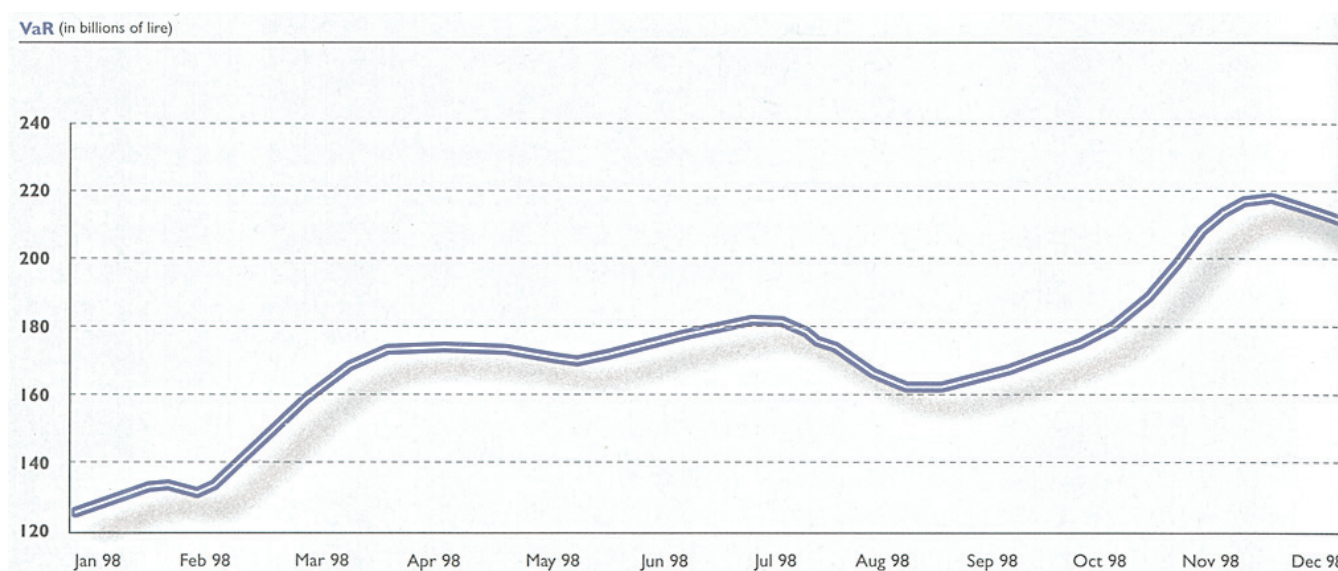
Investments in non-Group listed companies

The combined market values of the Group's investments in non-Group listed companies amounted to 1,602 billion lire at the end of 1998, some 525 billion lire above carrying value. The holdings included shares in Telecom Italia (carrying value 451 billion lire), Santander (170 billion) and INA (236 billion).

The market risk associated with this class of investment - which has no direct bearing on the statement of income, since they are stated at cost - is measured on a VaR basis.

The relevant average and minimum VaRs during the year amounted to 171 billion and 127 billion lire respectively; the maximum of 220 billion applied at the end of the year, and reflected an increase in the Parent Bank's investments of this type, together with the general rise in share prices accompanied by an increase in the volatility of equities.

The chart below shows the fluctuations in the VaR during the year. The data are after elimination of the former IMI's interest in the former Sanpaolo.



Shift sensitivity (based on a 10% shift) relating to the investments under discussion amounted to 158.3 billion lire at the year end, compared with 112.6 billion 12 months earlier.

Trading activities

Measurement addresses dealings, mainly those in securities (fixed income and equities), foreign exchange and derivatives.

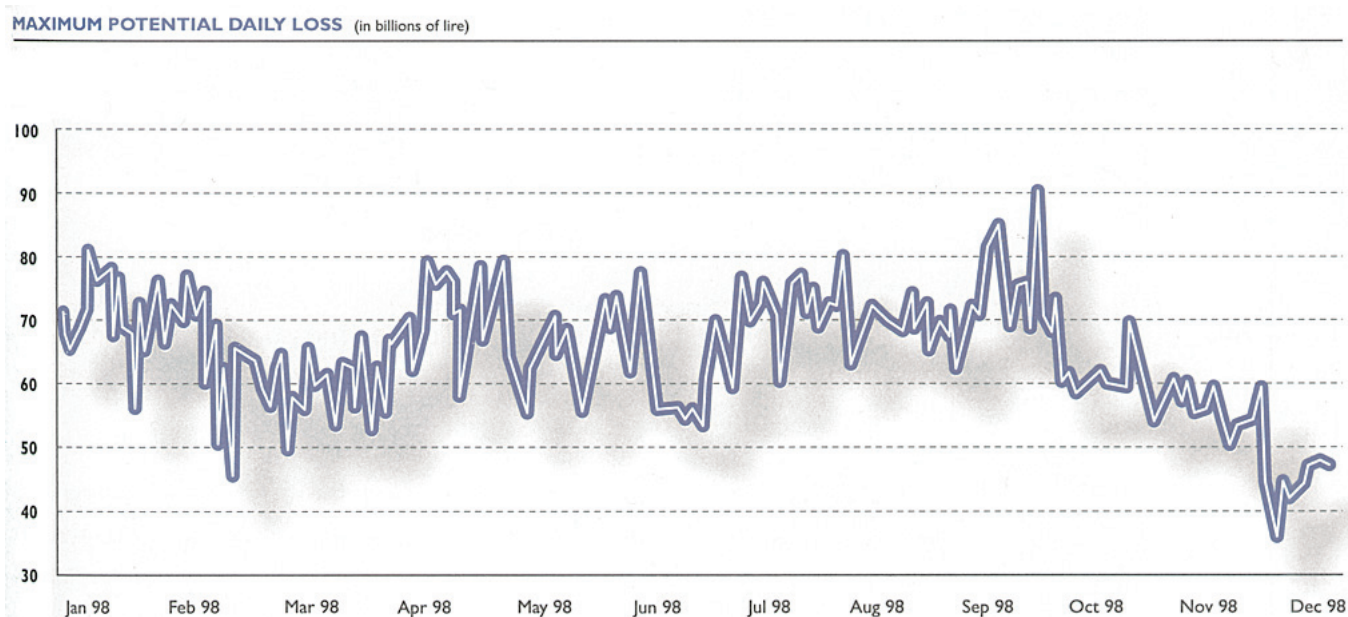
Trading-related risks are restricted to units authorized in this connection ('risk-taking centers'). During 1998, the principal of these were Banca IMI and the dealing rooms at the Parent Bank's London and New York branches. However, trading activities are currently being centralized within Banca IMI,

while the Parent Bank is to specialize in managing the financial risk arising from lending operations. Following completion of the reorganization in a few months' time, the other group companies will be free of any trading exposures, and will generally have a low risk profile.

Describing the Group's risk profile during 1998 necessarily involves reference to the differing methods of risk measurement used in the two organizations before the merger, namely Worst-Case Scenario and Shift Sensitivity in the former IMI and the former San Paolo, respectively. To provide a consistently-based overview of the exposures associated with trading activities, shift-sensitivity measurements by risk factor and the VaR are also presented on an integrated basis as of the year end.

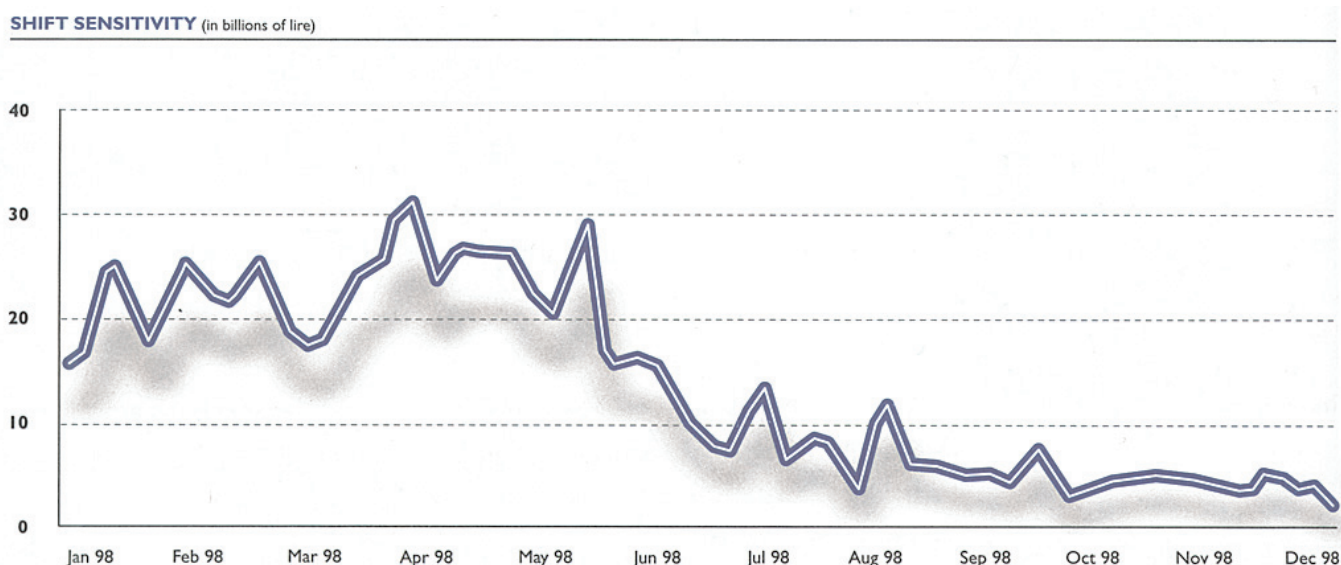
Interest-rate risk

Interest-rate risk as measured on a Worst-Case Scenario Basis among the former IMI companies (Banca IMI and IMI Bank Lux) fluctuated between 36 billion and 92 billion lire in 1998, averaging around 66 billion. The chart below depicts the fluctuations during the year:



'Backtesting' - relating actual results to the previous day's exposure - demonstrated the conservative nature of the measurement basis: the occasional losses were always less than the potential loss identified by the system for the day in question. This situation applied to all risk factors (interest-rate risk, foreign exchange risk and equity risk).

Interest-rate risk on the operations of the ex-Sanpaolo dealing rooms, measured on a shift-sensitivity basis, fluctuated between 2 billion and 31.3 billion lire and averaged around 13.9 billion, as reflected in the chart below.



On a shift-sensitivity basis, the Group's overall interest-rate risk associated with its trading operations amounted to 10.6 billion lire at the year end (against 55.1 billion 12 months earlier).

Equity risk

Equity risk among the former IMI companies, measured on a Worst-Case Scenario basis, fluctuated between 3 billion and 10 billion lire, averaging 6 billion.

The corresponding risk, measured as shift sensitivity applying the assumption of a 10% fall in prices, associated largely with the former Sanpaolo's relevant activities at the London branch and elsewhere, ranged between 1 billion and 16 billion lire, averaging 4 billion.

The year-end shift sensitivity of the trading activities of the Group as a whole as regards share price risk amounted to 5.8 billion lire (13.8 billion a year earlier).

Foreign exchange-rate risk

Foreign exchange risk among the former IMI companies, measured on a Worst-Case Scenario basis, fluctuated between 1 billion and 13 billion lire, averaging 5 billion.

The corresponding risk, measured as the VaR, associated with the former Sanpaolo's relevant activities, ranged between 1 billion and 7 billion lire, averaging 2 billion.

The year-end shift sensitivity of the trading activities of the Group as a whole as regards exchange-rate risk (assuming an adverse change of 3%) amounted to 0.1 billion lire (7.4 billion a year earlier).

Overall risk profile of the Group's trading activities

Measured on a VaR basis, risk of all types associated with the Sanpaolo IMI Group's trading activities amounted to some 27 billion lire at the end of 1998, analyzed by type of exposure below:

Risk factor	<i>billions of lire</i>
	VaR
Interest rate	15.1
Exchange rate	0.7
Share price	17.9
Diversification effect	-7.0
TOTAL	26.7

Management and control of credit risk

Control of the credit risk generated by the totality of banking operations received a high priority during 1998. Credit risk represents the major exposure for both the Bank and the Group as a whole.

Features of the Group's organization designed to ensure maximum efficiency in the management and control of credit risk include:

- allocation of specific responsibilities for lending-risk management to the individual business units;
- a Loan Recovery Department tasked with maximizing collections and speeding up the liquidation of non-performing loans;
- clear separation between control and management of credit risk; the former is spread throughout the organization, from business-unit to Parent Bank level.

The business units with the greatest risk exposures are the Commercial Banking HQ and the Large Corporate division. These operate within limits set by the board; proposals that exceed the authority level of their respective heads are submitted, together with the recommendation of the Lending Committee, to the managing directors, the executive committee or the main board, according to the amount involved. The Risk Management Committee participates in the appraisal, checking for consistency with business objectives in terms of the risk/return profile.

Arrangements to ensure separation of management and control of credit risk within the Commercial Banking area include the Lending Control unit, which constantly monitors lending quality and checks the classification and evaluation basis applied in particular cases. It is also involved in the management of existing credit risk, exercising a review function in cases showing the first danger signs or indications of deterioration.

The Risk Control unit's key functions in relation to credit risk are quantifying the exposure represented by the accounts of the larger borrowers, checking the consistency and integrity of the risk-measurement activities of the risk control functions within the various business units. In this connection, it is responsible for managing the relevant database, top-level reporting to senior management at the Parent Bank on trends in lending quality and utilization of economic and regulatory of capital by the individual business units.

Risk Management's responsibilities in the area of credit risk are those of defining, updating and validating the risk-measurement methods used by the Parent Bank and the Group generally, against the standard of international best practice. It also maintains the system of operating limits applied at company/business-unit level throughout the Group, and monitors deviations in the risk profiles of the Parent Bank and Group, making recommendations for corrective action.

A project initiated in the previous year to design a comprehensive risk-grading system was completed during 1998. The new system covers all corporate-sector exposures and includes a portfolio model that quantifies the expected loss; it also places a value on the total capital deployed in the lending activity.

Group companies

Main changes in Group structure

A number of substantial changes to Group structure were carried through in 1998, in many cases related to the rationalization measures that followed the merger between Sanpaolo and IMI. In other cases, the adjustments were aimed at improving the Group's market positioning.

Commercial Banking and Personal Financial Services – restructuring of the asset management sector

A substantial rationalization exercise was planned during 1998, affecting the business areas representing the focus for savings management activities under the new multi-specialist organization structure, namely Commercial Banking and Personal Financial Services.

First, Sanpaolo Fondi is to absorb Sanpaolo Asset Management; this operation will be finalized this year and will centralize mutual fund management and portfolio management activities within a single company, as permitted by Legislative Decree 58/98. The absorbing company, which will change its name to Sanpaolo IMI Asset Management, will specialize in managing the savings of retail and personal customers of the Sanpaolo IMI banking branches and the Sanpaolo Invest network of financial advisors.

Banca Fideuram is to secure full control of IMI Fideuram Asset Management, a savings management company currently owned in equal shares by Banca Fideuram and Sanpaolo IMI. IMI Fideuram Asset Management will specialize in managing the savings of the Fideuram Group's retail and personal customers.

A project aimed at upgrading asset-management services provided to institutional clients was also initiated in 1998. It involves the formation of a specialized company, Sanpaolo IMI Institutional Asset Management, in the light of the prospects for rapid expansion of this type of business, based on the emergence of pension funds and other new operators, coupled with the ongoing trend towards outsourced management among the existing operators (pension funds, banks, small insurance companies, foundations, businesses and others). The new company will commence operations this year. It will be approximately 55% controlled by Sanpaolo IMI Asset Management; the other shareholders will be Banca Fideuram (30%, via IMI Fideuram Asset Management) and Banca IMI (15%).

In Personal Financial Services, Sanpaolo Invest is to acquire a larger role, involving conversion to a bank and the introduction of dedicated savings-management services and products.

A rationalization of the Group's activities in international Private Banking entailed centralizing the Private Banking and Depository Bank business of IMI Bank Lux (Luxembourg) within a newly-formed Fideuram Group company, Fideuram Bank (Lux).

*Investment Banking –
centralization of operations
within Banca IMI*

In the Investment Banking area, the ground has been prepared for a complete centralization within Banca d'Intermediazione Mobiliare IMI (Banca IMI) and its subsidiaries.

The company's conversion to a bank was approved prior to the merger with Sanpaolo, which was followed by the transfer to Banca IMI of:

- the stockmarket activities carried on in Luxembourg by IMI Bank (Lux);
- control of IMI Investments, which in turn took over the US companies IMI Capital Markets and Mabon.

During 1999, the dealing activities of the former Sanpaolo Group will also transfer to IMI Banca, which will:

- take over the domestic-market dealing activities of the Parent Bank's relevant HQ units, together with Intersim;
- establish a London branch, as the focus for the London-based dealings of the Sanpaolo IMI branch and the subsidiary IMI Sigeco UK, while in the USA, Mabon will take over the Sanpaolo IMI New York branch's investment banking operations.

This strategy leaves the Parent Bank with the short-, medium- and long-term treasury function in support of the commercial bank.

*Government Agencies – sale
of Crediop to Dexia*

The public-works financing activity pursued by the Government Agencies business area was affected by another important change, linked to Sanpaolo-IMI merger. In the first half of 1997, Sanpaolo had reached a strategic collaboration agreement with the Franco-Belgian Dexia Group in the sector, which represents one of IMI's traditional markets. Dexia took a 40% interest in Crediop, on the premise that the Sanpaolo Group's sector activities would be restricted to Crediop.

Given IMI's high-profile sector presence, subsequent events led to an agreement (November 1998) to terminate the joint venture with Dexia; the arrangements include freeing Sanpaolo IMI of the exclusivity restriction, and the disposal of the remaining 60% interest in Crediop to Dexia. The latter transaction is scheduled for 1999, although some of the shares may

transferred during the following two years. The consideration amounts to 1,220 billion lire plus interest, generating a gross gain at Group level of around 470 billion.

*Corporate Center –
real-estate spin-off*

As envisaged in the business plan associated with the merger, proposals for a spin-off of certain of the Group's properties, primarily those not used in the business, are currently being appraised

**Performance of principal
Group companies**

Healthy results were achieved by the various Group companies during 1998, as briefly indicated below.

Commercial Banking

**Gruppo Banque Sanpaolo –
France (100%)**

Banque Sanpaolo, which operates in France via a network of 52 branches, reported net income sharply improved at FF 267 million (1997: FF 131 million), reflecting growing margins and the benefits of a capital injection of FF 1.2 billion in July 1997.

The interest margin was up by 12.7% at FF 565 million. Net interest and other banking income of FF 1,146 million was boosted by rising income from services (commissions were 51% up at FF 395 million) and from financial transactions (a leap of 178% to FF 75 million). Gross operating income amounted to FF 336 million, compared with FF 236 million in 1997.

The loans portfolio grew by 7.3% to FF 16.5 billion. Direct customer deposits rose by 17.6%, reaching FF 21.7 billion. Indirect deposits were also up, by 8.3% at FF 81 billion; the managed element was 19.8% higher at FF 21.2 billion, or 26% of total indirect deposits.

Banque Sanpaolo has acquired significant expertise in the fields of mortgages and leasing (including property leasing). It operates in the latter sector via Sanpaolo Bail, Sanpaolo Mur and Eurosic, an associated company (listed on the French secondary market).

Sanpaolo Fondi Gestioni Mobiliari SpA – Turin (100%)

The company manages funds fed by the relevant placing activities of the Parent Bank and Sanpaolo Invest's financial advisors. In an excellent year, capital nearly doubled to 91,000 billion lire, enabling the company to maintain its 12.6% market share in an increasingly competitive environment. Assets under management rose dramatically, boosting net commissions on services by 70% to 63 billion lire. Net income was 105% up at 23 billion lire.

Sanpaolo Asset Management SpA – Milan (100% including 4.1% via Sanpaolo Bank SA, Luxembourg)

Sanpaolo Asset Management, operates in the portfolio management sector. It also reported exceptional results, including a jump in assets under management from 12,000 billion to almost 32,000 billion lire. Net commissions trebled, reaching 35 billion lire, generating operating income of 12 billion lire (1997: 3.4 billion) and net income of 6 billion (1997: 1 billion).

Sanpaolo Fiduciaria SpA – Turin (100%)

Fund assets under the company's management rose by 19% during 1998, to around 1,820 billion lire. Net income amounted to 337 billion lire.

Sanpaolo Gestion Internationale SA – Luxembourg (100%)

Sanpaolo Gestion Internationale manages the Sanpaolo International Fund multi-sector fund. It reported 1998 net income of Euro 1.1 million, and is forecasting substantially higher operating volumes this year. The interest in this company passed from Sanpaolo Bank Luxembourg to the Parent Bank during 1998, as part of a program to rationalize and expand placings of shares in foreign funds.

Sanpaolo Vita SpA – Milan (100%)

Sanpaolo Vita earned premium revenues of 2,004 billion lire in 1998 (1,363 billion in the previous year) and moved into the lead in the banking-channel insurance sector. The company's year-end technical reserves exceeded 4,650 billion lire (2,674 billion a year earlier). Net income amounted to 24.2 billion lire, compared with 10.3 billion in 1997.

In July 1998, the company increased its share capital by 85 billion lire, including 50 billion already paid in, with a view to aligning its equity capital to an expanded volume of operations. In April 1998 it formed Sanpaolo Life International in Eire, to specialize in developing policies with a high financial content (unit- and index-linked), for the Italian market and Europe generally. The company commenced operations in October 1998, and earned premium revenues of 785 billion lire in its first three months of activity.

Sanpaolo Bank SA -
Luxembourg (100%)

The company operates in Private Banking and reported sharply improved results for 1998. The interest margin was 13% up at Euro 7 million, while net commissions from services jumped by 48% to Euro 10.7 million. Operating income of Euro 10.9 million compares with Euro 7.6 million in the previous year. Net income was up from Euro 2.9 million to Euro 4.4 million.

The company's private-banking subsidiary Sanpaolo Bank AG (Austria) also posted healthy results, raising net income to S 24.5 million.

Sanpaolo Leasing SpA -
Milan (100%)

The company operates in the finance-leasing sector. Despite falling interest rates and narrowing spreads, it reported 1998 net income 36.2% up at 9.8 billion lire, reflecting an improvement in the quality of the leasing portfolio and an increase in volumes among products earning higher commissions.

Business volume statistics included 6,112 new agreements worth 1,261 billion lire, confirming the upward trend apparent during the previous year.

Finconsumo SpA -
Turin (50%)

This company operates in the consumer-credit sector and is controlled jointly with Banco Santander. It reported 1998 net income 12% up on 1997, at 11.2 billion lire.

New agreements placed during the year numbered around 200,000, worth 844 billion lire, a rise of 28% that outperformed the system average (22%). Finconsumo currently deploys 31 branches and operates via agreements with over 15,000 partner businesses.

Large Corporate

IMI Lease SpA -
Rome (100%)

This corporate-sector leasing company's 1998 result was net income of 31 billion lire, compared with 48 billion in the previous year. Its portfolio of leasing agreements declined by 12% to around 500 billion lire, as the company adopted a more selective approach to new business.

Sanpaolo Ireland Plc -
Eire (100%)

Sanpaolo Ireland Ltd operates in buyer credit and export financing for leading multinationals, from its base in Dublin's International Financial Services Centre. In October 1998, it obtained the official go-ahead to convert into a bank, which will enable it to expand its operations, while containing the cost of funding.

1998 net income amounted to US \$30.6 million, compared with US \$62.8 million in 1997; the earlier year's result was boosted by net extraordinary income of US \$36 million.

Personal Financial Services

Fideuram Group – Milan
(74.25% including 0.19% via
the Banca IMI Group)

An impressive set of results reported by the Fideuram Group for 1998 included net interest and other banking income 22.6% up at 747.5 billion lire, on the strength of healthy trends in commissions from services and in profits on financial transactions. Operating income rose by 29.5%, reaching 440.4 billion lire. Net income of 295 billion lire was a 42% improvement on 1997.

Customer assets under management or administration, passing 62,000 billion lire (+26%) and increasing the Group's market share from 1.3% to 1.5%. Managed savings, the Group's core business, expanded by 31% to over 50,000 billion lire, with an annual inflow of nearly 12,000 billion lire. The increase in financial asset is due largely to net inflows of 8,300 billion lire up one third compared to 6,300 billion lire in 1997.

The group's network of financial advisors grew during the year by 13%, to over 3,160 professionals. Recruitment of highly-qualified individuals was a major priority, while training represented a substantial investment. The new Personal Financial Planning system, based on sophisticated asset-allocation techniques, came into full operation during the year.

The Fideuram Group went through considerable structural change during the course of 1998. The second half saw the start-up of Fideuram Bank Luxembourg SA. It is due to develop the private banking business, while acting as custodian bank and asset manager for that Group's Luxembourg-based funds. Also in the second half of the year, IMI Fideuram Asset Management set up Servizi Previdenziali SpA, which will offer advisory and administrative services to pension funds. Lastly, given the likely growth in private banking, the Parent Company transferred its 100% holding in Turis AG, a dormant finance company based in Zurich, to Banca Fideuram.

Sanpaolo Invest SIM SpA –
Rome (100%)

This financial-product distribution company achieved significantly higher volumes in both customer assets under management and placings of products with small investors. The consequent improvements to its results included a 47% increase in net interest and other banking income (based on higher net commissions) and income before extraordinary items 50% up. Net income jumped by 88% to 27.3 billion lire.

The rise in volumes was accompanied by diversification of clients' portfolios in terms of both product type and market targeted for investment. By the year end, mutual funds accounted for 51% of operating volumes; the proportion of these represented by equities-based funds rose to 47%, well above the market average. Placings of index-linked

bonds were another growth point, amounting to a volume of over 1,200 billion lire in 1998.

The network of financial advisors expanded by 24%, reaching 1,305 by the end of the year.

During the course of 1999, Sanpaolo Invest will be transformed in bank with a new range of specific products and services.

Investment Banking

Gruppo Banca
d'Intermediazione Mobiliare
IMI SpA – Milan (100%)

Banca d'Intermediazione Mobiliare IMI SpA reported 1998 net income of 61.2 billion lire, a 52.6% improvement on the corresponding 1997 result. Consolidated net income (including the subsidiary IMI Sigeco UK) amounted to 70.3 billion lire, up by 47%.

Parent company operating income of 128 billion lire was up by 42.4%, reflecting increased income from Trading and Sales, combined with sharply higher revenues in the Corporate Finance and Capital Markets sectors. A 24% rise in operating costs (to 138.4 billion lire) was attributable to the investment policies adopted and the additions to the workforce dictated by steeply rising business volumes.

The company was radically reorganized during the year. Approval for conversion to a bank, enabling direct access to money markets and facilitating the raising of debt capital, was received in January. After the merger, Banca IMI took over the Sanpaolo IMI Group's foreign operations in investment banking. The related acquisitions (mentioned earlier) were funded by increases in share capital of 120 billion and 330 billion lire, on February 23 and October 12, 1998 respectively.

Intersim SpA –
Milan (100%)

This stockbroking company took full advantage of the positive conditions in the financial markets, notably during the first half of 1998, achieving improved volumes and results.

Net income amounted to 48.5 billion lire, compared with 20.1 billion in 1997. Key factors included an 88% leap in commissions on services, which reached 97 billion lire. The interest margin was little changed from the previous year however, as were gains on financial transactions. Dealing volumes exceeded 190,000 billion lire, against the 1997 level of 145,000 billion.

*Public Agencies and
Infrastructure*

**Crediop Group –
Rome (60%)**

Crediop achieved excellent results in 1998. Net income amounted to 105 billion lire after prudent provisions to risk reserves totaling around 136 billion.

The interest margin improved by 24.7% to 391 billion lire, as the interest-rate spread widened (due a faster rate of decline in the cost of funding than in that on lending). Net interest and other banking income was up by 19.3% at 407 billion lire; operating income benefited from a 10% saving in administrative costs, rising by 26.6% to 339 billion.

The lending portfolio declined by 2.5% to just under 27,000 billion lire. Crediop's year-end share of the market represented by lending to government agencies amounted to 23.8%.

Domestic-customer deposits also eased, by 1.6%, and stood at 19,000 billion lire at the end of the year. The level of bonds in issue on the international financial markets (placed by the subsidiary Crediop Overseas Bank Ltd) was unchanged, at 5,900 billion lire.

*Other significant equity
investments*

**IMI International SA –
Luxembourg (100%)**

IMI International SA enjoys the status of a 1929 Holding Company. Its investments are low-risk and readily realizable. Its role includes holding minority interests in operating companies. The company reported 1998 net income of 62.3 billion lire.

**IMIBANK International –
Madeira (100%)**

The function of this Portuguese (Madeira-based) company is to raise medium- and long-term funding, mainly by public and private bond issues under the Euro Medium Term Notes program, as well as short-term debt under the Euro Commercial Paper and Euro Certificates of Deposit program.

1998 net income amounted to Esc 1.5 billion, down by 20% on the 1997 result in conditions of declining interest rates. Funding totaled Esc 920 billion, 28.5% lower than in the previous year.

**Sanpaolo US Financial Co. –
USA (100%)**

Like IMIBANK International Madeira, this company operates as a funding vehicle to support the Group's operational requirements, issuing commercial paper in the international financial markets. Funding stood at US \$1.2 billion as of the year-end.

Supplementary information

Ratings

Sanpaolo IMI's ratings are among the highest assigned to Italy's commercial banks.

The short- and medium/long-term (senior) debt ratings awarded are listed below on a comparative basis with those of the two enterprises before the merger:

Rating agency	Rating type	Sanpaolo IMI ratings	Pre-merger ratings	
			San Paolo	IMI
Fitch-IBCA	• Short-term debt	F1+	F1+	F1+
	• Medium/long-term (senior) debt	AA-	AA-	AA-
Japan Rating and Investment Information	• Medium/long-term (senior) debt	AA	AA+: →	AA+: →
Moody's Investors Service	• Short-term debt	P-1	P-1	P-1
	• Medium/long-term (senior) debt	A1 with outlook positive	A1:↑	Aa3:↓
Standard and Poor's	• Short-term debt	A-1	A-1:↑	A-1+:↓
	• Medium/long-term (senior) debt	A+ with outlook stable	A:↑	AA-:↓
Thomson BankWatch	• Short-term debt	TBW-1	TBW 1	TBW-1
	• Medium/long-term (senior) debt	AA-	AA-	AA-

Legend:

↑ being monitored for possible uprating

↓ being monitored for possible downrating

→ being monitored without indication of prospective direction of adjustment.

In addition to the above debt ratings, Sanpaolo IMI has received a C+ Bank Financial Strength Rating from Moody's, a B/C Individual Rating and Legal Rating of 2 from Fitch-IBCA, and a B Issuer Rating from Thomson BankWatch.

Other Group companies to feature in the ratings are Banque Sanpaolo, Crediop and the funding-vehicle companies IMI Bank International and Sanpaolo US Financial. The latest short-term and senior debt ratings assigned to these companies are listed below:

	Rating agency	Short-term debt rating	Senior debt rating
Banque Sanpaolo	Fitch-IBCA	F1	A
	Moody's Investors Service	P-2	A3
Crediop	Fitch-IBCA	A1+	AA-
	Moody's Investors Service	P-1	Aa3:↑
IMI Bank International	Moody's Investors Service	P-1	A1
	Standard and Poor's	A-1	A+
	Thomson BankWatch	TBW-1	AA-
Sanpaolo US Financial	Moody's Investors Service	P-1	--
	Standard and Poor's	A-1	--
	Thomson BankWatch	TBW-1	--

Legend:

↑ being monitored for possible upgrading.

In a recent development, the Bank's Standard & Poor's and Fitch-IBCA ratings became the subject of monitoring for possible downrating, following the public share-exchange bid by Sanpaolo IMI for Banca di Roma on March 21, 1999.

Performance of Group share prices

The listed Group companies' share prices advanced strongly during 1998, with rises of 72.6% and 50.2% in the cases of Sanpaolo IMI and Banca Fideuram respectively. Wide fluctuations occurred during the course of the year however; in volatile stockmarket conditions: a steeply upward path during the first half year was followed by an abrupt reverse in August and September (reflecting the crisis that developed in the world's financial markets), with a recovery towards the end of the year.

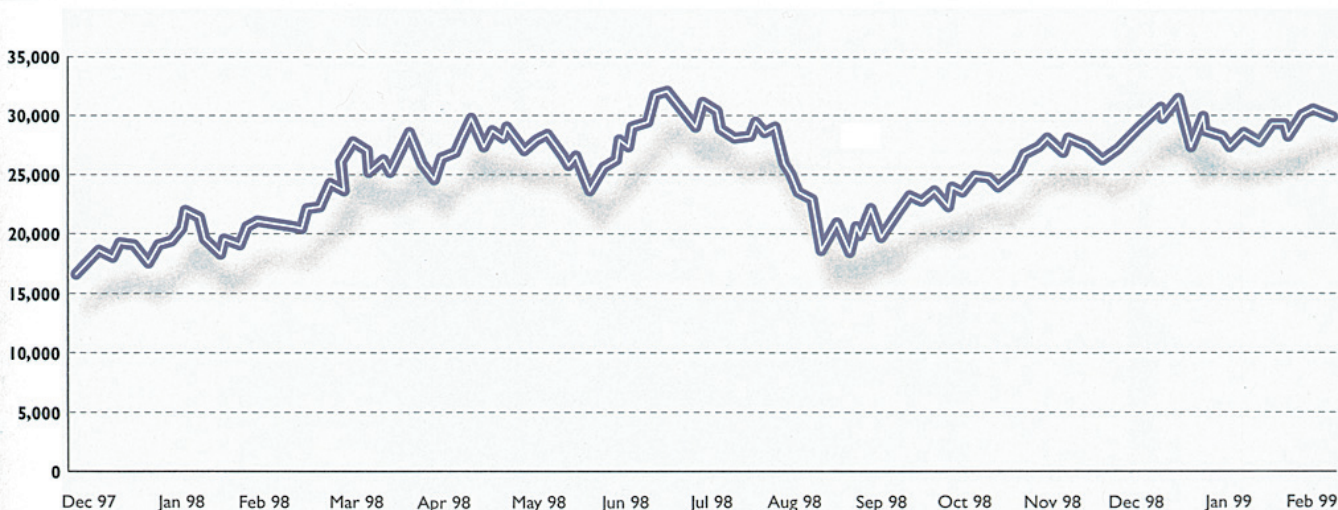
The markets' positive response to the Sanpaolo-IMI merger boosted the Parent Bank's share price. Sanpaolo shares - or Sanpaolo IMI shares from November 2, 1998 onwards - hit a record high of Lire 32,123 on July 20 which was approached again at the end of the year (after the stockmarket troubles that started in the early fall). The final exchange ratio on the absorption of IMI was 1,045 Sanpaolo shares for one IMI share. The year's dealings averaged over 3 million shares (or 80 billion lire) per day.

Early on, Banca Fideuram's shares maintained the strong advance apparent at the end of 1997, touching a record price of Lire 13,864 on April 4. The subsequent crisis in the financial markets had a sharply depressing effect; the year's low of Lire 6,119 was reached on October 8. Recovery towards the end of the year led to a price just short of Lire 13,000 at the beginning of 1999.

Sanpaolo IMI share price (in lire)

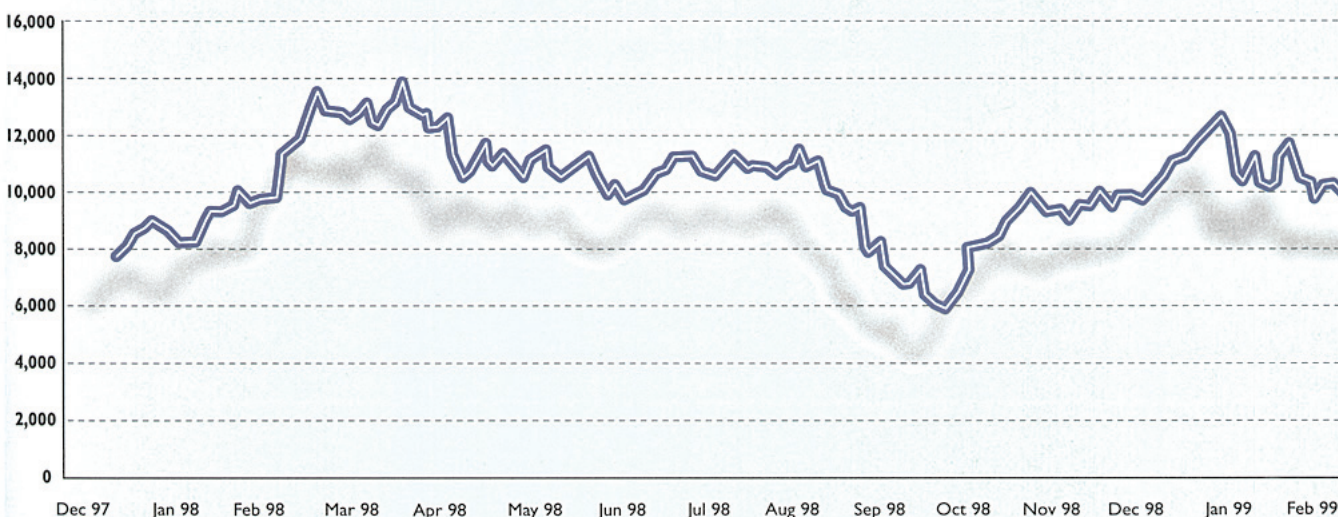
The rises of 72.6% and 50.2% respectively in the prices of Sanpaolo IMI and Banca Fideuram compare with a 41% advance by the general stockmarket index (the MIBTEL). That of Sanpaolo IMI also outperformed the banking stocks index (the MIB Bancario Corrente, which rose by 61.6%).

SANPAOLO IMI SHARE PRICE (in lire)



	High	Low	Average
1994	11,522	8,756	9,955
1995	10,197	8,041	9,122
1996	10,549	8,400	9,494
1997	17,626	9,145	12,498
1998	32,123	17,272	24,796
1999 (up to March 26)	31,987	27,418	29,479

BANCA FIDEURAM SHARE PRICE (in lire)



	High	Low	Average
1994	2,285	1,491	1,828
1995	2,033	1,646	1,830
1996	3,795	1,781	2,888
1997	7,997	1,253	5,532
1998	13,864	6,119	10,322
1999 (up to March 26)	12,915	9,759	10,806

Market comparison

	March 26, 1999 A	Dec. 31, 1998 B	Dec. 31, 1997 (pro forma) C	Change % A/B	Change % B/C
Sanpaolo IMI shares	27,751	29,296	16,973	-5.1	+72.6
Banca Fideuram shares	10,191	11,811	7,861	-13.7	+50.2
General index (MIBTEL)	24,403	23,695	16,806	+3.0	+41.0
Banking index (MIB bancario corrente, base 12/30/98 = 1,000)	1,040	1,000	619	+4.0	+61.6

Sanpaolo IMI shareholders

Based on the information currently held by the bank, its ownership as of the end of 1998 was as follows:

	% interest
Compagnia di Sanpaolo	16.1
Monte dei Paschi di Siena	6.1
Banco Santander	5.0
IFI-IFIL	3.9
Cariplo Foundation	2.8
Reale Mutua Assicurazione	2.0
KBC Bank	1.2
Riunione Adriatica di Sicurtà	1.1
Other shareholders	61.8
Total	100.0

Banco Santander and IFI-IFIL have advised that they have subsequently increased their holdings to 6.3% and 4.08% respectively.

**Intercompany transactions;
transactions with related
parties**

Transactions between the Parent Bank and other Group companies (subsidiaries and those subject to significant influence by the Bank) conform with the relevant legislation. Details of the year's intercompany transactions are provided in the explanatory notes to the Parent Bank's financial statements.

Transactions with related parties as defined in the relevant CONSOB Communications dated February 20, 1997 and February 27, 1998 - including those with personnel and officers of the Sanpaolo IMI Group and companies they control - similarly comply with the legislation and are conducted at market prices.

The table below lists the interests in the Parent Bank and its subsidiaries held by its directors, statutory auditors and general managers, as well as by other parties of the kinds mentioned in Art. 33 of Decree 58/98 (the list includes those in office for less than a year):

Surname, first name(s)	Company	How held	Title to shares	Shares held on 12/31/97	Additions during 1998	Disposals during 1998	Share- exchange effect	Share- held on 12/31/98
Arcuti Luigi	Sanpaolo IMI	Direct	Full	2,200 ex Sanpaolo	-	-	-	2,200
		Direct	Full	3,500 ex IMI	-	-	157	3,657
		Via spouse	Full	3,500 ex IMI	-	-	157	3,657
Caleffi Franco	Sanpaolo IMI	Direct	Full	500 ex IMI	-	500	-	-
	Banca Fideuram	Direct	Full	-	4,000	2,000	-	2,000
Ferrari Renato Tullio	Sanpaolo IMI	Direct	Full	5,000 ex Sanpaolo	-	-	-	5,000
Fontana Giuseppe	Sanpaolo IMI	Direct	Full	5,000 ex IMI	-	5,000	-	-
		Via spouse	Full	-	4,000	4,000	-	-
Gambigliani Zoccoli Gian Franco	Sanpaolo IMI	Direct	Full	10,500 ex Sanpaolo	10,000	10,500	-	10,000
Gronchi Divo	Sanpaolo IMI	Via spouse	Full	500 ex Sanpaolo	50 on bonus issue	500	-	50
Iozzo Alfonso	Sanpaolo IMI	Direct	Full	6,600 ex Sanpaolo	200 on bonus issue	-	-	6,800
		Direct	Full	275 ex IMI	-	-	12	287
Masera Rainer Stefano	Sanpaolo IMI	Direct	Full	500 ex Sanpaolo	50 on bonus issue	-	-	550
		Direct	Full	5,050 ex IMI	-	-	227	5,277
Mihalich Ili	Sanpaolo IMI	Via spouse	Full	500 ex Sanpaolo	-	500	-	-
Ottolenghi Emilio	Sanpaolo IMI	Direct	Full	10,000 ex Sanpaolo	73,757	-	-	83,757
		Direct	Full	260,000 ex IMI	16,500	60,000	9,743	226,243
		Via subsidiary	Full	2,000,000 ex Sanpaolo	20,000	-	-	2,020,000
		Via subsidiary	Full	1,975,000 ex IMI	25,000	-	90,000	2,090,000
Rayneri Alessandro	Sanpaolo IMI	Via subsidiary	Full	5,000 ex Sanpaolo	4,000	-	-	9,000
				1,000 ex IMI	-	-	45	1,045
Salza Enrico	Sanpaolo IMI	Direct	Full	500 ex Sanpaolo	-	-	-	500
Vesce Francesco	Sanpaolo IMI	Direct	Full	3,110 ex Sanpaolo	-	2,000	-	1,110

The Euro

The first stage of the Euro Project was successfully completed during 1998, enabling customers to effect transactions in the single European currency as from January 1, 1999. The cost of the operation amounted to 76 billion lire in 1998, of which 38 billion was charged to the statement of income.

The project's remaining stages relate to customer support in both the business and personal segments, and preparation for the introduction - planned for 2001 - of Euro banknotes and coinage.

The Year 2000

The project aimed at ensuring a smooth passage into the Year 2000 was launched in 1997, in parallel with the Euro Project.

Changes at the Parent Bank

As regards the Parent Bank, the plan includes modifications to the ancillary departmental systems and the branch systems at home and abroad, as well as the central information system.

Testing of the complete information system started in March 1999, focusing on the main critical dates, including December 31, 1999, January 1, 2000 and February 29, 2000. The tests will continue until September, leading to completion of the project by the end of October. The information system covering the foreign branches has already been tested successfully at the New York branch, and has been checked by the 'Office of Comptroller of the Currencies'.

The project is not restricted to the information systems. All items of equipment regarded as critical to operations were surveyed, to identify those that could be affected by the change of millennium and determine the required modifications.

Compatibility checks in the same connection are underway with suppliers, customer businesses and other parties to our banking operations. A related measure involved sending to customers seeking to open or renew lines of credit a questionnaire regarding their degree of exposure to, and preparedness for, the changeover.

Among suppliers, those most relevant to continuity of the business were also surveyed; an action plan was prepared, including requests in the potentially critical cases for certification, tests and details of contingency plans.

A similar exercise with the correspondent banks abroad is based on questionnaires and, in the more important cases, direct approaches. The aim is to avoid any disruption to the Bank's international operations.

The total project cost for the years 1997-99 is estimated at 33 billion lire, excluding the commitment of staff, put at some 25 man-years. Up to December 31, 1998, external expenditure (excluding legal fees relating to personnel matters) amounted to around 10 billion lire (4 billion and 6 billion in 1997 and 1998 respectively), and charged to expenses within the periods.

The relevant external exposures have been identified and the necessary countermeasures defined. An area examined in detail has been that of the risk of legal action (arising from inadequate preparation); the Bank is confident that it has taken the steps needed to minimize or preclude actions of this kind, in accordance with international best practice. The question of specific insurance cover is also being examined.

A contingency plan for the Bank's own operations is also being prepared. The aim is to ensure continuity of operations primarily in the event of disruption caused by external parties, as well as that arising from unforeseen problems in adapting the internal systems.

Even assuming a worst-case scenario, the Bank expects the Year 2000 obstacle to be overcome as effectively as that of the introduction of the Euro, given the current status of the project and the level of awareness of the problem in most OECD countries.

Changes at other Group companies

The Bank's Year 2000 project includes monitoring those being implemented among the subsidiaries. The latter receive support on methods and controls, and report back to the Parent Bank on progress.

Projects are underway at all the subsidiaries. These are generally at an advanced stage as regards information-systems aspects, while the issue of exposures arising from dealings with external parties are being reviewed in depth (a limited area, given that the bulk of external dealings are with the Parent Bank).

The total expenditure arising from Year 2000 projects among the subsidiaries is estimated at some 18 billion lire, plus the cost of the staff time absorbed. The total mentioned does not include current expenditure on software or hardware replacement.

Significant events after the year end

Economic situation

Developments among the emerging countries will continue to dominate the international economic scene during 1999. Slowing growth in GDP will probably continue to prevail in Asia and Latin America, while uncertainty will remain as to likely developments in the industrial and financial crises in Russia and Brazil.

According to IMF figures, growth among the industrialized economies will average around 1.7%, compared with a forecast of 2.5% in May of last year. The presence of certain additional risks implies the possibility of a further slowing of growth in the world economy.

Despite the problems, the US economy should continue to expand, on the strength of buoyant internal demand. The consensus view of the growth prospects predicts a 3% rise in GDP.

The situation in Japan is largely dependent on the success of the expansionist budgetary measures introduced last year, combined with recent structural changes in the banking system and the prospects for greater confidence on the part of businesses and consumers. Another decline in GDP is predicted for 1999 by the IMF and the principal research agencies.

In the Euro area, a slowing of economic activity occurred in the second half of 1998, associated with flagging foreign demand and a deterioration in confidence within the business community.

Attitudes diverged as between consumers and companies. Consumer confidence grew steadily, fuelled by low inflation (the consumer price index rose by just 1.1%), cheaper imports, an improving employment situation and falling interest rates. This optimism can be expected to persist during 1999, boosting internal demand.

Among companies, turbulence in the international markets and the resulting loss of competitiveness to certain emerging economies were perceived as erosion of market shares, creating a climate of uncertainty. This led to a loss of confidence by the industrial sector in the latter part of the year, raising a question mark as to the prospects for growth based on foreign demand.

Among the EMU-participant countries, these trends are likely to translate into a GDP growth rate of slightly over 2% - a result consistent with relatively stable prices (inflation of around 1%). The recent decline of

the Euro against the dollar could also contribute to economic growth in the region.

On the basis of present trends, and according to the statistics published by the Bank of Italy and the principal research agencies, Italy's GDP growth will lie between 1.5% and 2.0%. Helpful influences include an expected revival in consumer spending towards the end of the year; among factors tending in the opposite direction are de-stocking following the build-up during the last two years, and a slowdown in the Euro area. The fundamental question is the extent to which the Italian economy can bridge the growth gap between it and the majority of the EMU-participant countries.

As regards public-sector finances, the stability objectives set for 1999 in the government's economic and financial white paper include ratios to GDP of 2% and 114.6% for the deficit and the national debt respectively.


Group performance

The level of indirect deposits was boosted by growth in managed savings that came to 41% p.a., assets under management reaching 170,000 billion lire. Inflows for the two months totaled 8,600 billion lire.

The level of lending to customers continued to decline, affected mainly by a significant reduction in that related to the foreign branches' repurchase-agreement business. This activity was further curtailed as part of the rationalization of foreign-network finance-sector activities.

Group results for January and February were similar to those obtained in the same period of last year. Further erosion of the interest margin and reduced gains on financial transactions were counterbalanced by growing net commissions on services, savings in administrative costs and a lower level of provisions for lending losses. The interest margin was affected by a narrowing of the spread between rates charged to borrowers and paid to lenders, as well as a reduced yield on liquid funds. The latter decline resulted from a halving of market rates, from 6% in the same period of last year to 3%.

Events affecting the Group

 In March 21, 1999, the Board approved proposals for an approach to Banca di Roma with a view to a merger designed to exploit the individual strengths and complementary features of the two banks.

Merger with Banca di Roma

In this connection, the Board also approved a proposal for a public offer to acquire shares in Banca di Roma on a share-exchange basis, adopting a ratio of two Sanpaolo IMI ordinary shares for 19 Banca di Roma shares of the same class.

The offer is conditional upon securing a minimum holding of 50% of the ordinary share capital plus one share, and on obtaining the relevant Bank of Italy and other official approvals.

An extraordinary meeting of the shareholders to approve the capital increase needed to service the share exchange is scheduled in May 1999. In view of the timescale for obtaining official approval for the shareholders' resolution, the offer should open by the end of June 1999.

Allowing for the planned disposal of Crediop, customer deposits with the new Group would exceed 650,000 billion lire, including 200,000 billion in managed savings, while the customer loans portfolio would total some 230,000 billion. Shareholders' equity would amount to 27,000 billion lire. The branch network would comprise more than 2,700 outlets.

The business plan associated with the merger sets the following specific objectives:

- creation of a group of European dimension with a substantial presence throughout Italy (given the complementary nature of the two banks);
- upgrading - through rationalization and otherwise - of the various distribution networks in their chosen markets, exploiting the respective trade names;
- rationalization of the services organization with a view to achieving significant economies of scale;
- adoption of the best practice of each bank with regard to the approach and methods underlying the various types of service to the customer;
- an increase in the Group's lead in the personal customer segment, with special reference to savings management;
- entry into the European market directly and via alliances with leading international organizations;
- a common focus on creating shareholder value.

Other events of note

Other events in early 1999 of direct concern to the Group, each described at various points earlier in this report, were as follows: the inception of a network expansion program that will result in the addition of 130 branches over the next two years; the acquisition of a 1% interest in Banco Santander Hispano Americano; an increase in the holding in INA from 3% to 3.7%; the acquisition of approximately 9.7% of Banca Agricola Mantovana; a decision to bolster the operations of Sanpaolo Invest, involving its conversion to a bank; the changes to Group structure that followed the merger with IMI.

Outlook for 1999

The prospects for this year's results are good, matching up to the objectives set in the business plan associated with the Sanpaolo IMI merger. A key objective of the plan is a Group-level RoE of over 15% from the year 2000.

Turin, March 30, 1999

The Board of Directors

Report of the Board of Statutory Auditors on the consolidated financial statements as of December 31, 1998

Shareholders,
the 1998 consolidated financial statements, presented for your approval and submitted to us within the legally required timeframe, were prepared in accordance with Legislative Decree 87 of January 27, 1992, as well as the Bank of Italy Regulation dated July 30, 1992 and subsequent amendments.

The consolidated financial statements comprise the balance sheet, the statement of income and explanatory notes, together with the report on operations. The principal totals are reported below:

	<i>in millions of lire</i>
<hr/>	
CONSOLIDATED BALANCE SHEET	
Assets	306,490,320
Liabilities	288,943,375
Shareholders' equity:	
Attributable to minority interests	762,384
Attributable to the Group	16,784,561
Guarantees	21,344,281
Commitments	38,695,341
<hr/>	
	<i>in millions of lire</i>
CONSOLIDATED STATEMENT OF INCOME	
Revenues	25,839,654
Costs	23,899,026
Net income:	
Attributable to minority interests	180,451
Attributable to the Group	1,760,177
<hr/>	

Bearing in mind the effects of the merger, the balances in the financial statements, explanatory notes and report on operations for 1998 have been presented along with the pro forma aggregate figures for San Paolo and IMI for 1997. The sole purpose of this exercise is to provide comparative figures. In addition, the notes fully illustrate the basis for determining the aggregate pro forma balances.

The scope of line-by-line consolidation reflects the Sanpaolo IMI Banking Group as recorded in the appropriate register in compliance with art. 64 of Legislative Decree 385/93, with the exception of certain minor investments whose balance sheet and statement of income results have little or no effect on the consolidated financial statements, or which have been put into liquidation. In addition to Sanpaolo IMI SpA, the Banking Group comprises the directly and indirectly controlled subsidiaries of the former which carry out banking, finance or other activities which complement those of the Bank.

With respect to December 31, 1997, there have been no significant changes in the scope of consolidation during the year; the prior consolidation area was defined on a pro forma basis as the combination of the scopes of consolidation of the Sanpaolo Group and the IMI Group.

The explanatory notes describe the consolidation principles applied and the accounting policies adopted, and provide analysis of the balance sheet and statement of income captions. Beyond the specific requirements of the relevant legislation, the notes also include additional data considered necessary to present a true and fair view of the Group's results and financial position.

The report of the Board of Directors appropriately describes the Group's performance and financial position during 1998, together with events effecting consolidated companies as a whole subsequent to year-end.

We concur with the accounting principles adopted to prepare the consolidated financial statements, which are consistent with those adopted by San Paolo IMI SpA and described in the explanatory notes.

The financial statements used for the consolidation were those approved by the shareholders or boards of the companies concerned. They have also been examined by the respective Boards of Statutory Auditors and by the independent auditors; accordingly, these statements have not been specifically reviewed by ourselves.

The consolidation principles adopted comply with legal requirements and are correctly applied. Specifically:

- the Bank and subsidiaries operating in the banking and financial sectors, together with those carrying out complementary activities, are consolidated on a line-by-line basis;
- subsidiaries not consolidated line-by-line, since they do not carry out banking, financial or complementary activities, together with associated companies over which the Bank and its subsidiaries exercise significant influence, are carried at equity;
- the investment in a company subject to joint-control is consolidated on a proportional basis;
- all other investments are carried at cost and written down to reflect any losses in value that are considered permanent;
- all significant receivables, payables, revenues and expenses arising between companies consolidated line-by-line, are eliminated, as are gains and losses arising from intraGroup transactions;
- adjustments and provisions recorded solely for fiscal purposes in the financial statements of companies consolidated line-by-line are eliminated.

Given the above, and following our review of the report presented by the independent auditors, Arthur Andersen SpA, we confirm that the consolidated financial statements for 1998 reflect the accounting entries recorded by the Bank and the information provided by the companies included within the scope of consolidation.

Turin, April 13, 1999

The Board of Statutory Auditors

REPORT OF THE INDEPENDENT AUDITORS

ON THE CONSOLIDATED FINANCIAL STATEMENTS

PURSUANT TO ART. 4 OF PRESIDENTIAL DECREE No. 136 OF MARCH 31, 1975

(Translation from the original issued in Italian)

To the Stockholders of
Istituto Bancario San Paolo di Torino
Istituto Mobiliare Italiano S.p.A.:

1. We have audited the consolidated financial statements of ISTITUTO BANCARIO SAN PAOLO DI TORINO ISTITUTO MOBILIARE ITALIANO S.p.A. (hereinafter the Istituto) and subsidiaries as of and for the year ended December 31, 1998. We have also reviewed the consistency of the Board of Directors' report on operations with the consolidated financial statements.
2. Our examination was made in accordance with the auditing standards and procedures recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("CONSOB") and included such tests as we considered necessary for the purposes of our engagement. For our opinion on the prior year's consolidated financial statements, which are presented for comparative purposes as required by law, reference should be made to our auditors' report dated March 31, 1998. In order to facilitate the comparison with the consolidated financial statement data as of December 31, 1998, the Istituto has also presented pro-forma consolidated data as of December 31, 1997, including amounts for the IMI Group, following the merger which took place during the year. The main adaptations are described in the consolidated explanatory notes.

The financial statements of certain subsidiaries and of certain enterprises in which the Istituto has a significant influence, representing respectively 21% of consolidated assets and 19.4% of consolidated net interest and other banking income, have been examined by other auditing firms, who have provided us with their reports. Our opinion expressed in this report, insofar as it relates to the amounts included in the consolidated financial statements for such companies, is also based upon the audits of other auditing firms.

3. In our opinion, the consolidated financial statements, taken as a whole, have been prepared clearly and give a true and fair view of the financial position and results of operations of the Istituto and its subsidiaries, in accordance with the law related to

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consolidated financial statements. Therefore, we certify the consolidated financial statements of the Istituto Bancario San Paolo di Torino Istituto Mobiliare Italiano S.p.A. and its subsidiaries as of December 31, 1998.

4. For a better understanding of the consolidated financial statements, attention is drawn to the following information which is more fully described in the explanatory notes:
- (a) Through a deed dated October 12, 1998, Istituto Mobiliare Italiano S.p.A. merged into Istituto Bancario San Paolo di Torino S.p.A. The merger was effective from a legal point of view from November 1, 1998, whereas from an accounting and tax standpoint it was effective retroactively from January 1, 1998. Consequently, the consolidated financial statements include the assets and liabilities, costs and revenues of the merged company and its subsidiaries for the whole year.
 - (b) In the preparation of the consolidated financial statements as of December 31, 1998, the Group has modified certain accounting criteria with respect to those used in the preparation of the prior year's consolidated financial statements. In particular:
 - The portfolio dealing securities quoted on organized markets has been valued at market instead of the lower of cost or market.
 - The calculation of deferred taxes related to temporary differences between the book and tax value of assets and liabilities has been made without the time limit used in 1997. In addition, deferred tax liabilities have been calculated on certain stockholders equity items deriving from Istituto Mobiliare Italiano S.p.A., to take account of the possibility of their future taxation.
 - In the context of the process of convergence with international accounting principles, the accounting treatment of problem loans has been integrated through the introduction of the concept of actualizing problem loans to their net present value to take into account the loss in value connected with the total or partial idleness and the delayed repayment of such loans. The reserve for losses on loans deriving from Istituto Mobiliare Italiano S.p.A. has been partially utilized to cover losses from the net present value calculation.

The reason for the changes and the related income statement and balance sheet effects have been described in detail in the explanatory notes.

ARTHUR ANDERSEN S.p.A.
s/Giulio Lubatti - Partner

Turin, Italy,
April 6, 1999

Consolidated financial statements

Consolidated balance sheet

in millions of lire

Assets	31/12/98	31/12/97	31/12/97 (pro forma)
10. Cash and deposits with central banks and post offices	815.374	761.541	774.301
20. Treasury bills and similar bills eligible for refinancing with central banks	1.151.934,4	1.281.702,3	1.388.938,4
30. Due from banks:	44.713.296	54.678.831	67.734.038
a) repayable on demand	6.694.788	8.375.905	9.394.961
b) other deposits	38.018.508	46.302.926	58.339.077
40. Loans to customers	1.68.241.185	131.620.717	179.065.129
including:			
- loans using public funds	130.429	115.626	161.882
50. Bonds and other debt securities	35.962.141	23.309.113	38.346.585
a) public entities	24.767.248	15.222.633	26.515.143
b) banks	7.758.388	5.877.228	8.749.894
including:			
- own bonds	2.805.216	2.293.480	2.845.640
c) financial institutions	750.410	934.033	1.105.811
including:			
- own bonds	-	-	-
d) other issuers	2.686.095	1.275.219	1.975.737
60. Shares, quotas and other equities	2.323.785	1.472.057	2.627.352
70. Equity investments	1.823.410	720.576	1.664.209
a) carried at equity	370.356	349.129	377.398
b) other	1.453.054	371.447	1.286.811
80. Investments in Group companies	736.145	175.015	630.492
a) carried at equity	736.145	175.015	624.666
b) other	-	-	5.826
90. Goodwill arising on consolidation	20.987	20.580	20.580
100. Goodwill arising on application of the equity method	92.278	153.845	207.636
110. Intangible fixed assets	584.603	460.226	526.913
including:			
- start-up costs	6.161	6.197	7.978
- goodwill	67.141	192	192
120. Tangible fixed assets	3.230.764	2.805.412	3.548.986
140. Own shares (par value Lire 2,217 million)	10.358	-	7.089
150. Other assets	26.020.936	16.175.404	23.533.678
160. Accrued income and prepaid expenses	10.395.714	11.547.455	13.828.243
a) accrued income	8.719.082	10.928.310	12.950.835
b) prepaid expenses	1.676.632	619.145	877.408
including:			
- discounts on bond issues	116.582	129.180	139.929
Total assets	306.490.320	256.717.795	346.404.615

in millions of lire

Liabilities and shareholders' equity	31/12/98		31/12/97		31/12/97 (pro forma)	
10. Due to banks		53.755.669		52.259.234		75.646.140
a) repayable on demand	7.549.040		8.089.803		10.813.528	
b) time deposits or with notice period	46.206.629		44.169.431		64.832.612	
20. Due to customers		87.359.603		78.170.890		94.462.672
a) repayable on demand	52.978.841		49.668.476		54.441.726	
b) time deposits or with notice period	34.380.762		28.502.414		40.020.946	
30. Securities issued		101.096.024		78.388.582		111.497.244
a) bonds	74.425.334		49.451.726		76.889.920	
b) certificates of deposit	23.349.669		26.691.009		30.816.498	
c) other	3.321.021		2.245.847		3.790.826	
40. Public funds administered		134.278		119.112		165.368
50. Other liabilities		28.480.967		19.644.922		26.164.892
60. Accrued expense and deferred income		10.853.612		12.695.563		14.817.906
a) accrued expense	10.135.278		12.047.204		14.099.469	
b) deferred income	718.334		648.359		718.437	
70. Provision for termination indemnities		844.077		724.212		820.266
80. Provisions for risks and charges		3.457.869		955.502		1.974.447
a) pensions and similar commitments	127.978		10.708		116.284	
b) taxation	2.555.778		492.998		1.309.155	
c) other	774.113		451.796		549.008	
90. Reserve for possible loan losses		36.160		-		22.700
100. Reserve for general banking risks		695.906		22.005		679.767
110. Subordinated liabilities		2.925.116		3.527.524		3.556.076
120. Negative goodwill arising on consolidation		38.419		38.589		38.589
130. Negative goodwill arising on application of the equity method		77.425		6.228		136.333
140. Minority interest		762.384		470.677		782.880
150. Capital		8.413.110		8.159.929		8.413.110
160. Additional paid-in capital		-		275.000		275.000
170. Reserves		5.799.413		1.091.916		6.199.705
a) legal reserve	1.682.622		205.960		952.288	
b) reserve for own share treasury stock	10.358		-		7.089	
c) statutory reserves	-		65.925		589.925	
d) other reserves	4.106.433		820.031		4650.403	
180. Revaluation reserves		111		111		111
190. Retained earnings		-		-		13.968
200. Net income for the year		1.760.177		167.799		737.441
Total liabilities and sharestockholders' equity		306.490.320		256.717.795		346.404.615
Guarantees and commitments	31/12/98		31/12/97		31/12/97 (pro forma)	
10. Guarantees given:		21.344.281		22.898.664		24.109.094
including:						
- acceptances	297.651		387.093		387.093	
- other guarantees	21.046.630		22.511.571		23.722.001	
20. Commitments		38.695.341				63.085.710

Consolidated statement of income

	<i>in millions of lire</i>		
	1998	1997	1997 (pro forma)
10. Interest income and similar revenues	19.325.665	17.205.628	22.851.594
<i>including from:</i>			
- loans to customers	13.185.564	11.166.506	15.325.625
- debt securities	3.215.486	3.006.248	3.680.111
20. Interest expense and similar charges	-14.192.079	-13.075.889	-17.651.032
<i>including on:</i>			
- deposits from customers	-3.093.819	-3.448.862	-3.968.211
- securities issued	-6.958.600	-6.344.141	-8.771.081
30. Dividends and other revenues	278.778	106.984	202.207
a) from shares, quotas and other equities	229.328	94.370	150.187
b) from equity investments	49.450	12.614	52.020
c) from investments in Group companies	-	-	-
40. Commission income	4.317.570	2.157.152	3.166.391
50. Commission expense	-927.276	-349.649	-820.393
60. Profits (losses) on financial transactions	398.977	343.126	396.306
70. Other operating income	433.720	412.669	533.450
80. Administrative costs	-4.831.821	-4.313.476	-5.052.214
a) payroll	-2.987.804	-2.860.190	-3.152.455
<i>including:</i>			
- wages and salaries	-2.135.723	-1.951.354	-2.140.933
- social security charges	-711.861	-786.673	-872.678
- termination indemnities	-134.921	-121.060	-136.159
- pensions and similar commitments	-5.299	-1.103	-2.685
b) other	-1.844.017	-1.453.286	-1.899.759
90. Adjustments to intangible and tangible fixed assets	-593.998	-544.812	-633.566
100. Provisions for risks and charges	-242.276	-100.370	-138.425
110. Other operating expenses	-99.544	-71.439	-102.302
120. Adjustments to loans and provisions for or guarantees and commitments	-1.509.969	-2.008.293	-2.046.151
130. Writebacks of adjustments to loans and provisions for guarantees and commitments	492.566	658.313	762.662
140. Provisions to the reserve for possible loan losses	-11.286	-	-186.031
150. Adjustments to financial fixed assets	-130.083	-20.266	-32.457
160. Writebacks of adjustments to financial fixed assets	452	2.579	2.700
170. Income (losses) from investments carried at equity	159.518	-204.686	-125.349
180. Income from operating activities	2.868.914	197.571	1.129.390
190. Extraordinary income	432.408	460.514	494.835
200. Extraordinary expenses	-124.247	-190.296	-172.452
Extraordinary items, net	308.161	270.218	322.383
230. Change in reserve for general banking risks	-16.162	-10.605	-10.605
240. Income taxes	-1.220.285	-220.703	-572.107
250. Minority interests	-180.451	-68.682	-131.620
Net income for the year	1.760.177	167.799	737.441

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Introduction - Background information on the consolidated financial statements

Form and content of consolidated financial statements

The Bank's consolidated financial statements for 1998 have been prepared pursuant to Decree 87 of January 27, 1992, which implemented EEC Directive 86/635. They also take account of the requirements contained in the Bank of Italy instructions dated July 30, 1992 and subsequent amendments. All matters not covered by specific legislation will be regulated by the provisions of the Italian Civil Code, while making reference to the accounting principles issued by the Italian Accounting Profession.

The consolidated financial statements comprise the consolidated balance sheet, the consolidated statement of income and these explanatory notes, together with the report of the Board of Directors on the results of operations for the year.

The explanatory notes are presented with comparative figures taken from pro forma information prepared for the Sanpaolo IMI Group as of December 31, 1997 (for further information see paragraph "Comparison with 1997 consolidated financial statements). These notes provide all the information required by law, including any additional data considered necessary to give a true and fair view of the financial and operating situation. The tables required by the Bank of Italy are numbered in accordance with Bank of Italy instructions.

The following schedules are attached to the consolidated financial statements:

- Statement of changes in consolidated shareholders' equity;
- Statement of consolidated cash flows;
- Statement reconciling the Bank's financial statements with the consolidated financial statements.

Merger through incorporation of Istituto Mobiliare Italiano SpA

Under the document drawn up on October 12, 1998, San Paolo SpA absorbed Istituto Mobiliare Italiano SpA (IMI), former Parent Company of the IMI Banking Group. The merger had legal effect as of November 1, 1998, while for accounting and fiscal purposes the merger was back-dated to January 1, 1998. As a result of this merger, the San Paolo IMI Banking Group was established, encompassing both the companies already belonging to the San Paolo Group and those originating from the IMI Group.

The financial statements of the Parent Bank, San Paolo IMI SpA for the year ended December 31, 1998, therefore include the assets and liabilities of ex-Istituto Mobiliare Italiano SpA, net of any reciprocal balances. The assets and liabilities of the merged Bank has been recorded at book value. The 1998 statement of income includes the profits and losses of ex-Istituto Mobiliare

Italiano SpA. Transactions between the two groups during the period prior to November 1, 1998 have not been eliminated.

The financial statements of the Parent Bank, San Paolo IMI SpA, as defined above, have been used to draw up the consolidated financial statements of the Group.

As far as the legal aspects of the merger are concerned, for the purpose of the terms and conditions regulating the exchange of San Paolo and IMI shares (on the basis of the exchange ratio: 1.045 San Paolo shares for each IMI share), the share capital of the absorbing company was divided into a greater number of shares, each with a lower unit value. These which then re-distributed so that the shareholders of the merging company obtained a number of shares equivalent to their previous holding, while the shareholders of the absorbed company received the number of shares dictated by the exchange ratio.

The shares servicing the re-distribution transaction totaled 1,402,184,948. For the sole purpose of rounding-off the par value of the shares, the nominal value of the absorbed company's share capital was increased by 253,181,168,000 lire to service the merger. At the end of 1998, the share capital of the Bank amounted to 8,423,109,688,000 lire, represented by 1,402,184,948 ordinary shares with a par value of 6,000 lire each.

A comparison between the share capital increase of 253,181,168,000 lire and the book value of the shareholders' equity prior to the merger of IMI SpA - equal to 3,889,876,814,498 lire, net of the San Paolo shares held by IMI SpA - led to a merger surplus of 3,636,695,646,498 lire in the accounts of the Bank. This surplus will be used by the Bank, on the basis of the resolutions passed on approval of the 1998 financial statements and in accordance with current fiscal legislation, as follows:

- 650,000,000,000 lire for the reconstruction of the Reserve for general banking risks originating from ex IMI SpA;
- 422,589,156,550 lire to increase the legal reserve up to the maximum levels allowed by law;
- 139,424,431,700 lire for the reconstruction of the Reserve under Law 169/83 originating from ex IMI SpA;
- 240,500,000,000 lire for the creation of a Reserve for deferred taxation relative to the Reserve for general banking risks;
- 51,587,039,729 lire for the creation of a Reserve for deferred taxation relative to the Reserve under Law 169/83.

The residual surplus of 2,132,595,018,519 lire will be allocated to the liability caption "Other reserves".

Scope of consolidation

The scope of line-by-line consolidation reflects the Sanpaolo IMI Banking Group as recorded in the appropriate register in compliance with art. 64 of Legislative Decree 385 dated September 1, 1993, with

the exception of certain minor investments whose balance sheet and statement of income results have little or no effect on the consolidated financial statements, or which have been put into liquidation. In addition to Sanpaolo IMI SpA (Parent Bank), the Banking Group comprises the directly and indirectly controlled subsidiaries of the former which carry out banking, finance or other activities which complement those of the Bank.

With respect to December 31, 1997, there have been no significant changes in the scope of consolidation during the year; the prior consolidation area was defined on a pro forma basis as the combination of the scopes of consolidation of the Sanpaolo Group and the IMI Group.

From 1998 onwards, the subsidiary Finconsumo SpA was consolidated on a proportional basis, adopting the hypothesis of joint-control as anticipated by art. 35 of Decree 87/92.

Investments in subsidiaries whose activities differ from those of the rest of the Group or those that are excluded from the scope of consolidation for the above-mentioned reasons, are valued using the equity method, together with holdings in companies subject to significant influence where the Group controls at least 20% of the voting rights in ordinary meeting (i.e. associated companies). As an exception, the public entity Istituto per il Credito Sportivo is prudently carried at cost, in view of its imminent transformation into a limited company which may result in a different distribution of the interests held by shareholders.

Companies consolidated on a line-by-line basis and investments carried at equity are listed in Part B, Section 3 of these explanatory notes.

Financial statements used for consolidation

The financial statements used for the consolidation are those prepared as of December 31, 1998, and approved at the respective shareholders' meetings or, otherwise, prepared by the Directors for subsequent approval. They have been adjusted, where necessary, for consistency with Group accounting policies. The financial statements used for consolidation purposes of companies operating in the financial leasing sector were prepared using the financial lease method which is essentially consistent with Group accounting policies.

In the case of Banque Sanpaolo, line-by-line consolidation is based on its consolidated financial statements but does not include its subsidiaries which are included under the Sanpaolo IMI Banking Group.

In the case of investments carried at equity, the financial statements used for valuation were the latest set of financial statements or draft accounts available for each company.

Consolidation principles

The consolidated financial statements comprise the financial statements of the Bank, Sanpaolo IMI, as supplemented to assimilate the line-by-line consolidation of subsidiaries included in the scope of consolidation, the proportional consolidation of Finconsumo SpA (company subject to joint control), as well as the valuation at equity of associated companies.

The main consolidation principles adopted are as follows:

- The book value of investments in consolidated companies, held by the Bank or other Group companies, is eliminated against the corresponding portion of the Group's share of shareholders' equity, on a line-by-line basis. The assets and liabilities of these investments are consolidated. Elimination of the book value and shareholders' equity is carried out on the basis of the values current at the time the investment was consolidated for the first time or at the time the controlling interest was acquired. Where possible, any differences arising are allocated to the assets and liabilities of the related consolidated companies, or, for the quota attributable to the Group on the basis of the application of equity ratios, to "negative or positive goodwill" arising on consolidation, depending on whether the value of the investment is higher or lower than the shareholders' equity. Positive goodwill is offset against any negative goodwill generated during the year. The amount recorded in the assets is amortized over a period of five years.

In detail, the elimination of the book value of the investments against the corresponding portion of the shareholders' equity is carried out:

- with reference to the balance sheets as of December 31, 1993 for investments held in portfolio as of December 31, 1994, being the date the Bank first prepared consolidated financial statements;
- for investments purchased subsequent to December 31, 1994, with reference to their balance sheets at the date of acquisition or, as customary where these are not available, with reference to the balance sheets prepared closest to that date.
- for investments formerly belonging to the IMI Group, with reference to their shareholders' equity as of January 1, 1998 (date of accounting effect of the merger between San Paolo and IMI). In addition, for the purpose of obtaining a more precise and significant accounting representation, the additional value of the shareholders' equity with respect to the book value of the investments has been charged to the respective consolidated equity captions, as previously done in the financial statements of the ex-IMI Group, instead of to "negative goodwill arising on consolidation" which is not present.

- Receivables, payables, off-balance sheet transactions, and costs and revenues as well as any gains and losses relating to significant transactions between Group companies are eliminated. By way of exception, also on account of the provisions of art. 34, Legislative Decree 87/92, costs and revenues arising on transactions involving stocks and shares and currency traded between Group companies at normal market conditions, are not eliminated.
- Investments in companies carried at equity are recorded in the financial statements at the amount equal to the corresponding portion of their shareholders' equity. Any balance not assignable to the assets or liabilities of the companies' concerned is booked to "positive/negative goodwill arising on application of the equity method"; the Group's portion of these companies results are shown in the consolidated statement of income under "Net income (loss) from investments carried at equity". This caption also includes any prudent writedowns made by Group companies in excess of their shareholders' equity in the presence of expected losses. Positive goodwill arising on application of the equity method is offset against any negative goodwill generated during the year. The amount booked to assets is amortized over a period of five years. This accounting treatment has resulted in a change in presentation with respect to the prior year when "negative goodwill arising on application of the equity method" only represented that arising on "first consolidation", as the subsequent additional value of equity was recorded in the pertinent consolidated equity captions. The new style of presentation gives more immediate disclosure of the impact of investment valuations on the balance sheet and statement of income.
- The financial statements of consolidated companies denominated in foreign currencies are translated into lire at year-end rates of exchange. Differences arising on translation of the equity items of consolidated companies at year-end rates of exchange are included in consolidated reserves, unless they are offset by specific hedging transactions.
- Adjustments and provisions made solely for fiscal purposes in the financial statements of consolidated companies are eliminated.

Changes in accounting policies

The accounting policies used in the preparation of the 1998 balance sheet and statement of income are consistent with those used for San Paolo's 1997 consolidated financial statements, with the following exceptions:

Changes already adopted in the 1998 First Half Report

Quoted dealing securities

Portfolio dealing securities quoted on organized markets are now stated at market value rather than at the lower of cost and market. This change in accounting policy, which was already adopted in the First Half Report as of June 30, 1998, is partly to provide consistency with the policies of the IMI Group, who already used this accounting treatment; this change in policy has affected only a limited part of the securities portfolio, as securities held as part of complex financial portfolios were already shown at market value.

The change in accounting treatment means that the operating results are now perfectly aligned with the accounting results, as securities are marked to market on a daily basis. It also means applying one accounting policy to the whole of the Bank's dealing portfolio, eliminating the distinction between securities held or not held as part of complex financial portfolios.

Adopting a mark-to-market approach will also ensure consistency in the policy applied to the securities portfolios with international accounting standards and in particular with US GAAP, which have to be used for the disclosure documentation required under United States regulations for Sanpaolo IMI's listing on the New York Stock Exchange.

This change has had a positive impact on the consolidated statement of income of around 35 billion lire, net of the tax effect.

Other changes

Following the merger between San Paolo and IMI which, as noted, has resulted in the quotation of the new banking group on the American market, it became apparent that a review of the Group's entire framework of accounting principles would be appropriate, starting as far as possible from the financial statements for the year ended December 31, 1998.

This process of revision aims to reduce, within the time limits and using the methods permissible, the disparity that currently exists between Italian and international accounting standards (identifiable in the provisions established by the IASC - International Accounting Standards Committee) and more specifically, those adopted in the United States (chiefly issued by the FASB - Financial Accounting Standards Board and by the APB - Accounting Principles Board).

This process of alignment reflects a requirement strongly voiced by markets and international financial authorities. This is because, particularly during periods of crisis such as the present, information mismatches determined by the lack of consistency between accounting standards used to prepare financial statements in certain countries, both emerging and western, are the cause of considerable misalignment in the international allocation of public and private funds.

The main areas where measures were taken concern loans and deferred taxation.

Valuation of loans

In 1998, San Paolo presented the Securities and Exchange Commission (SEC) with the report (Form-F4) requested by US regulations in relation to the quotation of San Paolo IMI securities on the New York Stock Exchange (NYSE). As part of this document, San Paolo presented a pro forma schedule of aggregate San Paolo - IMI data prepared using American accounting standards (US GAAP).

On the subject of the valuation of problem loans, the guidelines issued by the American Financial Accounting Standards Board (FASB) foresee the calculation of estimated realizable value on the basis of the current value of future cash flows. For the purposes of drawing up Form F-4 and in compliance with American accounting standards, San Paolo have therefore proceeded, on the basis of certain detailed assumptions, to calculate additional writedowns on the loan portfolio in order to reflect the financial charges inherent to recovery times. The contents of FAS No. 114 have on the whole been built into the recent document issued for consultation by the Basle Committee ("Sound Practices for Loan Accounting").

As part of this process of convergence towards international accounting standards, the accounting treatment of problem loans has been supplemented by introducing the concept of actualizing loans to their net present value. Under this new principle, the estimated realizable value of each loan for inclusion in the financial statements takes into account (as of December 31, 1998) not only the estimated recovery of the loan, but also the financial charges involved in the total or partial idleness of the loan and the delayed repayment of loans at risk.

Application of actualization has resulted in a reduction of 896 billion lire in the Group's problem loans; 852 billion lire of this amount, pertaining to the Bank, have not had any effect on the 1998 consolidated statement of income. In particular, 50 billion lire refer to adjustments to restructured loans already made in previous years while the remaining 802 billion lire have been matched against the loan loss reserve derived from the merger with IMI. The remaining

amount of the reserve, 162 billion lire, has been posted against general risks in the Parent Bank loan portfolio and placed against performing loans in the consolidated financial statements. For the sole purpose of recording tax liabilities in the most conservative manner, the Parent Bank has placed the accounting effect of the reclassification of the reserve to open positions through increased adjustments to loans in the income statement against an equal amount of extraordinary income from the risk reserve. In the consolidated balance sheet, however, the risk reserve has been directly posted against adjustments without effect on the income statement (closed positions).

Loans which have been actualized are as follows:

- non-performing loans;
- problem loans;
- restructured loans;
- loans being restructured;
- performing loans valued on a case-by-case basis (groups under observation).

Actualization adjustments are calculated as the difference between:

- estimated realizable value;
- the net present value of expected financial flows (principal and interest).

In determining the current value of financial flows, the essential elements are identification of estimated recoveries, their maturities and the discounting rate.

As far as the identification of estimated recoveries and related maturities are concerned, the Bank and Group companies have made reference to the specific indications provided by those corporate departments whose function it is to evaluate loans. In certain cases, estimates and forfeit values based on statistics and sector analyses have been used.

As far as the discounting rate is concerned, American accounting standard FASB No. 114 requires the use of the actual lending rate. This should be the original contractual rate or the implicit rate which renders the current value of financial flows equal to the face value or purchase value of the loan.

Unfortunately, the use of individual contractual lending rates is unfeasible, due to the complexity of the problem loan portfolio and the fact that over 85% of such loans are represented by positions regulated at floating rates of interest. The Bank has therefore used the six-month average RIBOR rate (for the last six months of the year) plus a spread of 1.75% as a reference parameter. The resulting interest rate, 5.96%, is deemed to be a best approximation, bearing in mind that six-month RIBOR is the principal indicator used for the repricing of long-term loans at floating rates of interest and the spread used is an average figure which permits a return on risk in line with the medium-term yield expected by the Bank.

Deferred taxation

With a view to achieving the stated aim of maximum transparency in the financial statements, and as part of the process of convergence towards international accounting standards, the Bank has considered it advisable to book the deferred taxation relating to certain equity items in the financial statements.

These items have been identified in the equity reserves of the former IMI SpA re-constituted in the post-merger financial statements in compliance with current fiscal legislation: the Reserve for general banking risks (650 billion lire) and the Reserve under Law 169/83 (139 billion lire).

As regards the Reserve for general banking risks, the expediency of charging deferred taxation is attributable to the probability that any eventual loan losses may in future become non-deductible due to the fiscal nature of the reserve. This reserve is also an equity item that would be subject to taxation in the event of use.

On the other hand, the expediency of charging deferred taxation to the Reserve under Law 169/83 is linked to the likelihood that it may be taxed; this reserve, which is unrestricted for statutory purposes, is in fact subject to taxation on use and not merely on distribution.

Deferred taxation, 292 billion lire, on these equity items under similar fiscal regimes has been debited by the Parent Bank against the merger surplus deriving from the San Paolo/IMI merger, at the same time setting up specific Reserves for deferred taxation. Of course, these accounting entries, which are also reflected in the consolidated financial statements, do not involve any effective outlay of taxes.

For the sake of completeness, it should be noted that with regard to the shareholder's equity of the Bank that the other balances that are in suspense for tax purposes - namely Capital (1,182 billion lire), the Legal reserve (651 billion lire after transfer of the Amato reserve) and the Amato Reserve itself (173 billion lire, which is the provision made in 1998) - are only subject to taxation in the event of distribution. Considering their restricted nature, the Bank has confirmed the previous accounting policy. No deferred tax has been charged against them, as the events that could give rise to their taxation are not expected to occur in the foreseeable future.

Deferred taxation has also been recorded by the Bank in relation to the Reserve pursuant to art. 21 of Decree Law 213/98 (for further information see the following paragraph).

Deferred tax potentially due by the Bank on distribution of the reserves of a subsidiary, IMI International, has also been recorded in the consolidated

financial statements. The amount of this deferred tax (97 billion lire) has been booked directly to the line item "other reserves" which includes the equity reserves of the subsidiary in question.

In conclusion, it should be noted that, beginning with the consolidated financial statements as of December 31, 1998, the recording of deferred taxation on timing differences between the book value and fiscal value of assets and liabilities has been made without applying the limited time span of the next four years, as in 1997; provided that, based on objective elements, such as the company's budgeted income and its historical trend in taxable income, the requirement of reasonable certainty that sufficient taxable income will be generated in the future to permit full absorption of the deferred tax assets is satisfied.

This extension of the time span has led to a gain in the 1998 consolidated statement of income of around 320 billion lire, essentially attributable to full recovery by the Parent Bank of taxes paid on loan writedowns deductible from the year 2003 onwards.

The new accounting treatment is consistent with the contents of IAS No. 12 and with the provisions contained in the document drawn up recently by the Italian Accounting Principles Commission on the accounting treatment of income taxes.

Introduction of the Euro

Following the establishment of the irrevocable exchange rates for the conversion of participating currencies into euros, the exchange differences on assets and liabilities denominated in participating currencies previously held at historical exchange rates have now become definitive.

The only item affected at December 31, 1998 was equity investments denominated in foreign currency and not specifically hedged against exchange risks, booked to the financial statements of the Bank as a result of the merger with the former IMI SpA. Given that Euro conversion rates have now been fixed and the accounting policies for equity investments in foreign currency deriving from the former IMI SpA and those used by San Paolo should be consistent, the Bank has translated these investments at current exchange rates.

As far as the fiscal and accounting treatment of exchange differences are concerned, in compliance with art. 21 of Legislative Decree 213/98, the Bank has charged the revaluation of around 125 billion lire to a restricted reserve subject to deferred taxation. In line with the approach expressed in the accounting standard for transition to the Single Currency drawn up by the Italian Accounting Profession with reference to international accounting

standards for the recording of deferred taxation as a direct adjustment of shareholders' equity, this reserve was recorded in the financial statements for approximately 79 billion lire, net of deferred taxation of 46 billion lire booked to a specific liability reserve.

At consolidation level, where the adjustment of the shareholders' equities of Group companies to current exchange rates is already reflected in the consolidated equity as a result of the effect of the consolidation principles, the revaluation made by the Parent Company has resulted in the booking of this 46 billion lire of deferred taxation against consolidated equity reserves.

Costs involved in the transition to the Euro

The introduction of the Euro has resulted in costs relating essentially to projects for the modification and implementation of software; to a lesser extent such costs concern publicity and other literature on the transition to the Euro. The choice of accounting treatment for these costs has been made in accordance with the current accounting principles. This entailed analyzing their nature and, in particular, limiting their capitalization as intangible fixed assets to those items which are likely to produce future benefits. Total costs amounted to approximately 76 billion lire; 38 billion lire of this amount has been booked to intangible fixed assets, while the remainder, 38 billion lire, was expensed as incurred.

Audit of the consolidated financial statements

The consolidated financial statements are audited by Arthur Andersen SpA, as are the Parent Bank's financial statements, pursuant to Art. 4 of Decree 136/75, and in accordance with the shareholders' resolution dated April 30, 1998, which appointed this auditing firm for the three-year period 1998-2000.

Comparison with the 1997 consolidated financial statements and basis for the pro forma financial statements of the San Paolo IMI Group for 1997

Comparison with the 1997 consolidated financial statements

Bearing in mind the effects of the merger, the 1998 consolidated results are presented along with pro forma aggregate figures for the San Paolo and IMI Groups for 1997. The purpose of this exercise is to provide comparative figures.

Note that the financial statements being compared show historical figures. Moreover, the report on operations includes comments on changes between 1997 and 1998, also to make allowance for the application of IRAP (regional tax on productive activities) which substituted health contributions, ILOR (local income tax), ICIAP (local tax on productive activities), capital tax and other levies.

In conclusion, it should be noted that the reclassified statement of income attached to this report has been adjusted in order to give a better representation of the new status of the Sanpaolo IMI Group following the merger. In particular, in the new format:

- dividends have been included in the items making up net interest and other banking income;
- other operating income has been divided into two components: the portion represented by gains generated as part of merchant banking activities and other net income from brokerage activities has been included in net interest and other banking income, while the portion comprising reimbursed expenses and rental and leasing charges has been included in the operating result.

Basis for the pro forma financial statements of the San Paolo IMI Group for 1997

In order to guarantee the comparability of 1998 consolidated balance sheet and statement of income information with prior year amounts, it was necessary make certain adjustments to the official aggregate figures for 1997 of the former Sanpaolo Group and the former IMI Group.

These adjustments are the result of certain differences in presentation and accounting standards applied by the two Groups.

The 1997 balances have also been adjusted to take into account certain changes in accounting policies introduced by the Sanpaolo IMI Group in 1998.

A summary of the adjustments made to 1997 balance sheet and statement of income information is presented below:

Pro forma statement of income for 1997:

- interest expense: this has been increased by around 31 billion lire as a contra-entry to commission on services. This adjustment derives from a difference in the presentation methods used by the San Paolo and IMI Groups in relation to commission for the placement of securities deferred over the economic life of the transaction;
- other net operating income: these have been reduced by around 10 billion lire as a contra-entry to commission on services (around 2 billion lire) and to writebacks on loans (around 8 billion lire). This adjustment derives from a difference in the presentation methods used by the San Paolo and IMI Groups in relation to commission on the early repayment of loans and to writebacks of loans previously written off;
- payroll costs: these have been reduced by around 106 billion lire, as a contra-entry to miscellaneous costs and expenses (around 82 billion lire) and extraordinary expenses (around 24 billion lire). Reclassification refers to cost items which were subject to different presentation methods in 1998, i.e. in line with the stance taken by the Italian Accounting Profession on this subject (issued following the introduction of IRAP: e.g. staff training costs and travel and assignment costs) and compliant with the provisions of the Bank of Italy (charges for staff leaving);
- other administrative costs: these have been increased in total by approximately 156 billion lire as a contra-entry to personnel costs (around 82 billion lire) and extraordinary expenses (around 74 billion lire). The adjustments refer to certain payroll costs as mentioned above, as well as to the reclassification of charges incurred for support provided by the Interbank Guarantee Fund;
- Reserve for possible loan losses: provision made by the IMI Group of approximately 175 billion lire, that in the consolidated financial statement of Group IMI was eliminated with consequent increment of net income because made solely for fiscal purposes, has not been eliminated.
- adjustments made solely for reclassified financial statement purposes: other administrative costs have been increased by around 124 billion lire as a contra-entry to indirect taxation, following San Paolo's adoption from 1998 onwards of the new VAT system pursuant to art. 36 (b) (which has in substance transformed this tax into an ancillary charge on miscellaneous costs and expenses);
- adjustments made solely for reclassified financial statement purposes: net adjustments on financial fixed assets have been increased by around 235 billion lire as a contra-entry to income (losses) on investments carried at equity, in relation to non-recurring losses incurred by certain subsidiaries;

- adjustments made solely for reclassified financial statement purposes: income taxes have been reduced by 200 billion lire as a contra-entry to extraordinary expenses, in recognition of prepaid taxes as deferred tax assets on initial application of IAS No. 12;
- default interest: the accounting policy of the San Paolo Group has been applied. This policy anticipates the complete reversal of default interest, both for San Paolo and the former IMI Group who considered that a portion of such interest was recoverable. The consequent adjustments have resulted in a reduction of interest income (approximately 6 billion lire) and extraordinary income (around 6 billion lire) with a contra-entry reducing net adjustments to loans.

Pro forma balance sheet for 1997:

- loans: these have been reduced by around 1,073 billion lire in relation to the changes in accounting policy introduced in 1998 (actualization and new general adjustments) and the consistency of treatment of default interest, as discussed previously. On the other hand, the reserves for lending risks of the former IMI SpA, which were regarded as net equity in the IMI Group's consolidated financial statements as a result of their wholly fiscal nature, have been reduced;
- equity reserves; these have been reduced by around 435 billion lire for latent taxation introduced in 1998 on the Reserve for general banking risks and the Reserve under Law 169/83, as well as the reserve of a IMI International which would involve a tax liability for the Bank in the event of distribution. The reserves have also been reduced by deferred taxation calculated by the Bank on the adjustment of exchange rates to the fixed Euro parities, as disclosed in compliance with art. 21 of Decree 213/98. That is in addition to a reduction for the cancellation of San Paolo shares previously shown in the financial statements of the former IMI among equity investments for 417 billion lire;
- the pro forma capital is shown to the extent it exists subsequent to the merger, taking into consideration the cancellation of the San Paolo shares held by IMI SpA (417 billion lire); the ensuing adjustments were made as a contra-entry to "Reserves".

The following reconciliation schedules comprise the pro forma aggregate figures of the San Paolo IMI Group for 1997, both in official and reclassified form. The schedules show the initial situations subject to adjustment, taken from the consolidated accounts of the Sanpaolo Group and IMI SpA, and the effects of consolidating the subsidiaries of the former IMI Group.

Reclassified 1997 pro forma statement of income for Sanpaolo IMI Group.

	Sanpaolo Group	IMI	Effect of consolidating IMI Group	Adjustment	Sanpaolo IMI Group pro forma
Interest income and similar revenues	17,205	4,284	1,368	-6	22,851
Interest expense and similar charges	-13,076	-3,507	-1,037	-31	-17,651
NET INTEREST INCOME	4,129	777	331	-37	5,200
Net commissions	1,780	39	502	23	2,344
Profits (losses) on financial transactions	437	24	85	-	546
Dividends	43	346	-227	-	162
NET INTEREST AND OTHER BANKING INCOME	6,389	1,186	691	-14	8,252
Administrative costs	-4,314	-233	-456	-50	-5,053
of which:					
-personnel costs	-2,861	-144	-255	106	-3,154
-other expenses	-992	-76	-165	-280	-1,513
-Indirect taxation	-461	-13	-36	124	-386
Other operating income	370	37	28	-	435
Adjustments to tangible and intangible fixed assets	-545	-30	-59	-	-634
OPERATING INCOME	1,900	960	204	-64	3,000
Provisions for risk and charges	-100	-	-38	-	-138
Adjustments to loans	-1,350	-171	32	20	-1,469
Adjustments to financial fixed assets	-252	-19	7	-	-264
INCOME, NET OF EXTRAORDINARY ITEMS	198	770	205	-44	1,129
Extraordinary income, net	470	17	-8	-156	323
INCOME BEFORE INCOME TAXES	668	787	197	-200	1,452
Income taxes	-320	-320	-32	100	-572
Substitute tax on merger differences	-100	-	-	100	-
Change in reserve for general banking risks	-11	-	-	-	-11
Minority interests	-69	-	-63	-	-132
NET INCOME FOR THE YEAR	168	467	102	-	737

in billions of lire

Reclassified 1997 pro forma balance sheet for Sanpaolo IMI Group

in billions of lire

Assets	Sanpaolo Group	IMI SpA	Effect of consolidating IMI Group	Adjustments	Sanpaolo IMI Group pro forma
Cash and deposits with central banks and post offices	762	1	12	-	775
Loans	186,300	46,463	12,110	-1,073	246,800
- loans to customers	54,679	3,316	9,739	-	67,734
- due from banks	131,621	46,147	2,371	-1,073	179,066
Dealing securities	32,222	393	16,517	-	49,132
Fixed assets	9,537	3,693	-704	-417	12,109
- investments securities	5,376	40	322	-	5,738
- equity investments	896	3,106	-1,290	-417	2,295
- intangible fixed assets	460	20	47	-	527
- tangible fixed assets	2,805	527	217	-	3,549
Goodwill arising on consolidation and on application of equity method	174	-	54	-	228
Other assets	27,723	3,149	6,489	-	37,361
Total assets	256,718	56,699	34,478	-1,490	346,405

Liabilities and shareholders' equity	Sanpaolo Group	IMI SpA	Effect of consolidating IMI Group	Adjustments	Sanpaolo IMI Group pro forma
Payables	208,938	47,307	25,527	-	281,772
- due to banks	52,259	25,805	-2,148	-	75,646
- due to customers and securities issued	156,679	21,502	27,945	-	206,126
Provisions for:	1,680	1,532	244	-638	2,818
- taxation	493	311	70	435	1,309
- termination indemnities	724	43	53	-	820
- other risks and charges	452	1,074	120	-1,073	573
- pensions	11	104	1	-	116
Other	32,340	2,203	6,439	-	40,982
Subordinated liabilities	3,528	-	29	-	3,557
Minority interest	471	-	312	-	783
Shareholders' equity	9,761	5,657	1,927	-852	16,493
- capital	8,160	3,000	-	-2,747	8,413
- reserves	1,433	2,190	1,825	1,895	7,343
- net income for the year	168	467	102	-	737
Total liabilities and shareholders' equity	256,718	56,699	34,478	-1,490	346,405

Guarantees and commitments	Sanpaolo Group	IMI SpA	Effect of consolidating IMI Group	Adjustments	Sanpaolo IMI Group pro forma
Guarantees given	22,899	14,040	-12,830	-	24,109
Commitments	39,424	5,743	17,918	-	63,085

Calculation of the pro forma balance sheet of the Sanpaolo IMI Group 1997

<i>in millions of lire</i>					
Assets	Sanpaolo Group	IMI SpA	Effect of consolidating IMI Group	Adjustments	Sanpaolo IMI Group pro forma
10. Cash and deposits with central banks and post offices	761,541	835	11,925	-	774,301
20. Treasury bills and similar bills eligible for refinancing with central banks	12,817,023	308,457	763,904	-	13,889,384
30. Due from banks:	54,678,831	3,316,241	9,739,022	- 56	67,734,038
a) repayable on demand	8,375,905	208,584	810,472	-	9,394,961
b) other deposits	46,302,926	3,107,657	8,928,550	- 56	58,339,077
40. Loans to customers	131,620,717	46,147,127	2,370,508	- 1,073,223	179,065,129
<i>including</i>					
- loans using public funds	115,626	46,256	-	-	161,882
50. Bonds and other debt securities	23,309,113	52,103	14,985,369	-	38,346,585
a) public entities	15,222,633	50,352	11,242,158	-	26,515,143
b) banks	5,877,228	1,751	2,870,915	-	8,749,894
<i>including</i>					
- own bonds	2,293,480	1,751	550,409	-	2,845,640
c) financial institutions	934,033	-	171,778	-	1,105,811
<i>including</i>					
- own bonds	-	-	-	-	-
d) other issuers	1,275,219	-	700,518	-	1,975,737
60. Shares, quotas and other equities	1,472,057	72,643	1,082,652	-	2,627,352
70. Equity investments	720,576	1,311,164	49,649	- 417,180	1,664,209
a) carried at equity	349,129	-	28,269	-	377,398
b) other	371,447	1,311,164	21,380	- 417,180	1,286,811
80. Investments in Group companies	175,015	1,794,550	- 1,339,073	-	630,492
a) carried at equity	175,015	-	449,651	-	624,666
b) other	-	1,794,550	- 1,788,724	-	5,826
90. Goodwill arising on consolidation	20,580	-	-	-	20,580
100. Goodwill arising on application of the equity method	153,845	-	53,791	-	207,636
110. Intangible fixed assets	460,226	19,486	47,201	-	526,913
<i>including</i>					
- start-up costs	6,197	-	1,781	-	7,978
- goodwill	192	-	-	-	192
120. Tangible fixed assets	2,805,412	527,249	216,325	-	3,548,986
140. Own shares	-	-	7,089	-	7,089
150. Other assets	16,175,404	2,055,333	5,302,941	-	23,533,678
160. Accrued income and prepaid expenses	11,547,455	1,093,854	1,186,934	-	13,828,243
a) accrued income	10,928,310	964,460	1,058,065	-	12,950,835
b) prepaid expenses	619,145	129,394	128,869	-	877,408
<i>including</i>					
- discounts on bond issues	129,180	279	10,470	-	139,929
Total assets	256,717,795	56,699,042	34,478,237	- 1,490,459	346,404,615

in millions of lire

Liabilities and shareholders' equity	Sanpaolo Group	IMI SpA	Effect of consolidating IMI Group	Adjustments	Sanpaolo IMI Group pro forma
10. Due to banks	52,259,234	25,805,081	- 2,418,175	-	75,646,140
a) repayable on demand	8,089,803	721,526	2,002,199	-	10,813,528
b) time deposits or with notice period	44,169,431	25,083,555	- 4,420,374	-	64,832,612
20. Due to customers	78,170,890	2,282,248	14,009,534	-	94,462,672
a) repayable on demand	49,668,476	577,545	4,195,705	-	54,441,726
b) time deposits or with notice period	28,502,414	1,704,703	9,813,829	-	40,020,946
30. Securities issued	78,388,582	19,173,705	13,934,957	-	111,497,244
a) bonds	49,451,726	17,588,793	9,849,401	-	76,889,920
b) certificates of deposit	26,691,009	1,584,912	2,540,577	-	30,816,498
c) other	2,245,847	-	1,544,979	-	3,790,826
40. Public funds administered	119,112	46,256	-	-	165,368
50. Other liabilities	19,644,922	1,076,955	5,443,015	-	26,164,892
60. Accrued expense and deferred income	12,695,563	1,125,760	996,583	-	14,817,906
a) accrued expense	12,047,204	1,122,403	929,862	-	14,099,469
b) deferred income	648,359	3,357	66,721	-	718,437
70. Provision for termination indemnities	724,212	43,482	52,572	-	820,266
80. Provisions for risks and charges	-	415,220	168,812	434,913	1,018,945
a) pensions and similar commitments	-	103,975	1,601	-	105,576
b) taxation	-	310,889	70,355	434,913	816,157
c) other	-	356	96,856	-	97,212
90. Reserve for possible loan losses	-	1,073,279	22,700	- 1,073,279	22,700
100. Reserve for possible loan losses	22,005	650,000	7,762	-	679,767
110. Subordinated liabilities	3,527,524	-	28,552	-	3,556,076
120. Negative goodwill arising on consolidation	38,589	-	-	-	38,589
130. Negative goodwill arising on application of the equity method	6,228	-	130,105	-	136,333
140. Minority interests	470,677	-	312,203	-	782,880
150. Capital	8,159,929	3,000,000	-	2,746,819	8,413,110
160. Additional paid-in capital	275,000	-	-	-	275,000
170. Reserves	1,091,916	1,539,920	1,673,143	1,894,726	6,199,705
a) legal reserve	205,960	600,000	146,328	-	952,288
b) reserve for own shares	-	-	7,089	-	7,089
c) statutory reserves	65,925	524,000	-	-	589,925
d) other reserves	820,031	415,920	1,519,726	1,894,726	4,650,403
180. Revaluation reserves	111	-	-	-	111
190. Retained earnings	-	6	13,962	-	13,968
200. Net income for the year	167,799	467,130	102,512	-	737,441
Total liabilities and shareholders' equity	256,717,795	56,699,042	34,478,237 -	1,490,459	346,404,615
Guarantees and commitments	Sanpaolo Group	IMI SpA	Effect of consolidating IMI Group	Adjustments	Sanpaolo IMI Group pro forma
10. Guarantees given	22,898,664	14,040,300	- 12,829,870	-	24,109,094
including					
- acceptances	387,093	-	-	-	387,093
- other guarantees	22,511,571	14,040,300	- 12,829,870	-	23,722,001
20. Commitments	39,424,283	5,743,158	17,918,269	-	63,085,710
including					
- repurchase agreements	-	-	-	-	-

Calculation of the pro forma statement of income of the Sanpaolo IMI Group 1997

	Sanpaolo Group	IMI SpA	Effect of consolidating IMI Group	Adjustments	Sanpaolo IMI Group pro forma
<i>in millions of lire</i>					
10. Interest income and similar revenues including from	17,205,628	4,284,061	1,368,352	- 6,447	22,851,594
- loans to customers	11,166,506	3,943,642	221,924	- 6,447	15,325,625
- debt securities	3,006,248	70,580	603,283		3,680,111
20. Interest expense and similar charges including on	- 13,075,889	- 3,507,474	- 1,036,594	- 31,075	- 17,651,032
- deposits from customers	- 3,448,862	- 175,232	- 344,117	-	- 3,968,211
- securities issued	- 6,344,141	- 1,561,717	- 834,148	- 31,075	- 8,771,081
30. Dividends and other revenues	106,984	347,229	- 252,006		- 202,207
a) from shares, quotas and other equities	94,370	1,434	54,383		- 150,187
a) from equity investments	12,614	39,346	60		- 52,020
b) from investments in Group companies	-	306,449	- 306,449	-	-
40. Commission income	2,157,152	153,722	853,862	1,655	3,166,391
50. Commission expense	- 349,649	- 131,519	- 370,300	31,075	- 820,393
60. Profits (losses) on financial transactions	343,126	22,290	30,890		- 396,306
70. Other operating income	412,669	55,063	75,608	- 9,890	533,450
80. Administrative costs	- 4,313,476	- 233,034	- 456,294	- 49,410	- 5,052,214
a) payroll including	- 2,860,190	- 144,343	- 254,760	106,838	- 3,152,455
- wages and salaries	- 1,951,354	- 88,055	- 176,023	74,499	- 2,140,933
- social security charges	- 786,673	- 31,363	- 54,642		- 872,678
- termination indemnities	- 121,060	- 5,305	- 9,794		- 136,159
- pensions and similar commitments	- 1,103	- 1,521	- 61		- 2,685
b) other	- 1,453,286	- 88,691	- 201,534	156,248	1,899,759
90. Adjustments to intangible and tangible fixed assets	- 544,812	- 30,174	- 58,580	-	633,566
100. Provisions for risks and charges	- 100,370	-	- 38,055	-	138,425
110. Other operating expenses	- 71,439	- 622	- 30,241	-	102,302
120. Adjustments to loans and provisions for guarantees and commitments	- 2,008,293	- 31,223	- 19,483	12,848	2,046,151
130. Writebacks of adjustments to loans and provisions for guarantees and commitments	658,313	35,571	62,543	8,235	764,662
140. Provisions to the reserve for possible loan losses	-	- 174,800	- 11,231	-	- 186,031
150. Adjustments to financial fixed assets	- 20,266	- 19,351	7,160	-	- 32,457
160. Writebacks of adjustments to financial fixed assets	2,579		- 121		- 2,700
170. Income (losses) from investments carried at equity	- 204,686		- 79,337	-	- 125,349
180. Income from ordinary activities	197,571	769,739	205,089	- 43,009	1,129,390
190. Extraordinary income	460,514	20,778	19,944	- 6,401	494,835
200. Extraordinary expense	- 190,296	- 3,887	- 27,679	49,410	- 172,452
210. Extraordinary items, net	270,218	16,891	- 7,735	43,009	322,383
230. Change in reserve for general banking risks	- 10,605	-	-	-	- 10,605
240. Income taxes	- 220,703	- 319,500	- 31,904	-	- 572,107
250. Minority interests	- 68,682	-	- 62,938	-	- 131,620
260. Net income for the year	167,799	467,130	102,512	-	737,441

Part A - Accounting policies

Section 1 - Description of accounting policies

The accounting policies adopted are communicated to and, where required by law, approved by the Board of Statutory Auditors. These policies are consistent with those applied as of December 31, 1997 except for the changes discussed in detail in the introduction to these explanatory notes.

Loans, guarantees and commitments

Loans

Loans, including principal and interest elements, are stated at their estimated realizable value, taking account of the solvency of debtors and the debt-servicing problems faced in certain sectors or by the countries in which they are resident. The assessment performed also takes into consideration any guarantees received, market prices (where applicable) and the general difficulties experienced by the different categories of borrower. Estimated realizable value is determined following a detailed review of loans outstanding at year-end, considering the degree of risk associated with the various forms of lending and the risk of default inherent in loans that are currently performing normally. Estimated realizable value of problem loans (non-performing, problem and restructured loans, loans being restructured and loans to companies under observation valued on a case-by-case basis) takes into consideration not only the likelihood of eventual recovery, but also the financial cost of loans at risk to factor in their total or partial lack of income generation and late repayment. In particular:

- non-performing loans, being loans to borrowers in a state of insolvency or similar, are valued on a case-by-case basis;
- problem loans, being loans to borrowers in temporary difficulties, are valued on a case-by-case basis;
- restructured loans, being loans for which a syndicate of banks (or a single bank) concedes a respite for payment of the loan or re-negotiates such loans at lower-than-market rates, are valued on a case-by-case basis;
- loans being restructured, being loans for which the debtor has applied for consolidation to a variety of banks not more than 12 months previously, are valued on a case-by-case basis;
- loans exposed to "country risk", being loans to borrowers resident in countries with debt-servicing difficulties, are valued on a general basis by

applying writedown percentages not lower than those specified by the Italian Bankers' Association; with the exception of case-by-case valuations of specific positions which, on the basis of objective criteria, are valued consistently with the loan category to which they relate;

- performing loans, being loans to borrowers who, at this time, do not present specific insolvency risks, are valued on a general basis, except in relation to specific positions concerning certain companies under observation, which are valued on a case-by-case basis. The general adjustments to performing loans are calculated on a historical-statistical basis, taking into consideration the net average total of performing loans which have been reclassified as problem and non-performing loans during the last three years and applying to this total the average percentage for provisions previously applied to each risk category.

For the purpose of classifying loans as non-performing, problem and restructured loans and loans exposed to "country-risk", the Bank has made reference to current Bank of Italy regulations on this subject. These have been supplemented, as far as the Bank is concerned, by specific and detailed instructions regarding, in particular, aspects of their implementation and the introduction of automatic rules for the transfer of loans to the various risk categories.

Default interest accrued during the year is prudently eliminated from the statement of income since collection is considered unlikely.

Writedowns, both specific and general, are made by means of an adjustment which reduces the value of the asset shown in the balance sheet based on the methods discussed above. The original values may be reinstated by means of writebacks if the reasons for the writedowns cease to apply.

The application of value adjustments for actualization automatically means that there will be writebacks to discounted loans: in fact, the mere passage of time, with the consequent approach of the expected collection deadlines, implies an automatic increase in the expected realizable value of the loans.

Loans deriving from financing and deposit contracts

These are recorded at the amount disbursed. The difference between the balance of the loans granted to customers and the amount actually disbursed is charged to the statement of income in accordance with the loan repayment plan. Loans for discounted notes, acquired within the scope of lending activities, are recorded in the financial statements at nominal value, while the portion pertaining to future years is recorded among deferred income.

Reverse repurchase agreements on securities

Reverse repurchase agreements that require the holder to resell securities when the agreement matures are treated as lending transactions. The amounts disbursed in this way are therefore recorded as loans. Income from lending, comprising interest coupons on securities and the differential between the spot and forward prices for such securities, are recorded on an accruals basis as interest in the statement of income.

Securities lending and borrowing

Transactions involving securities lending and borrowing, guaranteed by sums of money which are at the lender's complete disposal, are treated in the same way as repurchase agreements on securities. Securities loaned, not guaranteed by sums of money, are represented in the financial statements as a combination of two functionally-linked lending or borrowing transactions with contra-entries as for deposit-taking or funding transactions. These transactions are essentially the same as repurchase agreements, which means that the securities loaned remain in the portfolio of the lender.

Finance leases

Lease transactions are recorded using the lease accounting method, which states lease contracts and transactions in such a way as to disclose their economic substance. This method, which involves booking lease transactions according to their financial nature, recognizes the surplus of lease payments over and above the cost of the asset as interest income to be credited to the statement of income in relation to the residual portion of principal and the pre-determined rate of return, also taking into consideration the end-of-lease purchase value of the asset.

Guarantees and commitments

Guarantees and commitments giving rise to lending risk are recorded at the total value of the exposure and the related risk is assessed on the basis described in relation to loans. Expected losses in relation to guarantees and commitments are covered by the related provision.

Securities and off-balance sheet transactions (other than foreign currency transactions)

Investment securities

Investment securities, due to be held long term by the Group as stable investments, are valued at cost, as adjusted by accrued issue discounts and accrued dealing discounts (being the difference between the cost of the securities and the related redemption price, net of issue discounts yet to mature).

Such securities are written down to reflect any lasting deterioration in the solvency of the issuers and the ability of the related nations to repay debt, except where suitable guarantees are available. The original value of investment securities is reinstated when the reasons for any writedowns cease to apply.

Dealing securities

Securities held for dealing and treasury purposes are stated at average daily cost (adjusted to reflect accrued issue discounts). Cost is determined as follows:

- securities quoted in organized markets: the value expressed by the official price quoted on the last trading day of the year;
- securities not quoted in organized markets: at the lower of cost and market value, determined with reference to quoted securities with similar characteristics. The original value of such securities is reinstated when the reasons for any writedowns cease to apply. Unquoted securities which are economically linked to derivative contracts are valued at market price consistent with the accounting treatment of the contracts concerned.

Any transfers between the investment and dealing portfolios are made on the basis of the book value of the securities subject to transfer at the time of the transaction; book value is determined using the method applicable to the originating portfolio. Securities transferred, still held in portfolios at year end, are valued using the method applicable to the destination portfolio.

Commitments to buy or sell for securities transactions to be settled

Commitments to buy are valued on the same basis as the destination portfolio. Commitments to sell, on the other hand, are valued taking into consideration the contractual forward sale price as well.

Equity investments

Equity investments not consolidated on a line-by-line basis or carried at equity are stated at cost, as revalued in the past at the time of transformation into a limited company or as a result of mergers, determined on a LIFO basis with annual increments. Cost is written down to reflect any permanent losses in value, taking into account any reductions in the equity value of the companies concerned and, where available, market prices. The original value of equity investments is reinstated if the reasons for any writedowns cease to apply.

Dividends from shareholdings not consolidated line-by-line or carried at equity are accounted for, gross of tax credits, in the year in which they are received.

Foreign currency assets and liabilities (including off balance sheet transactions other than derivatives)

Assets and liabilities denominated in foreign currency

Assets and liabilities denominated in foreign currencies, or in lire indexed to foreign exchange movements, as well as financial fixed assets funded in foreign currencies, or in lire indexed to foreign exchange movements, are valued using the spot exchange rates applying at year-end. Equity investments funded in lire and denominated in foreign currencies subject to local exchange-control restrictions (non-convertible currencies) are stated at the historical rates of exchange applying at the time of acquisition.

Foreign currency costs and revenues are stated using the exchange rates applying at the time they arose.

Unsettled spot and forward currency transactions

Unsettled spot and forward currency transactions carried out for hedging purposes are valued in the same way as the assets and liabilities being hedged, whether they are recorded on or off the balance sheet.

Transactions not carried out for hedging purposes are valued:

- at year-end spot exchange rates in the case of spot transactions still to be settled;
- at year-end forward exchange rates for the same maturities as the transactions being valued in the case of forward transactions.

The effect of these valuations is debited or credited to the statement of income.

Tangible fixed assets

Tangible fixed assets are stated at purchase cost, including related charges and the maintenance costs that lead to improvements. In certain cases, purchase cost may have been restated on transformation of the Bank at the time of mergers or as a result of applying monetary revaluation laws.

Operating assets are depreciated on a straight-line basis over their residual useful lives. Tangible fixed assets are written down in cases where there is a permanent loss in value, regardless of how much depreciation has already been accumulated. The value of such assets is reinstated in future accounting periods if the reasons for any writedowns no longer apply.

Repair and maintenance expenses that do not enhance the value of the related assets are charged against income as incurred.

Intangible fixed assets

Intangible fixed assets are stated at purchase or production cost, including related charges, and amortized systematically over the period they are expected to benefit, as described below:

- Formation and capital increase expenses and other deferred charges are generally amortized on a straight-line basis over five years.
- Costs incurred for the purchase of software or for its development using external resources, are generally amortized on a straight-line basis over three years, taking account of the residual period such software is expected to benefit.
- The differences arising on the merger of Banca Provinciale Lombarda and Banco Lariano in 1993 and on the merger of Crediop - Credito per le Imprese e le Opere Pubbliche in 1995, net of the portion allocated to more closely reflect the value of the related assets, are amortized on a straight-line basis. Amortization is provided over a period of ten years in the case of Banca Provinciale Lombarda and Banco Lariano, and over five years with regard to Crediop. These amortization periods are justifiable in view of the durability of the goodwill accumulated by the merged banks, as assessed in expert appraisals prepared for the respective mergers.

Payables

Payables are stated at their nominal value. The difference between the face value of loans received, or securities placed, and the amount actually received, which is recorded in the financial statements among deferrals, is charged to the statement of income on an accruals basis in accordance with the repayment plan implicit in the funding transaction. Zero-coupon securities issued are stated at issue price plus accrued interest. As stated earlier, funding repurchase

agreements that require the holder to resell the securities acquired when the agreement matures are recorded among payables, as are related securities borrowing transactions.

Funding repurchase agreements on securities issued by Group companies, carried out by the same issuing company, are not shown in the financial statements on the above basis, but are recorded as securities issued with a forward purchase commitment.

Provision for employee termination indemnities

The provision for employee termination indemnities represents the liability to each employee at year-end, accrued in accordance with current legislation and personnel agreements.

Provisions for risks and charges

Provisions for risks and charges cover known or likely liabilities whose timing and extent cannot be determined at year-end or at the time the financial statements are prepared.

Pensions and similar commitments

The accumulated provisions under this heading relate to charges connected to supplementary pensions for the retired employees of former IMI and of the subsidiary IMITEC. The accrued obligation in this connection is assessed on the basis of independent actuarial appraisals, in order to determine the provisions to technical reserves needed to cover future pensions.

Taxation

The provision for taxation covers income taxes for the year (IRPEG) and the regional tax on productive activities (IRAP), taking account of taxes applicable in the countries in which the Group operates, deferred taxation, and outstanding or potential fiscal disputes.

Income taxes for the year are prudently determined with reference to taxable income on the basis of current fiscal legislation, taking account of non-deductible costs and the benefits for the Parent Bank deriving from the special provision allowed under article 7.3 of Law 218/90.

Deferred taxation is calculated based on the tax effect of timing differences between the book value of assets and liabilities and their value for tax purposes, which will lead to taxable and deductible amounts in future years when there

is a reasonable probability of their reversal. To this end, and in compliance with international accounting standard IAS 12, taxable timing differences are understood as those that in future years will lead to taxable amounts (deferred capital gains, for example); while deductible timing differences are those that in future years will lead to deductible amounts (such as those provisions and costs that can be deducted for tax purposes in subsequent years, e.g. loan writedowns in excess of the 0.5% of total loans limit). If deductible timing differences (deferred tax assets) are higher than the taxable timing differences (deferred tax liabilities), the net balance of the tax effect is booked to the balance sheet partly under asset caption 160 b) - prepaid expenses - and credited to income taxes for the year; and partly under caption 150 - other assets - and credited to extraordinary income for the portion in excess.

Deferred taxation relating to the equity of the Parent Bank, and payable in case of use, as well as taxation deferred on the reserves of the foreign subsidiary IMI International, whose distribution would generate a tax charge for the Parent Bank are charged against shareholders' equity. Deferred taxation relating to revaluations for conversion to the Euro directly charged to a specific reserve (Reserve art. 21 of Decree 213/98) is provided against the reserve itself.

No provision is made for reserves subject to deferred taxation only in the event of distribution, if it refers to restricted equity items or if the events which would give rise to such taxation are not expected to occur.

Other provisions

Provisions for guarantees and commitments cover losses in respect of guarantees given and, more generally, the contingencies associated with the Bank's guarantees and commitments.

Other provisions for risks and charges cover estimated losses arising from legal action and, in particular, from repayments claimed by the receivers of bankrupt customers. They also cover potential charges in connection with guarantees given on the sale of equity investments, future liabilities linked to the Bank's participation in any interventions by the Interbank Deposit Guarantee Fund and other potential liabilities.

The provision for other personnel charges comprises:

- provisions made on the basis of an independent actuarial report to a compulsory, independent supplementary pension fund to cover unfunded pension liabilities, as well as any provisions relating to possible contribution charges in relation to the Parent Bank and a subsidiary company;

- provisions made on an actuarial basis to set up a mathematical reserve to cover long-service bonuses payable when members of staff celebrate twenty-five and thirty-five years of employment with the Bank.

Reserve for general banking risks

This reserve covers the general business risks of the Bank and, as such, forms part of stockholders' equity in compliance with international supervisory standards and Bank of Italy instructions.

Accruals and deferrals

Accruals and deferrals are recognized in accordance with the matching principle. They are not applied directly to the balance sheet accounts concerned.

Derivates

Derivatives on currency, securities, interest rates, indices and other assets

Derivative contracts are valued individually using the methods applicable to the portfolio concerned (hedging contracts and non-hedging contracts).

The values expressed by the valuations are recorded separately in the balance sheet without off-setting assets and liabilities. The presence of any agreements between the parties for the compensation of reciprocal debits and credits in the case of default of one of the counterparties ("master netting agreement") is not relevant for the purpose of disclosure in the financial statements, but is taken into consideration solely in relation to the valuation of counterparty's lending risk.

The values determined by the contract valuation process (hedging and non-hedging) may be written down on a case-by-case or general basis in order to reflect the lending risk (counterparty or country risk) inherent to the contracts.

Hedging contracts

These are entered into with the aim of protecting the value of individual assets or liabilities, as well as any groups of assets or liabilities, on or off the balance sheet, from the risk of market fluctuations. In the latter case, the hedging objective is achieved via the Group's use of asset and liability management techniques. A transaction is considered to be a hedge in the presence of the following documented conditions:

- a) intent to enter into a hedge;
- b) high degree of correlation between the technical and financial characteristics of the assets and liabilities hedged and those inherent to the hedging contract.

Should just one of the conditions above cease to apply over a period of

time, then the contract will be re-qualified as “non-hedging”.

Hedging derivatives are valued on a consistent basis with the assets and liabilities being hedged. The related procedures for presentation in the financial statements are summarized below:

Balance sheet: the relevant portions of differentials or interest margins in the process of maturing relative to contracts hedging the outcome of interest from interest-bearing assets and liabilities come together in the caption “Accrued income” or “Accrued expenses”. The relevant portions of differentials relating to forward rate agreements hedging the outcome of interest from interest-bearing assets and liabilities converge in the caption “Prepaid expenses” and “Deferred income”. “Other assets” or “Other liabilities” comprise the market values of contracts entered into to hedge the risk of price fluctuations, as well as the effects of valuing contracts hedging exchange risks on lending and funding activities (principal portion) at year-end spot exchange rates. Contracts entered into to hedge investment securities or against total loans and deposits, are valued at cost.

Statement of income: if the aim of the derivative contract is to protect the outcome of interest from interest-bearing assets and liabilities, the related statement of income results will form part of the interest margin on a proportional basis. In this case, the balance of all the differentials and margins is treated as interest income or expense, depending on its nature. If, on the other hand, the derivative contract hedges the risk of market price or exchange risk (principal portion) fluctuations, any revenues or costs generated are recorded in the caption “Profits (losses) on financial transactions”. More specifically, differentials matured on derivative contracts entered into to hedge dealing securities are treated as interest, if they relate to multiple-flow contracts (e.g. IRS) or to single-flow contracts where the duration of the underlying assets is less than one year (e.g. FRA); but as profits/losses on financial transactions, if they relate to single-flow contracts where the duration of the underlying assets is more than one year (e.g. futures and options).

Non-hedging contracts

These are valued according to the following methods:

Contracts on securities, interest rates, stockmarket indices and other assets: contracts quoted in organized markets are valued at the market value expressed on the last day of the year. Contracts linked to reference indicators subject to official observation are valued on the basis of the financial value (replacement cost) determined with reference to the market quotations for said indicators on the last day of the year. Other contracts are valued on the

basis of other elements determined objectively and consistently.

Foreign currency derivatives: these are stated at the forward exchange rates ruling at the balance sheet date for maturities corresponding to those of the transactions subject to valuation.

The related procedures for presentation in the financial statements are summarized below.

Balance sheet: the values determined by the valuation of non-hedging contracts are shown in Other assets and Other liabilities.

Statement of income: statement of income results originating from non-hedging contracts are recorded in the caption "Profits (losses) on financial transactions". The composition of this caption, with regard to the portfolios in which transactions in financial instruments took place (securities, currency, other financial instruments) and the nature of the revenues/costs which are included here (from valuations or elsewhere) is illustrated in a specific table in the explanatory notes.

Settlement date

Transactions in securities and similar instruments, foreign currency transactions, interbank deposits and loans, and the portfolio of notes for collection, are stated with reference to their settlement dates.

Section 2 - Adjustments and provisions recorded for fiscal purposes

Adjustments and provisions recorded solely for fiscal purposes by Group companies consolidated line-by-line have been eliminated.

Value adjustments recorded solely for fiscal purposes

The consolidated financial statements present, according to correct accounting principles, the reclassification of the loan risk reserve of the former IMI SpA into the accounts of the Parent Bank as a reduction in loans, both in relation to the principles of actualization to present a realizable value for doubtful loans and also to the general risk within the portfolio. In particular, in the financial statements of the Parent Bank, this reclassification has been made solely for fiscal purposes to open positions through larger adjustments and extraordinary income in the statement of income while in the consolidated financial statements the reclassification has been made through closed positions and, therefore, with no effect on the income statement.

Provisions made solely for fiscal purposes

Provisions made by the Parent Bank to the reserve established pursuant to art. 7, par. 3, of Law 218/90 as well as loan risk reserve of the subsidiary Crediop SpA were made solely for fiscal purposes and are thus reversed from the consolidated financial statements.

Part B - Consolidated balance sheet

Section 1 Loans

The Group's loan portfolio is analyzed below by type of counterparty:

	31/12/98	31/12/97 (pro forma)	Change %
Due from banks (caption 30)	44,713,296	67,734,038	-34.0
Loans to customers (caption 40)	168,241,185	179,065,129	-6.0
Total	212,954,481	246,799,167	-13.7

in millions of lire

Due from banks (caption 30) Amounts due from banks include:

Detail of caption 30 "Due to banks" (table 1.1 B.I)

	31/12/98	31/12/97 (pro forma)	Change %
a) deposits with central banks	1,153,746	5,102,877	-77.4
b) bills eligible for refinancing with central banks	-	-	-
c) finance leases	-	-	-
d) repurchase agreements	15,453,558	13,127,376	+17.7
e) securities loaned	81,424	41,168	+97.8

in millions of lire

Deposits with central banks include the compulsory reserve with the Bank of Italy, 1,148,625 million lire (4,704,861 million lire as of December 31, 1997). The change with respect to 1997 is the result of instructions issued by the Bank of Italy, which has progressively reduced the ratio of the reserve to total funding subject to it from 15% to 2.5%. The average annual rate of remuneration was 4.18%.

**Loans to customers
(caption 40)**

Loans to customers, which are analyzed by technical form in the report on operations, include:

Detail of caption 40 "Loans to customers" (table 1.2 B.I)

	31/12/98	31/12/97 (pro forma)	Change %
a) Bills eligible for refinancing with central banks	-	407,320	-100.0
b) Finance leases	2,576,875	2,309,978	+11.6
c) Repurchase agreements	9,456,172	10,795,777	-12.4
d) Securities loaned	140,845	231,697	-39.2

in millions of lire

“Secured loans to customers”, excluding those granted directly to Governments or other public entities amount to 42,397,023 million (45,175,318 million as of December 31, 1997), and are detailed as follows:

Secured loans to customers (table 1.3 B.I)

	31/12/98	31/12/97 (pro forma)	Change %
a) Mortgages	32,480,533	33,213,701	-2.2
b) Pledged assets:			
1. cash deposits	495,360	1,228,192	-59.7
2. securities (*)	12,757,274	12,942,074	-1.4
3. other instruments	1,533,490	1,589,578	-3.5
c) Guarantees given by:			
1. Governments	9,100,581	10,406,884	-12.6
2. other public entities	502,177	1,009,149	-50.2
3. banks	2,421,784	2,930,850	-17.4
4. other operators	14,335,660	17,989,738	-20.3
Total	73,626,859	81,310,166	-9.4

(*) Includes repurchase and similar agreements guaranteed by underlying securities totaling 9,456,172 million lire as of December 31, 1998 and 10,795,777 million lire as of December 31, 1997.

Secured loans to customers and those granted directly to Governments or other public entities represent 69.0% of total loans to customers (70.6% as of December 31, 1997).

Loans guaranteed by securities include 4 positions in the books of the Parent Bank, totaling 85,648 million lire, gross of writedowns, secured on shares representing the majority of the capital of the companies concerned. In such cases, the Parent Bank is the holder of the voting rights in order to protect its interests as a creditor. Such companies are not considered to be subsidiaries for consolidation purposes, since they do not belong to the San Paolo IMI Banking Group.

Degree of risk in loan portfolio

The principal and interest elements of loans are stated at their estimated realizable value by applying the policies described in detail in part A, section 1 of these notes. The related writedowns are effected via direct reduction of the consolidated balance sheet asset value of the loans concerned. From 1998 onwards, following the introduction of actualization, the estimated realizable value of problem loans takes into account not only the likelihood of recovery, but also the financial cost of discounting loans at risk to factor in their total or partial lack of income generation and late repayment. Total adjustments as of December 31, 1998 for discounting purposes total 896,568 million lire, of which 49,946 million lire refers to specific writedowns of restructured loans made in prior years.

With regard to the classification of loans subject to lending risk, the categories encompassing restructured loans and loans being restructured

have been identified in detail in accordance with Bank of Italy instructions on disclosure in banks' financial statements. In prior years, these loans were classified in other categories of lending risk, essentially under problem loans, depending on their characteristics.

Analysis of loans to customers

in millions of lire

	31/12/98			31/12/97 (pro forma)		
	Gross value	Total adjustments	Net book value	Gross value	Total adjustments	Net book value
A. Doubtful loans	13,165,856	5,914,002	7,251,854	13,603,020	4,560,643	9,042,377
A.1 Non-performing loans	8,754,692	4,859,841	3,894,851	8,691,147	3,593,870	5,097,277
A.2 Problem loans	3,758,869	907,006	2,851,863	4,479,876	880,069	3,599,807
A.3 Loans currently being restructured	4,466	1,226	3,240	-	-	-
A.4 Restructured loans	360,854	67,125	293,729	-	-	-
A.5 Unsecured loans exposed to country risk	268,865	78,804	190,061	431,997	86,704	345,293
B. Performing loans	161,599,419	610,088	160,989,331	171,500,046	404,071	171,095,975
Reserve for possible loan losses (ex IMI)	-	-	-	-	1,073,223	-1,073,223
Total loans to customers	174,765,275	6,524,090	168,241,185	185,103,066	3,891,491	179,065,129

Within total adjustments to loans as of December 31, 1997, the reserve for possible loan losses originating from IMI has been identified in a specific caption, pending its reclassification as a reduction to the Bank's loans which was only carried out at the end of 1998.

The degree of coverage on non-performing and problem loans, gross and net of write-offs made, has increased significantly and is due in part to the increase in adjustments for actualization. In particular, the percentage of coverage on non-performing loans, gross of write-offs, was 66.4% compared with 55.4% at the end of 1997, while the equivalent figure for problem loans rose to 33.7%, as against 25.6% a year earlier. On the other hand, net of write-offs, the percentage of coverage of non-performing loans was 55.5% as against 41.4% at the end of 1997, while the same percentage for problem loans rose from 19.6% a year earlier to 24.1%. As regards the various types of loan, the highest level of coverage is for ordinary loans, while the percentages on agricultural loans are lower given the existence of mortgage guarantees on these positions.

Analysis of loans to banks

in millions of lire

	31/12/98			31/12/97 (pro forma)		
	Gross value	Total adjustments	Net book value	Gross value	Total adjustments	Net book value
A. Doubtful loans	415,460	194,852	220,608	479,588	79,690	399,898
A.1 Non-performing loans	7,012	5,685	1,327	10,625	4,504	6,121
A.2 Problem loans	8,489	1,934	6,555	-	-	-
A.3 Loans currently being restructured	-	-	-	-	-	-
A.4 Restructured loans	-	-	-	-	-	-
A.5 Unsecured loans exposed to country risk	399,959	187,233	212,726	468,963	75,186	393,777
B. Performing loans	44,492,755	67	44,492,688	67,334,206	10	67,334,196
Reserve for possible loan losses (ex IMI)	-	-	-	-	56	-56
Total loans to banks	44,908,215	194,919	44,713,296	67,813,794	79,756	67,734,038

Non-performing loans (table 1.4 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
Non-performing loans (net amount, including default interest) (*)	3,896,178	5,103,398	-23.7

(*) The balance as of December 31, 1997 includes default interest previously relating to IMI, since the reclassification of IMI's writedown reserve was carried out at the end of 1998.

Detail of caption 40 "Loans to customers" (table 1.2 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
a) Non-performing loans (net amount)	1,451	26,537	-94.5
b) Other loans (net amount)	3,794	9,459	-59.9

Movements in doubtful loans to customers In 1998, doubtful loans to customers, gross of value adjustments, exhibited the following pattern:

	<i>in millions of lire</i>				
	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Gross value - Opening balance as of January 1, 1998	8,691,147	4,479,876	-	-	431,997
A.1 including: for default interest	1,562,628	131,866	-	-	-
B. Increases	1,736,946	2,924,263	4,535	418,885	109,591
B.1 inflows of performing loans	374,199	1,919,863	3,929	111,913	56,882
B.2 default interest	356,173	41,973	-	8	-
B.3 transfers from other categories of problem loans	699,605	272,429	606	296,662	-
B.4 other increases	306,969	689,998	-	10,302	52,709
C. Decreases	1,673,401	3,645,270	69	58,031	272,723
C.1 outflows to performing loans	99,359	609,842	-	-	-
C.2 write-offs	520,133	293,413	-	11,495	3,285
C.3 collections	755,085	1,648,973	69	46,536	251,067
C.4 gains on disposals	-	-	-	-	-
C.5 transfers to other categories of problem loans	260,103	996,873	-	-	12,326
C.6 other decreases	38,721	96,169	-	-	6,045
D. Gross value - Closing balance as of December 31, 1998	8,754,692	3,758,869	4,466	360,854	268,865
D.1 including: for default interest	1,738,075	111,431	-	513	-

Movements in doubtful amounts due from banks In 1998, doubtful loans to banks, gross of value adjustments, exhibited the following pattern:

	<i>in millions of lire</i>				
	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Gross value - Opening balance as of January 1, 1998	10,625	-	-	-	468,963
A.1 including: for default interest	59	-	-	-	-
B. Increases	1,715	8,489	-	-	58,819
B.1 inflows of performing loans	1,659	8,489	-	-	-
B.2 default interest	5	-	-	-	-
B.3 transfers from other categories of problem loans	-	-	-	-	-
B.4 other increases	51	-	-	-	58,819
C. Decreases	5,328	-	-	-	127,823
C.1 outflows to performing loans	-	-	-	-	-
C.2 write-offs	784	-	-	-	2,822
C.3 collections	4,544	-	-	-	124,009
C.4 gains on disposals	-	-	-	-	-
C.5 transfers to other categories of problem loans	-	-	-	-	-
C.6 other decreases	-	-	-	-	992
D. Gross value - Closing balance as of December 31, 1998	7,012	8,489	-	-	399,959
D.1 including: for default interest	64	-	-	-	-

Movements in adjustments

In 1998, total value adjustments concerning loans to customers exhibited the following pattern:

Categories	<i>in millions of lire</i>						
	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans	Reserves for possible loan losses (ex IMI)
A. Total adjustments - Opening balance as of January 1, 1998	3,593,870	880,069	-	-	86,704	404,071	1,073,223
<i>A.1 including: for default interest</i>	<i>1,537,779</i>	<i>131,866</i>	-	-	-	<i>43,242</i>	<i>30,167</i>
B. Increases	2,032,583	703,129	1,226	82,050	37,714	417,052	-
B.1 adjustments	1,091,996	400,402	1,036	21,322	37,714	155,749	-
B.1.1 including: for default interest	356,173	41,973	-	8	-	12,823	-
B.2 use of reserves for possible loan losses	-	-	-	-	-	-	-
B.3 transfers from other categories of problem loans	247,428	104,964	61	51,537	-	50,106	-
B.4 other increases	693,159	197,763	129	9,191	-	211,197	-
C. Decreases	766,612	676,192	-	14,925	45,614	211,035	1,073,223
C. 1. writebacks from valuations	70,486	53,049	-	3,425	28,748	2,593	-
C. 1.1. including: for default interest	-	-	-	-	-	-	-
C. 2. writebacks of collections	104,744	43,998	-	5	5,199	24,364	-
C. 2.1. including: for default interest	54,291	24,503	-	-	-	23,568	-
C. 3. write-offs	520,133	293,413	-	11,495	3,285	77,811	72,595
C. 4. transfers to other categories of problem loans	63,806	283,073	-	-	1,754	105,463	-
C. 5. other decreases	7,443	2,659	-	-	6,628	804	1,000,628
D. Total adjustments - Closing balance as of December 31, 1998	4,859,841	907,006	1,226	67,125	78,804	610,088	-
<i>D.1 including: for default interest</i>	<i>1,738,075</i>	<i>111,431</i>	-	<i>513</i>	-	<i>9,307</i>	-

As already discussed, total adjustments include 896,568 million lire relating to the adoption of a policy of discounting problem loans as of December 31, 1998. Writedowns for actualization are 646,778 million lire on non-performing loans, 210,476 million lire on problem loans and 39,314 million lire on restructured loans and performing loans valued on a case-by-case basis. These writedown have had an impact on the statement of income for 45,000 million lire only, while for the remainder writedowns have been covered by the adjustments recorded in prior years for the discounting of restructured loans, as mentioned previously, and by reclassifying the Reserve for possible loan losses previously pertaining to former IMI for 801,910 million lire to writedown the book value of loans.

The remaining balance of this Reserve, 271,369 million lire, has been allocated as follows: 30,167 million lire to direct adjustments to loans for default interest, 6,130 million lire to direct adjustments to loans for principal; 72,595 million lire to cover loan losses for transactions and disposals recorded during the year and 162,467 million lire to supplement general adjustments on performing loans.

A breakdown (by category of risk) of IMI's reserves reclassified to writedown the book value of problem loans, is included in caption B.4 – other increases – in the above table.

Performing loans include positions under observation valued on a case-by-case basis, pertaining to the Bank amounting to 590,942 million lire; these positions have been written down by 59,823 million lire.

In 1998, total value adjustments concerning loans to banks exhibited the following pattern:

Categories	<i>in millions of lire</i>						
	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans	Reserves for possible loan losses (ex IMI)
A. Total adjustments - Opening balance as of January 1, 1998	4,504	-	-	-	75,186	10	56
<i>A.1 including: for default interest</i>	59	-	-	-	-	-	-
B. Increases	1,732	1,934	-	-	135,513	57	-
B.1 adjustments	1,664	1,934	-	-	134,576	57	-
<i>B.1.1 including: for default interest</i>	5	-	-	-	-	-	-
B.2 use of reserves for possible loan losses	-	-	-	-	-	-	-
B.3 transfers from other categories of problem loans	-	-	-	-	-	-	-
B.4 other increases	68	-	-	-	937	-	-
C. Decreases	551	-	-	-	23,466	-	56
C. 1. writebacks from valuations	551	-	-	-	16,062	-	-
<i>C. 1.1. including: for default interest</i>	-	-	-	-	-	-	-
C. 2. writebacks of collections	-	-	-	-	-	-	-
<i>C. 2.1. including: for default interest</i>	-	-	-	-	-	-	-
C. 3. write-offs	-	-	-	-	-	-	-
C. 4. transfers to other categories of loans	-	-	-	-	-	-	-
C. 5. other decreases	-	-	-	-	7,404	-	56
D. Total adjustments - Closing balance as of December 31, 1998	5,685	1,934	-	-	187,233	67	-
<i>D.1 including: for default interest</i>	64	-	-	-	-	-	-

Adjustments to cover the general risk within the loan portfolio have been made in the amount of 472,667 million lire.

In addition, estimated assets that could emerge in relation to recoveries of principal and interest on loan positions previously written down amount to around 400,000 million lire.

Loans to countries at risk

Loans to customers and banks resident in nations exposed to country risk are analyzed below:

in millions of lire

Country	Total exposure as of 31/12/98	of which: unsecured exposure					Net exposure (pro forma) as of 31/12/97	Change %
		Gross exposure as of 31/12/98	Gross- weighted exposure as of 31/12/98	Total adjustments as of 31/12/98	Net exposure as of 31/12/98	Net exposure as of 31/12/98		
Russia	1,025,123	284,150	284,150	170,540	113,610	312,021	-63.6	
Brazil	141,625	113,235	86,332	34,818	78,417	123,580	-36.5	
South Korea	41,660	41,660	36,004	7,201	34,459	115,640	-70.2	
Qatar	100,770	36,350	36,350	5,453	30,897	-	n.s.	
South African Republic	33,221	33,221	33,110	4,959	28,262	-	n.s.	
Thailand	36,681	30,193	28,459	4,269	25,924	52,559	-50.7	
Argentina	136,307	27,927	27,916	5,276	22,651	14,277	+58.7	
India	26,263	18,213	18,213	2,732	15,481	-	n.s.	
Yugoslavia	10,329	10,329	10,329	8,295	2,034	-	n.s.	
Venezuela	33,803	9,193	9,193	1,839	7,354	-	n.s.	
Morocco	224,249	9,593	9,104	1,702	7,891	20,225	-61.0	
Algeria	396,174	15,876	15,145	2,080	13,796	14,664	-5.9	
Iran	326,532	268	268	67	201	-	n.s.	
Bermuda	103,319	-	-	-	-	22,430	n.s.	
Other countries	348,422	56,726	45,286	16,806	39,920	63,764	-37.3	
Total	3,004,478	686,934	639,859	266,037	420,897	739,070	-43.1	

Adjustments to unsecured loans exposed to country risk have been made by applying the writedown percentages agreed industry-wide by the Italian bankers' association. The Bank has not applied the additional percentages resulting from a review of the valuation methods for country risk to the reduced extent of 70%, as would be permitted on a provisional basis under certain circumstances. In particular, a writedown percentage of 60% has been confirmed for unsecured loans to customers resident in Russia, as already applied at the time the interim report was prepared.

Secured loans, amounting to 2,317,544 million lire, are insured by SACE or by sureties from banking operators in the OECD area (1,561,535 million lire) and by other forms of guarantee deemed adequate to cover the lending risk (756,009 million lire). This latter group essentially comprises loans granted by the Bank to RAO Gazprom - Russia (514,141 million lire) and to National Iranian Oil Company, an Iranian Government oil corporation, (163,476 million lire); these two positions are guaranteed by the assignment of receivables under supply contracts with leading operators in Western Europe. In compliance with Bank of Italy instructions, "country risk" is also calculated on these loan positions and deducted from regulatory capital.

Other information relating to loans

Information regarding the distribution of loans, by category of borrower, industry, geographical area, maturity, liquidity and currency, is provided in part B, section 11 of these notes.

Section 2 Securities

Securities owned by the Group are analyzed as follows:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Treasury bills and similar bills eligible for refinancing with central banks (caption 20)	11,519,344	13,889,384	-17.1
Bonds and other debt securities (caption 50)	35,962,141	38,346,585	-6.2
Shares, quotas and other equities (caption 60)	2,323,785	2,627,352	-11.6
Total	49,805,270	54,863,321	-9.2
of which:			
- investment securities	4,535,504	5,738,149	-21.0
- dealing securities	45,269,766	49,125,172	-7.8

“Treasury bills and similar bills eligible for refinancing” represent securities which may be used for refinancing purposes; at the balance sheet date, securities had not been used for this purpose.

Investment securities

Securities recorded in the consolidated financial statements include those which will be held long term by Group companies and declared as such in their financial statements. The investment securities portfolio is analyzed as follows:

<i>Investment securities (table 2.1 B.I)</i>		<i>in millions of lire</i>			
		31/12/98		31/12/97 (pro forma)	
		Book value (a)	Market value (b)	Book value (a)	Market value (b)
I. Debt securities					
I.1 Government securities					
- quoted		2,881,825	2,996,123	3,872,394	3,979,803
- unquoted		-	-	-	-
I.2 other securities					
- quoted		1,466,941	1,486,870	1,375,509	1,375,613
- unquoted		186,607	174,139	490,115	495,579
2. Equities					
- quoted		131	1,360	131	1,175
- unquoted		-	-	-	-
Total		4,535,504	4,658,492	5,738,149	5,852,170

(a) After year-end writedowns.

(b) The market value of quoted securities is determined with reference to the simple average of prices over the second half of the year.

A comparison between the market value and book value of “Government securities” reveals a net unrealized, unrecorded gain of 114,298 million lire, partly offset by an unrealized loss of 51,807 million on “interest rate swaps” linked to the securities in question.

“Other securities” include not only the contribution of the Parent Bank (122,115 million lire) but also the portfolio of a foreign subsidiary

(1,146,101 million lire) comprising securities issued by public entities in the European Union (494,199 million lire) and securities issued by leading banks and other European operators (636,313 million lire).

Losses resulting from the difference between book value and market value within “other securities - unquoted” refers to securities in the Parent Bank’s portfolio issued by Eastern European borrowers with a guarantee from the United States of America. Their value at maturity will be equal to 100% of their nominal value.

<i>Changes in investment securities during the year (table 2.2 B.I)</i>		<i>in millions of lire</i>
A. Opening balance - pro forma		5,738,149
B. Increases		
B1. purchases		490,151
B2. writebacks		102
B3. transfers from dealing portfolio		9,745
B4. other changes		403,634
C. Decreases		
C1. sales		65,380
C2. redemptions		1,252,134
C3. adjustments		50,506
including:		
permanent writedowns		50,506
C4. transfers to dealing portfolio		263,731
C5. other changes		474,526
D. Closing balance		4,535,504

Subcaptions B4. “Increases - other changes” and C5. “Decreases - other changes” reflect exchange differences on securities denominated in foreign currency and accrued issue and dealing discounts.

The adjustments reported in subcaption C3 (of which 48,275 million lire relates to securities issued by banks resident in Russia) were required to adjust the carrying value of securities issued by countries at risk, deriving from the conversion of loans, to the industry-wide writedown percentages agreed during the second half of the year which also confirmed the 60% writedown percentage applied to securities issued by residents in Russia at the time the first half report was prepared.

“Transfers to the dealing portfolio” were made by certain subsidiary companies following the change in strategic direction of investment in securities.

The overall redemption value of investment securities is higher than their book value by 14,807 million lire.

Dealing securities

Dealing securities comprise:

Dealing securities (table 2.3 B.I)

in millions of lire

	31/12/98		31/12/97 (pro forma)	
	Book value (a)	Market value (b)	Book value (a)	Market value (b)
I. Debt securities				
I.1 Government securities				
- quoted	28,556,610	28,556,610	29,845,292	29,914,559
- unquoted	366,880	366,880	4,673	4,772
I.2 other securities				
- quoted	5,790,681	5,790,681	8,485,576	8,502,277
- unquoted	8,231,940	8,262,317	8,162,410	8,192,690
II. Equities				
- quoted	2,317,244	2,317,244	2,620,656	2,634,746
- unquoted	6,411	6,851	6,565	6,805
Total	45,269,766	45,300,583	49,125,172	49,255,849

(a) After year-end valuation, made using current accounting policies.

(b) Market value determined in accordance with current accounting policies.

As indicated in the introduction to these notes, the change in the accounting policy applied to determine the cost of dealing securities has had a positive impact on the consolidated statement of income of 51,458 million lire, gross of the tax effect and minority interests.

Own bonds held for dealing purposes amount to 2,805,216 million lire.

Changes in dealing securities during the year (table 2.4 B.I.)

in millions of lire

A. Opening balance - pro forma	49,125,172
B. Increases	
B1. purchases	
- debt securities	889,035,089
- government securities	783,985,738
- other securities	105,049,351
- equities	24,831,349
B2. writebacks and revaluations	181,884
B3. transfers from investment portfolio	263,731
B4. other changes	3,104,450
C. Decreases	
C1. sales and redemptions	
- debt securities	892,245,109
- government securities	786,776,526
- other securities	105,468,583
- equities	25,670,009
C2. adjustments	168,295
C3. transfers to investment portfolio	9,745
C5. other changes	3,178,751
D. Closing balance	45,269,766

Other information relating to securities

The composition of the securities portfolio is analyzed by geographical area, currency and liquidity in part B, section II of these notes.

Section 3 Equity investments

Equity investments, reported in consolidated asset captions 70 and 80, are detailed below:

	31/12/98	31/12/97 (pro forma)	Change %
Equity investments (caption 70)	1,823,410	1,664,209	+9.6
Investments in Group companies (caption 80)	736,145	630,492	+16.8
Total	2,559,555	2,294,701	+11.5
of which:			
- significant investments	1,106,501	1,007,890	+9.8
- other holdings	1,453,054	1,286,811	+12.9

Pro forma amounts as of December 31, 1997 are stated net of IMI's 417,180 million lire holding in Sanpaolo.

Significant investments

Significant investments held by the Group, being those in subsidiary companies or in companies subject to significant influence, as defined in articles 4 and 19 of Legislative Decree 87/92, are indicated in the table below:

Name	Registered offices	Type of relationship (*)	Shareholders' equity (**)	Net income (loss) (**)	Ownership		Voting rights at shareholders' meeting %	Consolidated Book values
					Held by	%		
San Paolo IMI SpA (Parent Bank)	Turin		14,533,462	1,263,114	-	-	-	-
<i>A1 Line-by-line</i>								
1 Banca Fideuram SpA	Milan	I	923,695	177,932	Sanpaolo IMI Banca IMI	74.08 0.30	74.08 0.30	XXX (A) XXX
						74.38	74.38	
2 Banca d'Intermediazione Mobiliare IMI SpA (Banca IMI)	Milan	I	702,302	61,196	Sanpaolo IMI	100.00	100.00	XXX (A)
3 Banque Sanpaolo	France	I	865,636	78,867	Sanpaolo IMI	100.00	100.00	XXX
4 Bonec Ltd	Ireland	I	1,855	1,854	Sanpaolo Bank Ireland	100.00	100.00	XXX
5 C.fin SpA	Rome	I	13,992	-9	Crediop	100.00	100.00	XXX
6 Crediop	Rome	I	1,032,651	104,786	Sanpaolo IMI	60.00	60.00	XXX
7 Crediop BV	Netherlands	I	39,407	1,028	Crediop	100.00	100.00	XXX
8 Crediop Overseas Bank Ltd	Cayman Islands	I	98,351	6,846	Crediop	100.00	100.00	XXX
9 Fideuram Bank SA	Luxembourg	I	38,917	192	Banca Fideuram	100.00	100.00	XXX (A)
10 Fideuram Fiduciaria SpA	Rome	I	4,576	32	Banca Fideuram	100.00	100.00	XXX (A)
11 Fideuram Fondi SpA	Rome	I	91,216	4,567	Banca Fideuram	99.25	99.25	XXX (A)
12 Fideuram Gestioni Patrimoniali SIM SpA	Milan	I	13,300	1,899	Banca Fideuram	100.00	100.00	XXX (A)
13 Fonditalia Management Company SA	Luxembourg	I	281,131	268,368	Banca Fideuram Fideuram Vita	99.96 0.04	99.96 0.04	XXX (A) XXX
						100.00	100.00	
14 IMI Bank (Lux) SA	Luxembourg	I	166,353	17,310	Banca IMI IMI Sigeco (UK) Ltd	99.99 0.01	99.99 0.01	XXX (A) XXX
						100.00	100.00	
15 IMIBANK (International)	Madeira	I	366,828	14,558	Sanpaolo IMI IMI International SA IMI Bank (Lux) SA IMI Sigeco (UK) Ltd IMI Investments SA	69.00 30.99 0.003 0.004 0.003	69.00 30.99 0.003 0.004 0.003	XXX (A) XXX XXX XXX XXX
						100.00	100.00	
16 IMI Capital Markets USA Corp.	USA	I	245,238	9,591	IMI Investments SA	100.00	100.00	XXX (A)
17 IMI Fideuram Asset Management . SIM SpA	Milan	I	31,673	9,310	Sanpaolo IMI Banca Fideuram	50.00 50.00	50.00 50.00	XXX (A) XXX
						100.00	100.00	
18 IMI Funding Corp. (USA)	USA	I	349	24	Sanpaolo IMI	100.00	100.00	XXX (A)
19 IMI International SA	Luxembourg	I	1,296,271	62,296	Sanpaolo IMI	100.00	100.00	XXX (A)
20 IMI Investments SA	Luxembourg	I	248,439	169	Banca IMI IMI International SA	99.99 0.01	99.99 0.01	XXX (A) XXX
					100.00	100.00		

Name	Registered offices	Type of relationship (*)	Shareholders' equity (**)	Net income (loss) (**)	Ownership		Voting rights at shareholders' meeting %	Consolidated Book values
					Held by	%		
21 IMI Real Estate SA	Luxembourg	I	6,310	127	IMI Bank (Lux) SA	99.99	99.99	XXX (A)
					IMI International SA	0.01		
						100.00	100.00	
22 IMI Sigeco (UK) Ltd	United Kingdom	I	45,134	9,111	Banca IMI	100.00	100.00	XXX (A)
23 Imigest Immobiliare SpA	Rome	I	86,398	-6,837	Sanpaolo IMI	100.00	100.00	XXX (A)
24 Imil Ltd.	USA	I	84,761	3,502	IMI International SA	100.00	100.00	XXX (A)
25 IMI Lease SpA	Rome	I	437,251	29,561	Sanpaolo IMI	100.00	100.00	XXX (A)
26 Imitec SpA	Rome	I	5,756	58	Sanpaolo IMI	100.00	100.00	XXX (A)
27 Immobiliare Italia Gestioni SpA	Rome	I	10,098	98	Imigest Immobiliare	75.00	75.00	XXX (A)
28 Interfund Advisory Company SA	Luxembourg	I	19,856	19,590	Banca Fideuram	99.98	99.92	XXX (A)
					Fideuram Vita	0.02		
						100.00	100.00	
29 Int. Securities Advisory Company SA	Luxembourg	I	1,528	1,368	Banca Fideuram	99.92	99.92	XXX (A)
					Fideuram Vita	0.08		
						100.00	100.00	
30 Intersim	Milan	I	83,663	48,511	Sanpaolo IMI	100.00	100.00	XXX
31 Lackenstar Ltd	Ireland	I	2,756	1,941	Sanpaolo Bank Ireland	100.00	100.00	XXX
32 LDV Holding BV	Netherlands	I	99,133	1,079	Sanpaolo IMI	100.00	100.00	XXX (A)
33 Mabon Securities Corp.	USA	I	31,971	1,807	IMI Capital Markets USA Corp.	100.00	100.00	XXX (A)
34 Sanpaolo Asset Management SIM SpA	Milan	I	29,152	6,039	Sanpaolo IMI	95.88	95.88	XXX
					Sanpaolo Bank SA	4.12		
35 Sanpaolo Bank (Austria) AG	Austria	I	17,826	1,997	Sanpaolo Bank SA	100.00	100.00	XXX
36 Sanpaolo Bank SA	Luxembourg	I	84,694	8,530	Sanpaolo IMI	100.00	100.00	XXX
37 Sanpaolo Bank Ireland	Ireland	I	763,395	50,544	Sanpaolo IMI	100.00	100.00	XXX
38 Sanpaolo Fiduciaria SpA	Turin	I	2,939	337	Sanpaolo IMI	100.00	100.00	XXX
39 Sanpaolo Fondi SpA	Turin	I	58,014	22,982	Sanpaolo IMI	100.00	100.00	XXX
40 Sanpaolo Gestion Internazionale SA	Luxembourg	I	5,172	1,828	Sanpaolo IMI	99.98	99.98	XXX
41 Sanpaolo Immobiliare SpA	Turin	I	12,790	7,006	Sanpaolo IMI	100.00	100.00	XXX
42 Sanpaolo Invest Sim	Rome	I	83,964	27,338	Sanpaolo IMI	100.00	100.00	XXX
43 Sanpaolo Leasint	Milan	I	108,144	9,839	Sanpaolo IMI	100.00	100.00	XXX
44 Sanpaolo Riscossioni Genova SpA	Genoa	I	10,818	4,358	Sanpaolo IMI	100.00	100.00	XXX
45 Sanpaolo Riscossioni Prato SpA	Prato	I	3,671	1,781	Sanpaolo IMI	100.00	100.00	XXX
46 Sanpaolo US Financial Co.	USA	I	126	10	Sanpaolo IMI	100.00	100.00	XXX
47 SEP SpA	Turin	I	3,465	443	Sanpaolo IMI	100.00	100.00	XXX

Name	Registered offices	Type of relationship (*)	Shareholders' equity (**)	Net income (loss) (**)	Ownership		Voting rights at shareholders' meeting %	Consolidated Book values
					Held by	%		
48 Societ� de Gestion du fonds commun de placement IM.IF SA	Luxembourg	I	1,164	887	IMI International SA	0.83	0.83	XXX (A)
					IMI Bank (Lux) SA	99.16	99.16	XXX
						99.99	99.99	
49 Tobuk Ltd	Ireland	I	3,060	3,060	Sanpaolo Bank Ireland	100.00	100.00	XXX
50 Tradital SpA	Milan	I	68,313	-2,469	Imigest Immobiliare	100.00	100.00	XXX (A)
51 Turis AG	Switzerland	I	44,102	216	Banca Fideuram	100.00	100.00	XXX (A)
52 Tushingam Ltd	Ireland	I	1,700	1,317	Sanpaolo Bank Ireland	100.00	100.00	XXX
<i>A2 Proportional method</i>								
I Finconsumo SpA	Turin	7	51,461	11,160	Sanpaolo IMI	50.00	50.00	XXX

B. Carried at equity**Subsidiaries**

1 Apok� Six Srl	Milan	I	3,915	397	Sanpaolo IMI	100.00	100.00	-
2 Cedar Street Securities Corp.	USA	I	71	-	Banca IMI	100.00	100.00	71 (A)
3 Euramexico SA DE CV	Mexico	I	2,126	-768	IMI International	99.95	99.95	2,126 (A)
4 Fideuram Assicurazioni SpA	Rome	I	27,510	3,035	Banca Fideuram	100.00	100.00	27,510
5 Fideuram Vita SpA	Rome	I	456,504	120,853	Banca Fideuram	99.73	100.00	455,272
6 Galea Srl	Rome	I	251	-465	Imigest Immobiliare	100.00	100.00	251
7 Gedit SA	Luxembourg	I	152	633	Sanpaolo IMI	90.00	90.00	
					Apok� Six	10.00	10.00	
						100.00	100.00	137
8 IMI Sigeco (Nominees) Ltd.	United Kingdom	I	-	-	IMI Sigeco (UK)	100.00	100.00	- (A)
9 Immobiliare Italia Servizi SpA	Rome	I	7,335	117	Imigest Immobiliare	67.00	67.00	4,914
10 Immobiliare Roma Laurentino Srl - Desio	Rome	I	6,109	11	Imigest Immobiliare	100.00	100.00	6,109
11 Independent Management for Institutional Advisory Co. SA	Luxembourg	I	201	8	IMI Bank (Lux)	99.80	99.80	
					IMI Sigeco (UK)	0.20	0.20	
						100.00	100.00	201
12 Leasint Servizi Integrati SpA	Milan	I	1,882	83	Sanpaolo Leasint	100.00	100.00	1,882
13 Pavim Srl	Rome	I	1,070	2	Tradital	100.00	100.00	605
14 Piramide Srl	Desio	I	208	-54	Tradital	100.00	100.00	208
15 Prospettive 2001 SpA	Milan	I	25,533	120	Sanpaolo IMI	100.00	100.00	25,533

Name	Registered offices	Type of relationship (*)	Shareholders' equity (**)	Net income (loss) (**)	Ownership		Voting rights at shareholders' meeting %	Consolidated Book values
					Held by	%		
16 Sanpaolo Leasint GMBH	Vienna	I	259	42	Sanpaolo Leasint	100.00	100.00	234
17 Sanpaolo Services Lux SA	Luxembourg	I	484	-	Sanpaolo IMI	100.00	100.00	482
18 Sanpaolo Vita SpA	Milan	I	186,488	24,180	Sanpaolo IMI	100.00	100.00	186,488
19 Servizi Previdenziali SpA	Rome	I	1,489	-	IMI Fideuram Asset Management	100.00	100.00	1,488
20 Socavie	France	I	8,339	8,167	Banque Sanpaolo	100.00	100.00	8,339
21 SPB 1650 Van Ness Corp.	USA	I	-	-	Sanpaolo IMI	100.00	100.00	-
22 SPB Delta Towers LLC	USA	I	2	-	Sanpaolo IMI	100.00	100.00	2
23 Spei SpA	Rome	I	1,555	35	IMI Lease	100.00	100.00	1,555 (A)
24 Studi e Ricerche Fiscali Cons.	Rome	I	500	-	Sanpaolo IMI Banca Fideuram Imigest Immobiliare Banca IMI IMI International	50.00 25.00 10.00 10.00 5.00	50.00 25.00 10.00 10.00 5.00	507
25 Urbe Srl	Rome	I	4,253	-47	Imigest Immobiliare	100.00	100.00	4,253
26 Apokè Two Srl (in liquidation)	Milan	I	-15,490	-3,715	Sanpaolo IMI Apokè Six	94.67 5.33	94.67 5.33	-
27 Crediop Finance PLC (in liquidation)	London	I	56	-	Sanpaolo IMI	100.00	100.00	45
28 Euke srl (in liquidation)	Milan	I	259	116	Sanpaolo IMI	100.00	100.00	-
29 Fidimi Consulting SpA (in liquidation)	Rome	I	366	69	Sanpaolo IMI	100.00	100.00	200
30 Imifin SpA (in liquidation)	Rome	I	-61	-73	Sanpaolo IMI	100.00	100.00	- (A)
31 IMI Bank AG (in liquidation)	Germania	I	2,564	-	IMI Bank Lux IMI International	95.24 4.76	95.24 4.76	2,564 (A)
32 Sanpaolo U.S. Holding Co. (in liquidation)	Delaware	I	5,169	-2,890	Sanpaolo IMI	100.00	100.00	5,169
Total investments in Group companies carried at equity								736,145
Other								
33 Banque Michel Inchauspe	France	8	34,682	5,607	Banque Sanpaolo	20.00	20.00	6,938
34 Bafin	Castelfidardo	8	46,000	-	LDV Holding	23.00	23.00	10,580
35 Banca Italo-Romena SpA	Milan	8	28,946	386	Sanpaolo IMI	20.00	20.00	5,789
36 BNC Assicurazioni	Rome	8	288,943	7,644	Sanpaolo IMI	30.00	30.00	86,683
37 CBE Service	Belgium	8	48	-	Sanpaolo IMI	20.00	20.00	10
38 Conservateur Finance	France	8	33,152	4,552	Banque Sanpaolo	20.00	20.00	6,632
39 Consorsio USaS	Turin	8	681	4	Sanpaolo IMI	20.00	20.00	136
40 Esatri SpA	Milan	8	82,200	29,254	Sanpaolo IMI	31.50	31.50	25,894
41 Eurofondo SCpA	Rome	8	72	-48	Sanpaolo IMI	25.00	25.00	22
42 Eurosic	France	8	58,985	2,173	Banque Sanpaolo	32.77	32.77	19,329
43 Fer Credit Servizi Finanziari SpA	Rome	8	24,653	-4,932	Crediop	20.00	20.00	4,931
44 Finnatt Investments SpA	Rome	8	1,547	1,137	Sanpaolo IMI	20.00	20.00	309
45 Gedeam Investments Group Inc.	Luxembourg	8	319,703	-	Sanpaolo IMI	49.26	49.26	157,486
46 Giorgio Grati SpA	Ancona	8	21,254	-1,527	Sanpaolo IMI	20.00	20.00	2,500

Name	Registered offices	Type of relationship (*)	Shareholders' equity (**)	Net income (loss) (**)	Ownership		Voting rights at shareholders' meeting %	Consolidated Book values
					Held by	%		
47 IMAB Beteiligungus	Austria	8	10,974	-	LDV Holding	31.67	31.67	3,475
48 IMI - ABN AMRO Investements SpA	Milan	7	1,043	17	Sanpaolo IMI	50.00	50.00	522
49 Inter-Europa Bank RT	Hungary	8	104,360	383	Sanpaolo IMI	32.50	32.50	33,928
50 Napoli Orientale SCpA	Naples	8	500	-	Sanpaolo IMI	20.00	20.00	100
51 Nordest Avio SpA	Rome	8	1,522	192	LDV Holding	33.00	33.00	502
52 Proger Srl - Pescara	Pescara	8	10,875	744	Tradital	20.00	20.00	2,175
53 San Marino Gestion SA	Luxembourg	8	1,727	643	Sanpaolo Bank SA	20.00	20.00	345
54 S.I.M. Societa' Italiana Monitoraggio SpA	Rome	8	2,103	-555	Sanpaolo IMI Crediop	20.00 20.00	20.00 20.00	
						40.00	40.00	621
55 Societa' Generale Gestioni Immobiliare SpA	Rome	8	948	-12	Tradital	50.00	50.00	474
56 Consorzio Bancario SIR SpA (in liquidation)	Rome	8	3,225	-10	Sanpaolo IMI	27.72	27.72	975
57 Finexpanse SpA (in liquidation)	Lavagna	8	516	-	Sanpaolo IMI	30.00	30.00	- (B)
58 Galileo Holding (in liquidation)	Marghera	8	-19,377	-41,796	Sanpaolo IMI	31.50	31.50	- (C)
59 S.P.S. Soc. Cons. P.A. (in liquidation)	Rome	8	-18,130	1,360	Crediop Sanpaolo IMI	20.40 6.00	20.40 6.00	- (D)
						26.40	26.40	
60 Tecnation SpA - (in liquidation)	Turin	8	376	-404	Sanpaolo IMI	22.50	22.50	-
					Total other investments carried at equity			370,356
					Total investments carried at equity			1,106,501

(*) Type of relationship:

- 1 = control pursuant to art. 2359.1.1 of the Italian Civil Code (majority of voting rights at an ordinary meeting);
2 = control pursuant to art. 2359.1 of the Italian Civil Code (dominating influence at an ordinary meeting);
3 = control pursuant to art. 23.2.1 of the Consolidated Banking Law (agreements with other shareholders);
4 = other types of control;
5 = single management pursuant to art. 26.1 of Legislative Decree 87/92;
6 = single management pursuant to art. 26.2 of Legislative Decree 87/92;
7 = joint control pursuant to art. 35.1 of Decree 87/92;

8 = associated company pursuant to art. 36.1 of Decree 87/92: companies over which a "significant influence" is exercised, which is expected to exist if at least 20% of the voting rights at an ordinary meeting are held.

(**) Shareholders' equity for consolidated companies is that used for the consolidated financial statements. For other companies, the shareholders' equity reported in the latest approved set of financial statements is used. Shareholders' equity includes the portion of net income, before allocation of dividends (net of any interim dividends);

(A) Companies previously belonging to the IMI Banking Group;

(B) The position has already covered and no further losses are expected;

(C) The negative equity should be re-aligned following the restructuring of balances due to banks. Amounts due from this company to the Bank are covered by appropriate adjustments;

(D) The book value of the investments has been written off and, on the basis of expert opinions, no further charges are anticipated.

Other shareholdings of the Group are as follows:

Name	Registered Office	Ownership	Book value (L/mil)
Telecom Italia SpA	Turin	0,53	451.248
INA SpA	Rome	3,00	235.875
Banco Santander	Spain	0,46	169.876
Banca d'Italia	Rome	2,00	106.414
ENI SpA	Rome	0,11	54.298
Istituto per il Credito Sportivo	Rome	21,62	47.744
Unione Immobiliare	Rome	3,31	44.375
Mediaset SpA	Milan	0,41	33.220
Banco del Desarrollo	Chile	16,37	30.907
Credito Bergamasco	Bergamo	1,33	29.377
SCI Boissy RER 5	France	90,00	16.732
BIAT SA	Tunisia	6,73	15.200
Elsacom NV	Netherland	7,71	15.189
ADR International Airport South Africa	Sud Africa	0,37	14.718
Salvagnini BV	Netherland	9,44	12.275
Borsa Italiana SpA	Milan	16,93	11.721
Simest SpA	Rome	3,31	9.308
Unionvita	Rome	15,00	9.015
Gefim SpA	Turin	10,00	8.790
Banca Mediocredito	Turin	1,11	8.153
Eurotunnel	Folkestone	0,25	7.960
Fondo Europeo per gli Investimenti	Luxembourg	1,14	7.746
Ferfina SpA	Rome	5,00	7.170
Rimoldi Necchi SpA	Olcella	16,92	6.000
Banksiel	Milan	7,00	5.475
Cedel International	Luxembourg	1,32	5.460
Fata Group	Pianezza	13,17	5.200
Others			83.608
		Total other shareholdings	1.453.054

Composition of the investment portfolio

Analysis of caption 80 "Investments in Group companies" (table 3.5 B.I.)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
a) Investment in banks			
1. quoted	-	-	-
2. unquoted	2,564	2,592	-1.1
b) Investment in financial institutions			
1. quoted	-	-	n.s.
2. unquoted	9,294	10,754	-13.6
c) Other investments			
1. quoted	-	-	-
2. unquoted	724,287	617,146	+17.4
Total	736,145	630,492	+16.8

Analysis of caption 70 "Equity investments" (table 3.4 B.I.)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
a) Investments in banks			
1. quoted	214,453	20,183	+962.5
2. unquoted	256,711	299,987	-14.4
b) Investments in financial institutions			
1. quoted	-	-	-
2. unquoted	291,735	101,593	+187.2
c) Other investments			
1. quoted	831,817	853,399	-2.5
2. unquoted	228,694	389,047	-41.2
Total	1,823,410	1,664,209	+9.6

Changes during the year in the investment portfolio

Investments in Group companies (table 3.6.1 B.I.)

in millions of lire

A. Opening balance - pro forma	630,492
B. Increases	
B1. purchases	64,345
B2. writebacks	-
B3. revaluations	-
B4. other changes	130,290
C. Decreases	
C1. sales	22,885
C2. adjustments	31,330
including:	
permanent writedowns	31,330
C3. other changes	34,767
D. Closing balance	736,145
E. Total revaluations	-
F. Total adjustments	-

Subcaption B.1 “Purchases” comprises 50,000 million lire for the increase in share capital by Sanpaolo Vita, a subsidiary, and 9,533 million lire to acquire 100% control over Prospettive 2001 SpA.

Subcaption B.4 “Increases - other changes” essentially refers to the increase in value of equity holdings operating in the insurance sector (a total of 74,429 million lire). This balance also includes 31,330 million lire of capital contributions to the subsidiary Apokè six Srl, which was subsequently written down, and 8,339 million lire generated by changes in the scope of consolidation relating to Banque Sanpaolo.

Subcaption C.1 “Sales” refer to the disposal of the holding in Sotim Srl to Fin Cab, carried out by the Bank.

The subcaption C3. “Decreases - other changes” essentially reflects the effects of liquidating certain subsidiary companies (Eukè Srl, 14,632 million lire and Sige Servizi Srl 3,234 million lire).

<i>Other equity investments (table 3.6.2 B.1)</i>	<i>in millions of lire</i>
A. Opening balance - pro forma	1,664,209
B. Increases	
B1. purchases	446,272
B2. writebacks	-
B3. revaluations	-
B4. other changes	99,433
C. Decreases	
C1. sales	233,169
C2. adjustments	48,247
including:	
permanent writedowns	48,247
C3. other changes	105,088
D. Closing balance	1,823,410
E. Total revaluations	206,659
F. Total adjustments	553,937

Subcaption B.1 “Purchases” mainly comprises investments purchased by the Bank in Banco Santander SA, involving a total outlay of 169,875 million lire, and in Credito Bergamasco (150,000 million lire), as well as other smaller investments acquired in the merchant banking sector.

Subcaption B.4 “Increases - other changes” refers almost entirely to Sanpaolo IMI SpA (99,138 million lire). In particular, the property spin-off carried out by INA SpA resulted in the booking among “Increases - other changes” of an investment in UNIM SpA (the company benefiting from the spin-off) for an amount totaling 44,375 million lire, offsetting the reduction of the investment held in INA SpA (recorded among “Decreases - other changes”).

Subcaption C.1 “Sales” refers to disposals carried out by the Bank amounting to 199,715 million lire. The balance also includes the disposal made by the subsidiary Crediop of its holding in TAV for 14,735 million lire. The amount of 9,838 million lire refers to the disposal of investments in the property sector which occurred as a result of disposing of Tradim (formerly consolidated line-by-line in the financial statements of IMI SpA).

“Decreases - other changes” (subcaption C.3) includes the transfer of investments to the dealing securities portfolio, carried out by the Bank involving shares in Credito Bergamasco SpA (70,623 million lire) and Finmeccanica SpA (305 million lire). This balance also includes the effect of consolidating Finconsumo SpA on a proportional basis, 8,060 million lire (previously carried at equity).

Amounts due to and from Group companies and investments (non-Group companies)

The following table sets out the amounts due to and from companies belonging to the San Paolo IMI Banking Group, as defined pursuant to article 4 of Legislative Decree 87/92, and the amounts due to and from investments that are not part of the Group:

Amounts due to and from Group companies (table 3.2 B.I.)

	31/12/98	31/12/97 (pro forma)	Change %
<i>in millions of lire</i>			
a) Assets			
1. due from banks	-	491	-100.0
<i>of which:</i>			
- subordinated	-	491	-100.0
2. due from financial institutions	-	-	
<i>of which:</i>			
- subordinated	-	-	
3. due from other customers	485,548	482,407	+0.7
<i>of which</i>			
- subordinated	-	-	
4. bonds and other debt securities	-	-	-
<i>of which</i>			
- subordinated	-	-	-
Total assets	485,548	482,898	+0.5
b) Liabilities			
1. due to banks	-	-	-
2. due to financial institutions	530	2,590	-79.5
3. due to other customers	88,129	68,688	+28.3
4. securities issued	291,130	91,017	+219.9
5. subordinated liabilities	-	-	-
Total liabilities	379,789	162,295	+134.0
c) Guarantees and commitments			
1. guarantees given	6,534	5,642	+15.8
2. commitments	-	-	-
Total guarantees and commitments	6,534	5,642	+15.8

	31/12/98	31/12/97 (pro forma)	Change %
a) Assets			
1. due from banks (*)	1,826,989	5,183,345	-64.8
of which:			
- subordinated	560	560	-
2. due from financial institutions	787,550	660,724	+19.2
of which:			
- subordinated	-	-	-
3. due from other customers	3,665,364	2,236,188	+63.9
of which			
- subordinated	-	2,002	n.s.
4. bonds and other debt securities	510,601	12,773	n.s.
of which			
- subordinated	-	-	-
Total assets	6,790,504	8,093,030	-16.1
b) Liabilities			
1. due to banks (**)	398,494	4,031,995	-90.1
2. due to financial institutions	141,746	159,523	-11.1
3. due to other customers	358,037	130,027	+175.4
4. securities issued	-	-	-
5. subordinated liabilities	-	-	-
Total liabilities	898,277	4,321,545	-79.2
c) Guarantees and commitments			
1. guarantees given	786,614	555,553	+41.6
2. commitments	78,625	21,927	+258.6
Total guarantees and commitments	865,239	577,480	+49.8

(*) Including the compulsory reserve deposited with the Bank of Italy.

(**) Including repurchase agreements with the Bank of Italy.

Income and charges to Group companies and to non-Group shareholdings are reported in part C, section 7, of the explanatory notes.

Section 4 Tangible and intangible fixed assets

Tangible and intangible fixed assets, reported in consolidated asset captions, 110 and 120, comprise the following:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Tangible fixed assets (caption 120)	3,230,764	3,548,986	-9.0
Intangible fixed assets (caption 110)	584,603	526,913	+10.9
Total	3,815,367	4,075,899	-6.4

Tangible fixed assets (caption 120)

Tangible fixed assets comprise:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Property			
- operating	2,342,392	2,795,560	-16.2
- non-operating	614,618	467,461	+31.5
- undergoing renovation	25,681	28,336	-9.4
Furniture and installations			
- vehicles	2,057	2,252	-8.7
- office furniture and equipment	108,506	125,087	-13.3
- electronic equipment	80,609	79,947	+0.8
- general and specific installations	56,901	50,343	+13.0
Total	3,230,764	3,548,986	-9.0

Changes in tangible fixed assets during the year (table 4.1 B.I)

in millions of lire

A. Opening balance - pro forma	3,548,986
B. Increases	
B1. purchases	174,421
B2. writebacks	-
B3. revaluations	-
B4. other changes	42,942
C. Decreases	
C1. sales	197,579
C2. adjustments	
a) depreciation	289,612
b) permanent writedowns	79
C3. other changes	48,315
D. Closing balance	3,230,764
E. Total revaluations	2,439,424
F. Total adjustments	
a) accumulated depreciation	2,458,211
b) permanent writedowns	41,085

Changes in tangible fixed assets during the year are detailed below:

	<i>in millions of lire</i>	
	Property	Furniture equipment
Opening balance - pro forma	3,291,357	257,629
Increases		
- purchases	7,370	167,051
- other changes		
- incremental costs	9,441	-
- gains on disposals	17,344	978
- other	11,830	3,349
Decreases		
- sales	186,339	11,240
- adjustments		
- depreciation	130,185	159,427
- permanent writedowns	-	79
- other changes		
- losses on disposals	1,118	2,571
- change in scope of consolidation	35,942	-
- other	1,067	7,617
Closing balance	2,982,691	248,072

Advances paid for the purchase of tangible fixed assets totaled 1,494 million lire at year-end.

**Intangible fixed assets
(caption 110)**

Intangible fixed assets comprise:

Detail of caption 40 "Loans to customers" (table 1.2 B.I)

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Merger differences (goodwill of merged companies)	228,115	298,887	-23.7
Goodwill	67,141	192	n.s.
Other deferred charges	289,347	227,834	+27.0
Total	584,603	526,913	+10.9

A.	Opening balance - pro forma	526,913
B.	Increases	
	B1. purchases	186,165
	B2. writebacks	-
	B3. revaluations	-
	B4. other changes	118,776
C.	Decreases	
	C1. sales	1,716
	C2. adjustments	
	a) amortization	224,504
	b) permanent writedowns	248
	C3. other changes	20,783
D.	Closing balance	584,603
E.	Total revaluations	
F.	Total adjustments	
	a) accumulated amortization	712,197
	b) permanent writedowns	-

Changes in intangible fixed assets during the year are detailed below:

	in millions of lire		
	Merger differences (goodwill of merged companies)	Goodwill	Other deferred charges
Opening balance - pro forma	298,887	192	227,833
Increases			
- purchases	-	-	186,165
- writebacks	-	-	-
- revaluations	-	-	-
- other changes	-	100,896	17,881
Decreases			
- sales	-	-	1,716
- adjustments			
a) amortization	70,772	33,947	119,785
b) permanent writedowns	-	-	248
- other changes	-	-	20,783
Closing balance	228,115	67,141	289,347

The differences arising on the mergers of Banca Provinciale Lombarda and Banco Lariano in 1993 and that of Crediop in 1995 are recorded in the financial statements since they represent goodwill relating to merged companies. Such differences are stated net of the amounts allocated to the related assets acquired.

Goodwill reflects the value generated on acquisition of a business segment in prior years. It is currently being amortized in the financial statements of a finance company that formed part of the IMI Group.

Other deferred charges include:

- 138,436 million lire in EDP costs which will benefit future years, 37,712 million lire of which refers to investments made in connection with the introduction of the Euro;
- 30,217 million lire for leasehold improvements;
- 6,269 million lire for start-up and expansion costs.

No advances have been paid for the purchase of intangible fixed assets.

Section 5 Other assets

Consolidated asset captions 150 and 160 comprise the following:

	31/12/98	31/12/97 (pro forma)	Change %
Other assets (caption 150)	26,020,936	23,533,678	+10.6
Accrued income and prepaid expenses (caption 160)	10,395,714	13,828,243	-24.8
Total	36,416,650	37,361,921	-2.5

in millions of lire

Other assets (caption 150)

Analysis of caption 150 "Other assets" (table 5.1 B I)

	31/12/98	31/12/97 (pro forma)	Change %
Valuation of derivatives on interest rates and stockmarket index prices	13,913,191	12,378,442	+12.4
Unprocessed transactions (a)	1,517,128	2,232,455	-32.0
Transactions by foreign branches	1,175,498	1,447,868	-18.8
Amounts in transit between branches (a)	3,425,173	1,326,037	+158.3
Due from tax authorities	1,632,168	1,854,235	-12.0
- tax credits relating to prior years	605,475	588,766	+2.8
- tax withholdings overpaid during the year on bank interest income	124,409	377,868	-67.1
- taxes withheld during the year	51,393	190,671	-73.0
- taxes paid in advance on termination indemnities (Law 662/96)	91,150	51,897	+75.6
- prepaid current year direct taxes	544,493	387,118	+40.7
- other credits	215,248	257,915	-16.5
Effect of currency hedges, forex swap and cross-currency swap transactions	911,444	604,873	+50.7
Tax collection accounts	291,830	205,249	+42.2
Net effect of translating funds from international agencies using current rates, with the exchange risk borne by third parties	93,403	596,100	-84.3
Deposits with clearing-houses to secure derivative contracts	41,499	198,882	-79.1
Premiums paid on purchased options	338,843	372,336	-9.0
Other debit balances due for settlement	414,718	-	n.s.
Cheques and other instruments held	72,330	91,459	-20.9
Items relating to securities transactions	57,964	87,316	-33.6
Advance payment of current income taxes in excess of that due	-	86,000	n.s.
Other	2,135,747	2,052,426	+4.1
Total	26,020,936	23,533,678	+10.6

in millions of lire

(a) Mostly settled at the beginning of 1999.

Accrued income and prepaid expenses (caption 160)

Analysis of caption 160 "Accrued income and prepaid expenses" (table 5.2 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
Accrued income			
- income from derivative contracts (a)	5,770,773	8,499,349	-32.1
- interest from loans to customers	1,833,652	2,243,075	-18.3
- interest on securities	976,658	1,442,026	-32.3
- bank interest	69,469	670,368	-89.6
- other income	68,530	96,017	-28.6
Prepaid expenses			
- current income taxes paid in advance	1,081,343	200,000	+440.7
- charges on derivative contracts	116,582	198,243	-41.2
- commission on placement of securities and mortgage loans	207,472	167,694	+23.7
- discounts on bond issues	130,695	139,929	-6.6
- other charges	140,540	171,542	-18.1
Total	10,395,714	13,828,243	-24.8

(a) Accrued income from derivative contracts is recognized on a contract-by-contract basis with reference to the interest rates applicable at the time.

Distribution of subordinated assets (table 5.4 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
a) Due from banks	40,924	58,051	-29.5
b) Loans to customers	9,756	117,369	-91.7
c) Bonds and other debt securities	203,361	403,995	-49.7
Total	254,041	579,415	-56.2

Section 6 Payables

Total Group deposits and other sources of funds are detailed below

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Due to banks (caption 10)	53,755,669	75,646,140	-28.9
Due to customers (caption 20)	87,359,603	94,462,672	-7.5
Securities issued (caption 30)	101,096,024	111,497,244	-9.3
Public funds administered (caption 40)	134,278	165,368	-18.8
Total	242,345,574	281,771,424	-14.0

Due to banks (caption 10)

Deposits taken from banks are analyzed as follows:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Due to central banks			
- repurchase agreements and securities borrowed	-	3,570,618	-100.0
- other deposits from the Italian Exchange Office	71,996	1,517,834	-95.3
- other deposits from central banks	379,612	654,926	-42.0
- advances	46,251	29,848	+55.0
Due to banks			
- deposits	19,702,420	32,160,249	-38.7
- repurchase agreements and securities borrowed	9,996,467	8,421,987	+18.7
- medium- and long-term loans from international bodies	9,544,442	10,004,604	-4.6
- current accounts	3,290,415	4,176,178	-21.2
- other	10,724,066	15,109,896	-29.0
Total	53,755,669	75,646,140	-28.9

Detail of "Due to banks" (table 6.1 B.I)

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
a) Repurchase agreements	9,935,184	11,918,578	-16.6
b) Securities borrowed	61,283	74,027	-17.2

Loans from international bodies include loans used by the Group to finance investment projects in industrial sectors and in public utility services.

**Due to customers
and Securities issued
(captions 20 and 30)**

Funds obtained from customers, comprising deposits from customers and securities issued, are detailed below:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Due to customers			
- current accounts	50,854,296	55,318,355	-8.1
- repurchase agreements and securities borrowed	17,162,122	20,193,604	-15.0
- savings deposits	7,306,068	7,398,034	-1.2
- short-term payables relating to special management services carried out for the government	1,162,060	1,279,142	-9.2
- other (*)	10,875,057	10,273,537	+5.9
Securities issued			
- bonds	74,425,334	76,889,920	-3.2
- certificates of deposit	23,349,669	30,816,498	-24.2
- bankers' drafts	535,548	519,871	+3.0
- other securities	2,785,473	3,270,955	-14.8
Total	188,455,627	205,959,916	-8.5

(*) Essentially comprises short positions on securities taken as part of stockbroking activities.

Detail of "Due to customers" (table 6.2 B.I)

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
a) Repurchase agreements	16,973,677	19,961,547	-15.0
b) Securities borrowed	188,445	232,057	-18.8

**Public funds administered
(caption 40)**

Public funds administered, provided by the State and other public entities, are analyzed below:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Funds provided by the State	26,452	75,685	-65.0
Funds provided by regional public agencies	49,299	10,778	+357.4
Other funds	58,527	78,905	-25.8
Total	134,278	165,368	-18.8
of which:			
<i>funds with risk born by the government under Law 19 of 6/2/87</i>	42,393	46,256	-8.4

**Other information relating
to payables**

Information regarding the distribution of deposits by geographical area, degree of liquidity and currency is reported in part B, section II of these notes.

Section 7 Provisions

Provisions that do not adjust asset accounts, reported in consolidated liability captions 70, 80 and 90 are detailed below:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Provision for termination indemnities (caption 70)	844,077	820,266	+2.9
Provisions for risks and charges (caption 80)			
- pensions and similar commitments (caption 80a)	127,978	116,284	+10.1
- taxation (caption 80b)	2,196,687	1,309,155	+67.8
- other (caption 80c)			
- provisions for guarantees and commitments	77,171	76,454	+0.9
- provisions for other risks and charges	490,638	293,042	+67.4
- provisions for other personnel charges	206,304	179,512	+14.9
Reserve for possible loan losses (caption 90)	36,160	22,700	+59.3
Total	3,979,015	2,817,413	+41.2

Provisions for termination indemnities (caption 70)

<i>Changes in the reserve for termination indemnities during the year</i>		<i>in millions of lire</i>
Opening balance - pro forma		820,266
Increases		
- provisions		88,178
- transfers		22
- other changes		2,804
Decreases		
- advances allowed under Law 297/82		180
- indemnities paid to employees leaving the Bank		65,807
- transfers		196
- other changes		1,402
Closing balance		844,077

Provisions for risks and charges (caption 80)

Pensions and similar commitments (caption 80.a)

<i>Changes in the reserve for pensions and similar commitments during the year</i>		<i>in millions of lire</i>
Opening balance - pro forma		116,284
Increases		
- provisions		1,307
- other		21,505
Decreases		
- utilizations		11,118
Closing balance		127,978

This provision was created to cover supplementary pension liabilities for former IMI SpA personnel already in retirement and those of the subsidiary IMITEC, again arising from IMI. The potential liability was evaluated on the basis of an independent actuarial appraisal.

Utilizations during the year refer to the payment of supplementary pension cheques due for the year under review.

Taxation (caption 80.b)

Changes in the reserve for taxation during the year

in millions of lire

Opening balance - pro forma	1,309,155
Increases	
- provisions	2,014,576
- other	11,990
Decreases	
- payment of taxes	766,676
- other changes	13,267
Closing balance	2,555,778

Current taxes cover income taxes due, including local taxes payable by foreign branches, as well as outstanding and potential fiscal disputes.

Fiscal disputes generally relate to legislative uncertainties about the definition of taxable income. The various levels of tax commission decisions have confirmed the approach taken by the Bank. The most significant dispute relates to the size and tax treatment of the difference arising on the merger of Banca Popolare dell'Agricoltura in 1986; the first level Turin tax commission has essentially confirmed the approach taken by the Bank. If this decision is accepted by the tax authorities, the total charge would amount to less than 10 billion lire. The dispute is currently pending before the High Court.

In addition, the subsidiary Fideuram Vita (carried at equity), has a dispute outstanding with the tax authorities regarding the years from 1985 to 1990 following income tax assessments raised by the tax audit department (SECIT). The company has appealed against the assessments; for the first three years, the first level commission upheld the company's claims, while the second level court ruled unfavorably. The company appealed against the sentence of the second level court to the central tax commission which in the sentence filed on May 7, 1998 rejected the appeal regarding the actuarial reserves and upheld the one on commission. For the years 1988, 1989, and 1990 the first level Rome tax commission (under resolution published as of December 23, 1998) upheld all of the company's claims, and consequently quashed the assessments presented by the tax authorities. In similar disputes, several other insurance companies have to date had their claims upheld in full by the first two levels of tax commission. The liability of Fideuram Vita following the ruling of the central tax commission is of a modest amount; but it could become significant if the approach expressed be confirmed with regard to the other years under dispute; such liability would however be amply covered by available reserves. According to authoritative opinions sought by the company, there remains a significant probability that the dispute will be won, since the reasoning behind the decision of the central tax commission is completely unsuitable to refute the arguments put forward by the company in its defense. The company will therefore continue to contest such decisions before the High Court,

convinced of the validity of its reasoning. With regard to the above motives, the subsidiary has deemed it unnecessary to provide specific provisions against this liability.

In regard to deferred taxation, on the basis of the new accounting treatment adopted in line with international accounting principles, the Group has a total of 1,081,343 billion lire of deferred tax assets deriving from prepaid taxes. Such deferred tax assets are limited to the difference between the book value and the value for tax purposes of assets and liabilities accrued in 1998 and prior years, which as far as Group companies are concerned will almost certainly be absorbed in the future.

As illustrated in detail in the Introduction to the explanatory notes as of December 31, 1998, in order to provide maximum transparency with regard to the financial statements and shareholders' equity, it was considered expedient to record the latent tax liability on reserves subject to deferred taxation (which will become taxable on use) within the financial statements. This entry, totaling 434,913 million lire, was offset against equity reserves.

Provisions for risks and charges - Other provisions (voce 80.c)

Analysis of caption 80c "Provisions for risks and charges - Other provisions" (table 7.3 B.I.)

in millions of lire

	Guarantees and commitments	Other risks and charges	Other personnel charges	Total
Opening balance - pro forma	76,454	293,042	179,512	549,008
Increases				
- provisions	33,201	207,812	34,464	275,477
- other	47	19,378	8	19,433
Decreases				
- revaluation of guarantees	951	-	-	951
- coverage of charges deriving from legal disputes and other	30,780	16,525	-	47,305
- payments of long-service bonuses	-	-	7,680	7,680
- other	800	13,069	-	13,869
Closing balance	77,171	490,638	206,304	774,113

Provisions for guarantees and commitments, 77,171 million lire, cover expected losses in respect of guarantees given and, more generally, the contingencies associated with the Group's guarantees and commitments.

Provisions for other risks and charges, 490,638 million lire, include provisions made by the Bank totaling 287,100 million lire, to cover expected losses deriving from legal action, especially from repayments claimed by the receivers of bankrupt customers, as well as charges which might arise in connection with guarantees given by the Bank on the disposal of equity investments and from the Bank's commitment to the Interbank Deposit Guarantee Fund. The balance also comprises provisions for 163,920 million lire made by the subsidiary Banque Sanpaolo (36,863 million lire), Crediop

(44,751 million lire) and those subsidiaries who market financial products (82,306 million); these provisions were made against operating risks that are typical for their sectors. Other provisions, involving minor balances, are reported in the accounts of other Group companies.

The provisions for other personnel charges, 203,304 million lire, include:

- 180,000 million lire relating to provisions made by the Bank, on the basis of independent actuarial appraisals, to cover its commitment to the independent supplementary pension fund due to unfunded pension liabilities;
- 13,923 million lire provided to the technical reserves, determined on the basis of mathematical and actuarial criteria, designed to cover long-service bonuses to employees;
- 11,000 million lire in relation to the provision made on the basis of an independent actuarial appraisal, to cover potential contributions for the employees of the Banks and a subsidiary company;
- 1,381 million lire relating to likely costs to be incurred in connection with employees and the restructuring of the Bank's Frankfurt and New York branches.

Reserve for possible loan losses (caption 90)

This caption reflects provisions made by certain subsidiaries to cover lending risks - including risks deriving from derivatives transactions; these risks are only potential, so the reserve is not set off against asset balances.

<i>Changes during the year in "Reserves for possible loan losses" (table 7.2 B.I)</i>		<i>in millions of lire</i>
A. Opening balance - pro forma		22,700
B. Increases		
B1. provisions		11,286
B2. other changes		6,243
C. Decreases		
C1. releases		2,389
C2. other changes		1,680
D. Closing balance		36,160

Within "Increases" the provisions reflect movements made by certain subsidiaries in order to adjust the balance of their reserves for loan losses to the amount deemed adequate to cover possible lending risk.

The balance as of December 31, 1998 does not include provisions for default interest.

Section 8 - Capital, reserves, reserve for general banking risks and subordinated liabilities

The Group interest in shareholders' equity is detailed below:

	31/12/98	31/12/97 (pro forma)	Change %
	<i>in millions of lire</i>		
Shareholders' equity			
- capital (caption 150)	8,413,110	8,413,110	-
- additional paid-in capital (caption 160)	-	275,000	-100.0
- reserves (caption 170)			
- legal reserve	1,682,622	952,288	+76.7
- reserve for own shares	10,358	7,089	+46.1
- statutory reserves	-	589,925	-100.0
- other reserves	4,106,433	4,650,403	-11.7
- reserve for general banking risks (100)	695,906	679,767	+2.4
- negative goodwill arising on consolidation (caption 120)	38,419	38,589	-0.4
- negative goodwill arising on application of the equity method (130)	77,425	136,333	-43.2
- revaluation reserves (caption 180)	111	111	-
- retained earnings (caption 190)	-	13,968	-100.0
- net income for the year (caption 200)	1,760,177	737,441	+138.7
Group interest in shareholders' equity	16,784,561	16,494,024	+1.8
Minority interests (caption 140)	762,384	782,880	-2.6
Subordinated liabilities (caption 110)	2,925,116	3,556,076	-17.7

Group interest in consolidated shareholders' equity *Capital, reserves and net income for the year (captions 150, 160, 170, 180 and 200)*

Capital, additional paid-in capital, the legal reserve, the statutory reserve and retained earnings reflect the amounts reported in the financial statements of the Bank; "other reserves" comprise the remaining reserves of the Bank and changes during the year in the Group's interest in the shareholders' equity of consolidated companies (excluding their net income); the reserve for general banking risks comprises amounts reported by the Bank and by other companies consolidated line-by-line; net income for the year represents the net income of the Bank and the Group's interest in the net income of other companies falling within the scope of consolidation. The revaluation reserves are entirely attributable to minority interests on the basis of their equity ratios.

Following the 253,181,168,000 lire increase in capital carried out in connection with the merger with IMI, as described in the introduction to these explanatory notes, the capital amounts to 8,413,109,688,000 lire, represented by 1,402,184,948 ordinary shares, all issued and fully paid, par value 6,000 lire each.

The "Reserve for own shares" was established by Banca d'Intermediazione Mobiliare IMI SpA and the subsidiary Intersim SpA in relation to the Bank's year-end stock of shares used in connection with dealing activities,

essentially to hedge FIB 30 futures and options. The reserve, formed using the portion of reserves specifically destined for this purpose, is offset by a matching balance in asset caption 140 "Own shares".

Reserve for general banking risks (caption 100)

The reserve for general banking risks reflects the reserve shown in the financial statements of the Bank, 650,000 million lire, and the reserves set up by certain subsidiary companies, 45,906 million lire.

Negative goodwill arising on consolidation (liability caption 120)

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Sanpaolo Bank SA	16,987	16,987	-
Crediop Overseas Bank Ltd	10,013	10,013	-
Sanpaolo Invest Sim SpA	7,246	7,246	-
Intersim SpA	2,317	2,317	-
Sanpaolo Gestion International SA	1,367	1,367	-
Sanpaolo Asset Management Sim SpA	264	264	-
Sanpaolo Leasing GmbH	-	170	-100.0
Sanpaolo Fiduciaria SpA	127	127	-
Sanpaolo US Financial Co.	98	98	-
Total	38,419	38,589	-0.4

Positive goodwill arising on consolidation (asset caption 90)

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Sanpaolo Fondi SpA	14,692	17,890	-17.9
Finconsumo SpA	5,480	-	n.s.
Sanpaolo Riscossioni Genova SpA	815	1,831	-55.5
Sanpaolo Riscossioni Prato SpA	-	813	-100.0
Eurosic (Subsidiary of Banque Sanpaolo SA)	-	46	-100.0
Total	20,987	20,580	+2.0

Negative goodwill arising on application of the equity method (liability caption 130)

Negative goodwill arising on application of the equity method reflects the additional net value of investments carried at equity (subsidiaries not consolidated line-by-line and significant investments reported in Part B - Section 3 of these explanatory notes) with respect to their carrying values reported in the financial statements of the Group companies concerned. This caption, which totals 77,425 million lire, essentially reflects the retained earnings of subsidiary companies operating in the insurance sector.

Positive goodwill arising on application of the equity method (asset caption 100)

	31/12/98	31/12/97 (pro forma)	Change %
Sanpaolo Vita SpA	92,278	138,416	-33.3
Inter-Europa Bank Rt	-	15,429	-100.0
Fideuram Vita SpA	-	46,789	-100.0
NordestAvio SpA	-	7,002	-100.0
Total	92,278	207,636	-55.6

in millions of lire

Positive goodwill arising on application of the equity method, reported under consolidated balance sheet assets, reflects goodwill paid against the acquisition of shareholdings in the capital of investments carried at equity. These differences are amortized over future years.

Subordinated liabilities (caption 110)

Loan	Book value as of 31/12/98 <i>(millions of lire)</i>	Original currency <i>(in millions)</i>	Interest rate	Issue date	Maturity date	Book value as of 31/12/97 (pro forma) <i>(millions of lire)</i>
Notes in Luxembourg francs	47,819	1,000	7.75%	26/05/93	26/05/00	47,587
Notes in Luxembourg francs	47,819	1,000	7.63%	09/07/93	09/07/01	47,587
Notes in Luxembourg francs	47,819	1,000	9%	10/02/92	10/02/00	47,587
Notes in Luxembourg francs	-	-	9.38%	18/12/91	18/12/98	104,692
Notes in Luxembourg francs	28,800	600	8.00%	14/05/93	14/05/99	28,552
Notes in US dollars	246,477	149	floating	30/07/93	30/07/03	291,145
Notes in US dollars	147,126	89	floating	24/09/93	24/09/03	156,568
Notes in US dollars	156,218	94	floating	10/11/93	10/11/05	166,243
Notes in US dollars	132,248	80	floating	25/08/95	25/08/00	211,103
Notes in Canadian dollars	163,313	151	floating	10/11/93	10/11/03	185,017
Notes in Italian lire	701,825	700,000	10.40%	30/06/94	30/06/04	699,996
Notes in Eurolire	198,516	198,000	floating	06/07/95	06/07/00	197,999
Notes in Eurolire	52,136	52,000	floating	30/12/96	30/12/01	52,000
Subordinated loan in Italian lire	-	-	11.20%	01/06/95	01/06/05	125,000
Subordinated loan in Italian lire	-	-	floating	15/05/95	15/05/05	130,000
Subordinated loan in Italian lire	-	-	11.50%	01/07/95	01/07/00	210,000
Subordinated loan in Italian lire	-	-	floating	01/07/95	01/07/00	290,000
Subordinated loan in Italian lire	-	-	floating	01/08/95	01/08/00	245,000
Subordinated loan in Italian lire	125,000	125,000	5.10%	01/06/98	01/06/03	-
Subordinated loan in Italian lire	300,000	300,000	5.30%	01/01/98	01/01/03	-
Subordinated loan in Italian lire	280,000	280,000	floating	01/02/98	01/02/03	-
Subordinated loan in Italian lire	250,000	250,000	floating	01/02/98	01/02/03	320,000
Total	2,925,116					3,556,076

Subordinated liabilities not included in the calculation of regulatory capital amount to 213,993 million lire.

Contractually, subordinated loans may not be redeemed prior to maturity, nor converted into capital or any other type of liability. In particular, such contracts lay down that:

- early redemption can only take place on the issuer's initiative and with Bank of Italy authorization;
- the loan period must not be less than five years; if no maturity is stated, the contract must state that a notice period of at least five years has to be given;
- in the event that the issuer is put into liquidation, these subordinated loans can only be reimbursed once all other creditors, not similarly subordinated, have been satisfied.

During the year, following the requisite authorizations from the Bank of Italy, five subordinated loans in Italian lire amounting to 1,000 billion lire were redeemed early. At the same time, three new subordinated loans amounting to 705 billion lire were issued.

Other information on subordinated liabilities

Information regarding the distribution of subordinated liabilities by geographical area, currency and degree of liquidity is reported in part B, section II of these notes.

Minority interests (caption 140)

As of December 31, 1998, the portion of minority interests totaling 762,384 million lire essentially relates to the quota attributable to minority shareholders of the Banca Fideuram and Crediop sub-groups.

Other information

In accordance with Bank of Italy instructions on disclosure, the composition of regulatory capital and an analysis of the prudent supervisory requirements are given in the table below:

in millions of lire

Category/value	31/12/98	31/12/97 (pro forma)	Change %
A. Regulatory capital			
A.1 Tier 1 capital	15,576,642	16,609,298	-6.2
A.2 Tier 2 capital	2,473,578	3,084,938	-19.8
A.3 Items to be deducted	-224,176	-231,321	-3.1
A.4 Regulatory capital	17,826,044	19,462,915	-8.4
B. Minimum regulatory requirements			
B.1 Lending risk	11,272,022	11,762,016	-4.2
B.2 Market risk	1,471,504	1,526,823	-3.6
<i>including:</i>			
- risks on dealing portfolio	1,391,830	1,411,827	-1.4
- exchange risks	79,674	114,996	-30.7
B.3 Other minimum requirements	109,530	118,159	-7.3
B.4 Total minimum requirements	12,853,056	13,406,998	-4.1
C. Risk assets and capital-adequacy ratios			
C.1 Risk-weighted assets	160,663,200	167,587,475	-4.2
C.2 Tier 1 capital/risk weighted assets	9.7%	9.9%	
C.3 Regulatory capital/risk weighted assets	11.1%	11.6%	

A statement of changes in the Group's share of consolidated shareholders' equity is attached to these notes, together with a reconciliation of the Bank's 1998 shareholders' equity and the corresponding consolidated amounts.

Section 9 Other liabilities

Liability captions 50 and 60 comprise the following:

	31/12/98	31/12/97 (pro forma)	Change %
Other liabilities (caption 50)	28,480,967	26,164,892	+8.9
Accrued expenses and deferred income (caption 60)	10,853,612	14,817,906	-26.8
Total	39,334,579	40,982,798	-4.0

Other liabilities (caption 50)

Analysis of caption 50 "Other liabilities" (table 9.1 B.I)

	31/12/98	31/12/97 (pro forma)	Change %
Valuation of derivatives on interest rates and stockmarket index prices	13,351,622	11,154,077	+19.7
Items relating to securities transactions	2,346,117	4,315,711	-45.6
Amounts available for third parties	2,254,602	2,592,628	-13.0
Unprocessed transactions (a)	3,896,504	1,488,414	+161.8
Transactions involving foreign branches	1,436,951	1,114,413	+28.9
Amounts in transit with branches (a)	1,143,739	661,486	+72.9
Non-liquid balances from portfolio transactions	443,973	506,240	-12.3
Amounts due to employees	496,988	370,857	+34.0
Due to the tax authorities	372,329	369,393	+0.8
Premiums collected on options sold	496,994	471,436	+5.4
Deposits guaranteeing agricultural and construction loans	105,382	95,550	+10.3
Tax payments accounts	117,204	70,479	+66.3
Other	2,018,562	2,954,208	-31.7
Total	28,480,967	26,164,892	+8.9

(a) Mostly settled at the beginning of 1999.

Accrued expenses and deferred income (caption 60)

Analysis of caption 60 "Accrued expenses and deferred income" (table 9.2 B.I)

	31/12/98	31/12/97 (pro forma)	Change %
Accrued expenses			
- charges on derivative contracts (a)	5,993,953	8,654,738	-30.7
- interest on securities issued	3,332,743	3,989,751	-16.5
- interest on amounts due to banks	256,773	844,145	-69.6
- interest on amounts due to customers	201,791	305,673	-34.0
- payroll and other operating costs	188,087	159,812	+17.7
- other	161,931	145,350	+11.4
Deferred income			
- interest on discounted notes	135,837	170,105	-20.1
- income from derivative contracts	254,943	152,961	+66.7
- other	327,554	395,371	-17.2
Total	10,853,612	14,817,906	-26.8

(a) Accrued expenses relating to derivative contracts are recorded on a contract-by-contract basis with reference to the interest rates ruling at the time.

Section 10 Guarantees and commitments

Consolidated balance sheet captions 10 and 20, relating to guarantees and commitments that involve lending risk, are detailed as follows:

	31/12/98	31/12/97 (pro forma)	Change %
Guarantees given (caption 10)	21,344,281	24,109,094	-11.5
Commitments (caption 20)	38,695,341	63,085,710	-38.7
Total	60,039,622	87,194,804	-31.1

Guarantees given in favor of third parties comprise:

	31/12/98	31/12/97 (pro forma)	Change %
a) Commercial guarantees	18,003,748	19,081,303	-5.6
b) Financial guarantees	2,983,004	4,753,437	-37.2
c) Assets lodged in guarantee	357,529	274,354	+30.3
Total	21,344,281	24,109,094	-11.5

Commitments outstanding at year end are as follows:

	31/12/98	31/12/97 (pro forma)	Change %
a) Commitments to grant finance (certain to be called on)	7,001,792	27,975,477	-75.0
b) Commitments to grant finance (not certain to be called on)	31,693,549	35,110,233	-9.7
Total	38,695,341	63,085,710	-38.7

On the basis of Bank of Italy instructions:

- commitments to grant finance certain to be called on include securities to be received for forward or spot transactions to be settled (2,236,690 million lire as of December 31, 1998) and commitments to grant finance on contracts of which use is certain to be called on (4,765,102 million lire as of December 31, 1998);
- commitments to grant finance not certain to be called on include securities to be received for put options issued (6,278,124 million lire as of December 31, 1998) and amounts to be granted on the basis of various types of financing contracts (23,526,739 million as of December 31, 1998).

Assets lodged to guarantee the Group's liabilities

(table 10.3 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
Portfolio securities lodged with third parties to guarantee repurchase agreements	26,908,861	18,831,865	+42.9
Securities lodged with central banks to guarantee advances	2,442,921	623,697	+291.7
Securities lodged with the Bank of Italy to guarantee bankers' drafts	139,175	178,688	-22.1
Securities lodged with the clearing-house for transactions on the derivatives market	336,020	193,219	+73.9
Total	29,826,977	19,827,469	+50.4

Unused lines of credit

The Group has unused lines of credit, excluding operating limits, as detailed below:

(table 10.4 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
a) Central banks	144,936	114,865	+26.2
b) Other banks	1,807,241	3,615,550	-50.0
Total	1,952,177	3,730,415	-47.7

Forward transactions

Forward transactions, excluding dealing transactions on behalf of third parties, are detailed below:

(table 10.5 B.I)

in millions of lire

	Hedging	Dealing	Other	Total
1. Purchase/sale of				
1.1 securities				
- purchases	-	2,281,468	-	2,281,468
- sales	-	1,856,385	109,846	1,966,231
1.2 currency				
- currency against currency	20,218,733	3,583,742	546,987	24,349,462
- purchases against lire	23,999,904	2,254,031	253,346	26,507,281
- sales against lire	27,265,712	1,759,562	233,209	29,258,483
2. Deposits and loans				
- to be disbursed	-	473,460	4,399,975	4,873,435
- to be received	-	445,239	1,649,136	2,094,375
3. Derivative contracts				
3.1 with exchange of capital				
(a) securities				
- purchases	368,514	14,600,667	-	14,969,181
- sales	47,377	16,000,446	-	16,047,823
(b) currency				
- currency against currency	3,756,355	3,046,906	-	6,803,261
- purchases against lire	15,659,751	6,701,930	-	22,361,681
- sales against lire	1,906,095	5,937,540	-	7,843,635
(c) other instruments				
- purchases	-	-	-	-
- sales	-	-	-	-
3.2 without exchange of capital				
(a) currency				
- currency against currency	-	73,743	-	73,743
- purchases against lire	1,608,855	806,065	-	2,414,920
- sales against lire	62,973	556,463	-	619,436
(b) other instruments				
- purchases	42,594,219	209,306,753	5,028,099	256,929,071
- sales	35,762,577	218,546,531	8,513,890	262,822,998
Total	173,251,065	488,230,931	20,734,488	682,216,484

At year end, hedging contracts, entered into as part of credit intermediation activities, show an unrecognized net loss of 1,081 billion lire. In compliance with the accounting policies, this amount has not been recorded in the financial statements since the purpose of the derivatives contracts in question is to hedge interest and exchange rate risks with regard to funding activities (particularly deposit-taking transactions made via the issue of bonds with a structured yield) or lending activities. The above-mentioned contracts are in fact recorded on a consistent basis with those adopted for hedging transactions, with the identification of accruals in the financial statements. Had the assets and liabilities being hedged been valued in the same way, this would have led to a gain which would have offset the above loss.

Forward transactions outstanding as of December 31, 1998, presented in the table above, essentially reflect the activities of the Bank and those subsidiaries operating in the stockbroking and credit intermediation sector.

Transactions denominated in Euro currencies as a percentage of total forward transactions are detailed as follows:

	<i>in millions of lire</i>
	% of forward transactions denominated in participating currencies
1. Purchase/sale of:	
a) securities	84.8%
b) foreign currency	59.8%
2. Loans and deposits	76.0%
3. Derivative contracts	
a) securities	78.6%
b) foreign currency	77.6%

The valuation of derivative contracts is described in the note on dealing securities in part B, section 2 of these notes and in the note on profits (losses) on financial transactions in part C, section 3.

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

<i>Notional amounts</i>	<i>in millions of lire</i>			
	Interest rates	Currency	Stockmarket index price	Other
OTC trading contracts				
- Forward (a)	14,111,131	5,157,348	480,420	-
- Swaps (b)	275,849,578	12,449,792	2,388,718	-
- Options purchased	38,317,725	2,455,495	4,767,345	-
- Options sold	39,681,907	2,113,597	3,553,630	-
Exchange traded contracts				
- Futures purchased	26,877,607	-	770,450	-
- Futures sold	30,284,785	-	1,169,291	-
- Options purchased	18,079,969	-	736,574	-
- Options sold	3,389,422	-	7,184,071	-
Total trading contracts	446,592,124	22,176,232	21,050,499	-
Total non-trading contracts	70,368,847	95,511,918	6,142,700	400,000
Total contracts	516,960,971	117,688,150	27,193,199	400,000

(a) Including FRAs and forward currency purchase/sale transactions.

(b) Mainly comprising IRS and CIRS contracts and basis swaps.

<i>Notional amounts of OTC transactions, related market values and add on</i>	<i>in millions of lire</i>			
	Interest rate related	Exchange rate related	Stockmarket index price	Other
Notional amounts	438,329,190	117,688,148	17,332,813	400,000
Market value of OTC trading contracts				
- positive	14,138,675	418,389	153,551	-
- negative	11,955,556	488,145	55,778	-
Add on	1,669,381	445,656	156,042	-
Market value of OTC non-trading contracts				
- positive	1,611,761	1,793,418	286,927	12
- negative	2,752,264	1,741,885	279,121	12
Add on	1,034,244	1,542,393	417,125	48,000

Market values of hedging and dealing transactions arranged with third parties have been calculated using the criteria established by the Bank of Italy to determine the credit risk of off-balance sheet items for solvency ratio purposes. The market values identified in the table above derive from applying such criteria. In particular, such market values include the calculation of the market value of accrued income and expenses currently maturing as well as the result deriving from the current rate revaluation of the principal amount of cross-currency interest rate swaps to be exchanged at maturity.

*Residual maturity of notional amounts underlying OTC derivative contracts**in millions of lire*

	Up to 12 months	Between 1 and 5 years	Beyond 5 years
Interest rate related	175,014,750	180,038,091	83,276,147
Exchange rate related	95,853,983	19,067,255	2,766,910
Stockmarket index price	11,263,464	4,832,299	1,237,252
Other contracts	-	400,000	-

*Credit quality of OTC derivative contracts, by counterparty**in millions of lire*

	Positive market value	Add on	Credit risk equivalent (a) (market value)
Governments and central banks	22,328	21,406	43,734
Banks	14,459,740	4,103,548	18,563,288
Other operators	3,920,666	1,187,887	5,108,553
Total	18,402,734	5,312,841	23,715,575

(a) The credit risk equivalent reported in this table includes transactions with an original life not exceeding 14 days.

The above transactions are backed by secured guarantees totaling 683,884 million lire. No losses were incurred during the year on loans linked to derivatives and there are no outstanding derivative contracts matured, but not settled.

**Other information relating
to guarantees**

The classification of guarantees given by category of counterparty is provided in part B, section 11 of these notes, while forward transactions related to dealing on behalf of third parties are described in part B, section 12.

Section 11 Concentration and distribution of assets and liabilities

Significant exposures

The table below shows the positions defined as “significant exposures” by the Bank of Italy in compliance with EC guidelines. For this purpose, the positions are considered significant if the overall exposure to a single client (or group of companies) on a consolidated basis is equal to or greater than 15% of the Bank’s regulatory capital. Exposure is calculated using a system of weighting positions exposed to lending risk, which takes into account the nature of the counterparty and the guarantees received.

(table 11.1 B.I)

	31/12/98
(a) Amount in millions of lire	22,207,430
(b) Number	4

Distribution of loans to customers, by category of borrower

Loans to customers are distributed as follows:

(table 11.2 B.I)

	in millions of lire		
	31/12/98	31/12/97 (pro forma)	Change %
a) Governments	27,600,443	28,860,454	-4.4
b) Other public entities	14,796,580	16,314,864	-9.3
c) Non-financial businesses	81,092,121	80,947,406	+0.2
d) Financial institutions	17,968,586	24,278,386	-26.0
e) Family businesses	5,169,941	9,852,471	-47.5
f) Other operators	21,613,514	19,884,771	+8.7
Total	168,241,185	180,138,352	-6.6
Reserve for possible loan losses (ex IMI SpA)		-1,073,223	n.s.
Total, net of IMI reserve	168,241,185	179,065,129	-6.0

Distribution of loans to resident non-financial and family businesses

The distribution of loans to non-financial and family businesses resident in Italy is detailed below, by industry:

(table 11.3 B.I)

	in millions of lire		
	31/12/98	31/12/97 (pro forma)	Change %
a) Other services for sale	11,288,333	9,226,105	+22.4
b) Construction and public works	9,706,083	10,308,102	-5.8
c) Commerce, salvage and repairs	8,818,990	8,668,273	+1.7
d) Energy	7,399,865	7,925,640	-6.6
e) Electrical materials and supplies	3,231,211	4,134,453	-21.8
f) Other sectors	34,768,924	39,503,034	-12.0
Total	75,213,406	79,765,607	-5.7

Distribution of guarantees given, by category of counterparty

Guarantees given by the Group are classified by category of counterparty as follows:

(table 11.4 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
a) Governments	282	97,104	-99.7
b) Other public entities	499,271	283,756	+76.0
c) Banks	1,187,426	622,396	+90.8
d) Non-financial businesses	13,864,691	16,708,975	-17.0
e) Financial institutions	5,137,831	3,042,031	+68.9
f) Family businesses	161,080	404,979	-60.2
g) Other operators	493,700	2,949,853	-83.3
Total	21,344,281	24,109,094	-11.5

Geographical distribution of assets and liabilities

The geographical distribution of the Group's assets and liabilities is detailed below, by reference to the countries of residence of the counterparties concerned:

(tabella 11.5 B.I.)

in millions of lire

	31/12/98				31/12/97 (*) (pro forma)			
	Italy	Other EU countries	Other countries	Total	Italy	Other EU countries	Other countries	Total
1. Assets								
1.1 due from banks	19,432,592	20,805,727	4,474,977	44,713,296	31,335,783	25,204,964	11,193,347	67,734,094
1.2 loans to customers	148,339,419	13,164,785	6,736,981	168,241,185	153,754,867	16,431,673	9,951,812	180,138,352
1.3 securities	40,022,428	6,730,129	3,052,713	49,805,270	41,161,730	8,111,848	5,589,743	54,863,321
Total	207,794,439	40,700,641	14,264,671	262,759,751	226,252,380	49,748,485	26,734,902	302,735,767
2. Liabilities								
2.1 due to banks	13,855,616	22,013,558	17,886,495	53,755,669	23,707,882	37,551,489	14,386,769	75,646,140
2.2 due to customers	70,730,874	12,435,877	4,192,852	87,359,603	71,580,396	14,706,774	8,175,502	94,462,672
2.3 securities issued	75,345,421	14,257,042	11,493,561	101,096,024	84,191,958	17,091,482	10,213,804	111,497,244
2.4 other accounts	1,089,277	1,970,117	-	3,059,394	1,485,368	2,236,076	-	3,721,444
Total	161,021,188	50,676,594	33,572,908	245,270,690	180,965,604	71,585,821	32,776,075	285,327,500
3. Guarantees and commitments								
	36,494,555	9,975,294	13,569,773	60,039,622	56,806,162	15,354,599	15,034,043	87,194,804

(*) These balances are presented gross of the reclassification of the Reserve for possible loan losses (ex-IMI) totaling 1,073,223 lire.

Maturities of assets and liabilities

The residual maturities of assets and liabilities are detailed in the following table:

(table 11.6 B.I.)

in millions of lire

	Specified maturity						Unspecified maturity	Total	
	On demand	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years		Beyond 5 years			
				Fixed rate	Indexed rate				
1. Assets									
1.1 Treasury bonds eligible for refinancing	201,026	1,664,767	2,885,556	2,556,542	2,748,949	1,122,197	340,307	-	11,519,344
1.2 due from banks	8,273,859	29,369,687	2,212,593	2,351,756	753,020	227,066	374,787	1,150,528	44,713,296
1.3 loans to customers	22,305,061	29,584,960	18,066,365	24,832,158	32,762,590	15,553,168	19,366,854	5,770,029	168,241,185
1.4 bonds and other debt securities	121,546	2,086,220	12,074,721	6,990,282	4,928,170	5,389,036	4,372,166	-	35,962,141
1.5 off-balance sheet transactions	46,281,933	125,156,308	121,039,554	70,599,056	21,525,856	30,315,053	3,921,972	-	418,839,732
Total assets	77,183,425	187,861,942	156,278,789	107,329,794	62,718,585	52,606,520	28,376,086	6,920,557	679,275,698
2. Liabilities									
2.1 due to banks	9,466,345	25,516,896	7,436,966	2,759,197	3,085,689	2,013,544	3,477,032	-	53,755,669
2.2 due to customers	54,819,735	24,070,205	1,767,716	1,955,517	1,671,515	1,352,643	1,722,272	-	87,359,603
2.3 securities issued:									
- bonds	1,369,181	1,635,135	7,404,105	16,287,941	26,415,782	11,783,165	9,530,025	-	74,425,334
- certificates of deposit	237,697	7,280,828	8,519,069	4,135,395	3,156,680	3,000	17,000	-	23,349,669
- other securities	783,835	2,431,986	105,200	-	-	-	-	-	3,321,021
2.4 subordinated liabilities	-	185,991	204,058	504,767	1,172,257	701,826	156,217	-	2,925,116
2.5 off-balance sheet transactions	47,062,555	119,852,871	117,638,908	62,897,217	33,690,875	32,515,558	2,696,810	-	416,354,794
Total liabilities	113,739,348	180,973,912	143,076,022	88,540,034	69,192,798	48,369,736	17,599,356	-	661,491,206

Assets and liabilities denominated in foreign currencies

The Group's assets and liabilities denominated in foreign currencies are detailed below:

(Table 11.7 B.I.)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
(a) Assets			
1. due from banks	14,648,908	54,456,836	-73.1
2. loans to customers	25,919,266	31,139,394	-16.8
3. securities	11,840,653	17,042,483	-30.5
4. equity investments	417,674	195,403	113.8
5. other accounts	185,449	131,666	40.8
Total assets	53,011,950	102,965,782	-48.5
(b) Liabilities			
1. due to banks	26,952,275	41,364,552	-34.8
2. due to customers	15,726,617	18,665,787	-15.7
3. securities issued	20,719,059	19,594,797	5.7
4. other accounts	1,017,638	1,286,081	-20.9
Total liabilities	64,415,589	80,911,217	-20.4

The San Paolo IMI Group has assets and liabilities expressed in Euro-participating currencies outstanding as of 31 December 1998 amounting to 45,283,160 million lire and 45,787,247 million lire, respectively.

Section 12 Administration and dealing on behalf of third parties

Dealing in securities

Purchases and sales of securities on behalf of third parties during the year are summarized below:

(table 12.1 B.I)

	31/12/98	31/12/97 (pro forma)	Change %
<i>in millions of lire</i>			
a) Purchases			
1. settled	68,430,905	15,574,519	+339.4
2. not settled	145,457	236,170	-38.4
Total purchases	68,576,362	15,810,689	+333.7
b) Sales			
1. settled	64,538,153	15,189,318	+324.9
2. not settled	195,348	170,607	+14.5
Total sales	64,733,501	15,359,925	+321.4

Portfolio management

The total market value of portfolios managed on behalf of customers is detailed below:

(table 12.2 B.I)

	31/12/98	31/12/97 (pro forma)	Change %
<i>in millions of lire</i>			
Asset management (*)	165,584,091	103,877,170	+59.4

(*) The caption includes the management of customers' assets (including liquid funds deposited with the Group) and the supplementary staff pension funds.

Custody and administration of securities

The nominal value of securities held in custody and for administration, including those received as guarantees, is detailed below:

(table 12.3 B.I)

	31/12/98	31/12/97 (pro forma)	Change %
<i>in millions of lire</i>			
a) Third-party securities held on deposit	350,983,795	331,592,264	+5.8
b) Third-party securities deposited with third parties	224,505,493	214,524,069	+4.7
c) Portfolio securities deposited with third parties (a)	7,690,135	26,560,675	-71.0

(a) Excluding securities deposited with third parties to secure repurchase agreements which, as required, are already included in table 10.3 B.I - Assets lodged to guarantee the Group's liabilities.

Collection of receivables on behalf of third parties

The Bank has received instructions to collect the receivables of third parties as part of its portfolio transactions. The nominal value of such receivables is 15,814,349 million lire.

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

(table 12.4 B.I)

	31/12/98	31/12/97 (pro forma)	Change %
Debit adjustments			
1. current accounts	1,973,439	1,818,933	+8.5
2. central portfolio	611,398	687,871	-11.1
3. cash	182	1,595	-88.6
4. other accounts	61	330	-81.5
Credit adjustments			
1. current accounts	611,233	687,777	-11.1
2. transferors of notes and documents	1,977,309	1,822,721	+8.5
3. other accounts	-	-	-

Other transactions

Fund for applied research

Sanpaolo IMI continues to perform the role of co-ordinator for the Fund for Applied Research (originally carried out by IMI SpA) on behalf of the Ministry for Universities and Scientific and Technological Research; the Fund represents the most significant and consolidated incentive for research activities within the Italian economy. Activities carried out comprise the technical and economic evaluation and control of the realization stage of research and industrial growth projects and training programs for researchers, as well as the monitoring of research companies formed in participation with the government.

In 1998, 418 requests corresponding to investments of 1,715 billion lire were received, 427 preliminary inquiries were carried out and 277 contracts drawn up for an overall total of assisted loans amounting to 750 billion lire. Supervision of the progress of projects has resulted in 864 disbursements totaling 570 billion lire drawn from the Fund for Applied Research. In addition, financing under Law 346/88 amounting to 248 billion lire has been made with Sanpaolo IMI funds, taking advantage of interest grants provided by the government for major research projects in accordance with the above-mentioned law.

Management activities carried out on behalf of the Treasury were recompensed with commission totaling 14 billion lire.

Early in 1999, following the signing of a covenant under Law 488/92, Sanpaolo IMI was authorized to perform the activity of evaluation and control of research and development projects in depressed areas within Italy on behalf of the Ministry.

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

By the Convention dated December 21, 1995 between the Italian Treasury and the Bank, as approved and activated by Decree of the Director-General of the Treasury dated January 5, 1996, the Bank has been granted the concession to this Fund established under Law 341/95.

The purpose of Law 341/95 is to promote rationalization of the financial situation of small and medium-sized enterprises in Southern Italy, as defined by EU parameters. This involves measures of various types, from interest-relief grants on financing designed to convert short-term bank borrowing into long-term loans, to the granting of supplementary guarantees on participating loans, for the purchase of equity investments and for the debt consolidation described above.

As of December 31, 1998, 4,096 requests with a total value of 2,919 billion lire had been received, all in relation to the consolidation of short-term debt. In addition, 3,640 requests for loans amounting to 2,558 billion lire have been processed, of which 3,378 have been approved. In light of the operations processed to date, the overall amount committed by the Fund totals 1,346 billion lire, including 1,127 billion lire relating to guarantees given and 219 billion lire for grants to be disbursed.

Management activities carried out on behalf of the Treasury were recompensed with commission totaling 2.3 billion lire.

Third-party portion of syndicated loans

The third-party portion of syndicated loans arranged by the Group, without representation, totaled 2,703,868 million lire at year end (1,865,045 million lire in 1997).

Part C - Consolidated statement of income

Section 1 Interest

Interest income and expense and similar revenues and charges, detailed below, are reported in captions 10 and 20 of the consolidated statement of income:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Interest income and similar revenues (caption 10)	19,325,665	22,851,594	-15.4
Interest expense and similar charges (caption 20)	14,192,079	17,651,032	-19.6

Interest income and similar revenues (caption 10)

Analysis of caption 10 "Interest income and similar revenues" (table 1.1 B.I)

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
a) On amounts due from banks <i>including</i> - deposits with central banks	2,794,461 194,942	3,817,481 249,043	-26.8 -21.7
b) On loans to customers <i>including</i> - loans using public funds	13,185,564 565	15,325,625 507	-14.0 +11.4
c) On debt securities	3,215,486	3,680,111	-12.6
d) Other interest income	130,154	28,377	+358.7
e) Net differential on hedging transactions	-	-	
Total	19,325,665	22,851,594	-15.4

Detail of caption 10 "Interest income and similar revenues" (table 1.3 B.I.)

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
a) On assets denominated in foreign currency <i>including: on assets denominated in Euro-participating currencies</i>	5,134,451 2,020,859	4,122,102 -	+24.6 n.s.

Interest expense and similar charges (caption 20)

Analysis of caption 20 "Interest expense and similar charges" (table 1.2 B.I.)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
a) On amounts due to banks	3,697,197	4,271,710	-13.4
b) On amounts due to customers	3,053,251	3,916,277	-22.0
c) On securities issued	6,902,296	8,657,981	-20.3
including:			
– certificates of deposit	1,766,569	2,613,677	-32.4
d) On public funds administered	-	-	-
e) On subordinated liabilities	214,990	295,095	-27.1
f) Net differential on hedging transactions (*)	324,345	509,969	-36.4
Total	14,192,079	17,651,032	-19.6

(*) This balance represents the net effect of hedging derivative differentials.

Detail of caption 20 "Interest expense and similar charges" (table 1.4 B.I.)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
a) On liabilities denominated in foreign currency	4,929,850	6,124,336	-19.5
including: on liabilities denominated in Euro-participating currencies	1,862,774	-	n.s.

Section 2 Commission

Commission income and expense, detailed below, is reported in captions 40 and 50 of the consolidated statement of income:

Detail of caption 40 "Loans to customers" (table 1.2 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
Commission income (caption 40)	4,317,570	3,166,391	+36.4
Commission expense (caption 50)	927,276	820,393	+13.0

Commission income (caption 40)

Analysis of caption 40 "Commission income" (table 2.1 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
a) Guarantees given	91,382	78,810	+16.0
b) Collection and payment services	353,222	274,074	+28.9
c) Management, dealing and consultancy services			
1. dealing in securities	207,403	128,078	+61.9
2. dealing in currency	57,794	55,387	+4.3
3. asset management	139,058	108,439	+28.2
4. custody and administration of securities	56,193	49,336	+13.9
5. placement of securities	339,601	457,688	-25.8
6. consultancy services	35,264	28,293	+24.6
7. "door-to-door" sales of securities and financial products and services	260,537	188,522	+38.2
8. acceptance of instructions	220,250	117,611	+87.3
9. management of mutual funds	1,622,990	930,497	+74.4
d) Tax collection services	59,851	53,363	+12.2
e) Other services	874,025	696,293	+25.5
Total	4,317,570	3,166,391	+36.4

Subcaption e) "Other services" comprises, in particular:

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
Loans granted	273,079	225,771	+21.0
Deposits and current account overdrafts	232,132	174,112	+33.3
Current accounts	125,429	119,635	+4.8
Banking functions in relation to mutual funds deposited	146,083	87,062	+67.8
Loan-arrangement activities	4,029	6,210	-35.1
Other services	93,273	83,503	+11.7
Total	874,025	696,293	+25.5

Commission expense (caption 50)

Analysis of caption 50 "Commission expense" (table 2.2 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
a) Collection and payment services	108,745	98,893	+10.0
b) Management and dealing services			
1. dealing in securities	67,977	52,902	+28.5
2. dealing in currency	3,563	7,547	-52.8
3. asset management	1,074	731	+46.9
4. custody and administration of securities	16,873	13,679	+23.3
5. placement of securities	12,298	57,957	-78.8
6. "door-to-door" sales of securities and financial products and services	615,828	504,580	+22.0
7. management of mutual funds	15,199	-	n.s.
c) Other services	85,719	84,104	+1.9
Total	927,276	820,393	+13.0

Subcaption c) "Other services" comprises, in particular:

	31/12/98	31/12/97 (pro forma)	Change %
Intermediation on financing transactions	16,296	22,373	-27.2
Loans obtained	25,782	15,610	+65.2
Guarantees received	3,218	3,772	-14.7
Loan-arrangement activities	7,391	1,973	+274.6
Other services	33,032	40,376	-18.2
Total	85,719	84,104	+1.9

Section 3
Profits (losses) on
financial transactions

Profits and losses on financial transactions, detailed below, are reported in caption 60 of the consolidated statement of income:

	31/12/98	31/12/97 (pro forma)	Change %
Profits (losses) on financial transactions (caption 60)	398,977	396,306	+0.7

in millions of lire

Profits (losses) on financial
transactions (caption 60)

Profits and losses comprise:

Analysis of caption 60 "Profits (losses) on financial transactions" (table 3.1 B.I)

in millions of lire

	Security transactions	Currency transactions	Other transactions	Total
A1. Revaluations	240,379		2,630,374	2,870,753
A2. Writedowns	-122,340		-2,633,748	-2,756,088
B. Other profits and losses	112,529	54,631	117,152	284,312
Total	230,568	54,631	113,778	398,977
<i>of which:</i>				
1. on government securities	200,126			
2. on other debt securities	-48,573			
3. on equities	134,997			
4. on security derivatives	-55,982			

Current legislation on financial statements requires separate identification of the individual economic effects of an integrated and protected treasury portfolio made up of shares and other securities (in lire or foreign currency, sensitive to interest rate fluctuations) and derivatives (futures, options, IRSs, interest rate and cross currency swaps and other instruments). Consequently, the results included in "Profits (losses) on financial transactions" need to be interpreted largely in conjunction with the effects shown among dividends in net interest income.

Section 4
Administrative costs



Administrative costs, detailed below, are reported in caption 80 of the consolidated statement of income:

	31/12/98	31/12/97 (pro forma)	Change %
Personnel costs (caption 80.a)	2,987,804	3,152,455	-5.2
Other administrative costs (caption 80.b)	1,844,017	1,899,759	-2.9
Total	4,831,821	5,052,214	-4.4

in millions of lire

Personnel costs (caption 80.a)

	31/12/98	31/12/97 (pro forma)	Change %
Wages and salaries	2,135,723	2,140,933	-0.2
Social security charges	711,861	872,678	-18.4
Termination indemnities	134,921	136,159	-0.9
Pensions and similar commitments	5,299	2,685	+97.4
Total	2,987,804	3,152,455	-5.2

in millions of lire

Average number of employees by category (table 4.1 B.I)

	31/12/98	31/12/97 (pro forma)	Change %
a) Executives	352	364	-3.3
b) Managers	4,530	4,814	-5.9
c) Other employees	19,963	20,555	-2.9
Total	24,845	25,733	-3.5

Other administrative costs (caption 80.b)

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Rental of premises	160,556	156,155	+2.8
Maintenance of operating assets	79,993	80,662	-0.8
Software maintenance and upgrades	132,497	73,671	+79.8
Postage and telegraph charges	72,785	66,461	+9.5
Consultancy services	136,374	82,985	+64.3
Data transmission charges	61,520	66,377	-7.3
Energy	55,213	48,733	+13.3
Advertising and entertainment	58,822	56,122	+4.8
Telephone	73,464	60,845	+20.7
Security services	49,104	42,123	+16.6
Equipment leasing charges	37,923	37,308	+1.6
Insurance premiums - banks and customers	35,368	38,171	-7.3
Legal and judiciary expenses	45,529	38,238	+19.1
Cleaning of premises	39,101	34,267	+14.1
Office supplies	35,429	32,569	+8.8
External data processing	57,317	40,774	+40.6
Maintenance of properties owned by the Bank	31,812	30,400	+4.6
Transport and counting of valuables	22,798	20,558	+10.9
Databank access charges	31,739	35,881	-11.5
Courier and transport services	21,611	17,717	+22.0
Investigation/commercial information costs	20,383	15,093	+35.0
Maintenance of leasehold premises	14,947	14,478	+3.2
Contributions and membership fees to trades unions and business associations	13,867	10,878	+27.5
Contribution to the Interbank Guarantee Fund	12,488	75,331	-83.4
Other expenses for personnel training, traveling and assignments	71,238	82,521	-13.7
Other expenses	139,149	131,202	+6.1
	1,511,027	1,389,520	
VAT recoverable on operating expenses (a)		124,000	
Total	1,511,027	1,513,520	-0.2
Indirect duties and taxes			
- stamp duties	231,048	226,340	+2.1
- non-recoverable VAT on purchases	6,345	41,667	-84.8
- taxes on stock exchange contracts	13,084	40,789	-67.9
- local property taxes	22,710	24,822	-8.5
- substitute tax (Pres. Decree 601/73)	27,740	26,630	+4.2
- other	32,063	25,991	+23.4
Total	332,990	386,239	-13.8
Total other administration costs	1,844,017	1,899,759	-2.9

(a) As discussed in the accounting policies, as from January 1, 1998 the captions relating to administration costs include VAT following the Bank's application of the tax treatment as per art. 36 (b) of Pres. Decree 633/72; until December 31, 1997 this taxation was charged to a separate caption.

Section 5 Adjustments, writebacks and provisions

Adjustments and provisions, reported in captions 90, 100, 120, 140 and 150 of the consolidated statement of income, and writebacks, reported in captions 130 and 160, are detailed below:

	31/12/98	31/12/97 (pro forma)	Change %
<i>in millions of lire</i>			
Adjustments to intangible and tangible fixed assets (caption 90)	593,998	633,566	-6.2
Provisions for risks and charges (caption 100)	242,276	138,425	+75.0
Adjustments to loans and provisions for guarantees and commitments (caption 120)	1,509,969	2,046,151	-26.2
Writebacks of adjustments to loans and provisions for guarantees and commitments (caption 130)	492,566	764,662	-35.6
Provisions to reserves for possible loan losses (caption 140)	11,286	186,031	-93.9
Adjustments to financial fixed assets (caption 150)	130,083	32,457	+300.8
Writebacks of adjustments to financial fixed assets (caption 160)	452	2,700	-83.3

Adjustments to intangible and tangible fixed assets (caption 90)

	31/12/98	31/12/97 (pro forma)	Change %
<i>in millions of lire</i>			
Adjustments to intangible fixed assets			
- amortization of start-up and capital increase expenses	3,019	3,176	-4.9
- amortization of goodwill	33,947	14,883	+128.1
- amortization of merger differences	70,772	70,772	-
- amortization of software costs	75,887	57,444	+32.1
- amortization of other deferred charges	48,080	46,078	+4.3
- amortization of goodwill arising on consolidation	11,035	8,799	+25.4
- amortization of goodwill arising on application of the equity method	61,567	66,740	-7.8
Adjustments to tangible fixed assets			
- depreciation of property	130,185	131,114	-0.7
- permanent writedowns of property	-	67,444	-100.0
- depreciation of furniture and installations	159,506	167,116	-4.6
Total	593,998	633,566	-6.2

Individual assets have been written down with reference to their remaining useful lives using, in most cases, the maximum fiscally-allowed rates, including the provision of accelerated depreciation.

Provisions for risks and charges (caption 100)

Provisions for risks and charges, 242,276 million lire, made during the year reflect the consolidation of the corresponding provision of the Bank (147,594 million lire) and provisions made by subsidiary companies (94,682 million lire). The provision made by the Bank includes 116,130 million lire for the coverage of expected losses from legal action and, in particular, from repayments claimed by the receivers of bankrupt customers, as well as likely

charges arising from the Bank's commitment to the Interbank Deposit Guarantee Fund and on guarantees given in connection with the disposal of equity investments. The caption also includes 12,000 million lire designed to cover long-service bonuses to the Bank's employees, 10,596 million lire to supplement reserves used to balance the Bank's employee pension fund, 8,000 million lire to cover other potential pension charges and 868 million lire to cover potential costs incurred for the restructuring of the New York branch. In relation to the subsidiaries, the provision also includes 47,751 million lire pertaining to the subsidiary Crediop SpA to cover risks on equity investments (44,751 million lire) and potential pension charges (3,000 million lire), as well as 31,331 million lire relating to prudent provisions made by subsidiaries operating in the area of financial services for families for risks connected to the activity of marketing financial products.

Adjustments to loans and provisions for guarantees and commitments (caption 120)

Analysis of caption 120 "Adjustments to loans and provisions for guarantees and commitments" (table 5.1 B.I.)

	31/12/98	31/12/97 (pro forma)	Change %
a) Adjustments to loans	1,476,769	2,029,974	-27.3
of which:			
general adjustments for country risk	172,292	83,817	+105.6
other general adjustments	76,274	228,647	-66.6
b) Provisions for guarantees and commitments	33,200	16,177	+105.2
of which:			
general provisions for country risk	75	170	-55.9
other general provisions	24,314	-	n.s.
Total	1,509,969	2,046,151	-26.2

Writebacks of adjustments to loans and provisions for guarantees and commitments (caption 130)

	31/12/98	31/12/97 (pro forma)	Change %
Revaluation of loans previously written down	178,194	274,095	-35.0
Revaluation of loans previously written off	28,853	130,000	-77.8
Revaluation of provisions for guarantees and commitments	1,751	13,174	-86.7
Collection of default interest previously written down	102,469	117,648	-12.9
Collection of loans previously written off	101,750	96,208	+5.8
Collection of loan principal previously written down	79,549	133,537	-40.4
Total	492,566	764,662	-35.6

Provisions to reserves for possible loan losses (caption 140)

Provisions to reserves for possible loan losses represent the provisions made by certain subsidiary companies and do not adjust risks which are only potential.

Adjustments to financial fixed assets (caption 150)

	31/12/98	31/12/97 (pro forma)	Change %
Adjustments to investment securities	50,506	14,027	+260.1
Adjustments to equity investments	79,577	18,430	+331.8
Total	130,083	32,457	+300.8

Adjustments to investment securities, 50,506 million lire, reflect the writedown of certain unsecured securities issued by residents of countries at risk. In particular, these adjustments relate to securities issued by counterparties resident in the Russian Federation and Macedonia, which have been written down by applying the percentages established by the Italian Banking Association.

Adjustments to equity investments, 79,577 million lire, relate to the writedown of holdings in the following non-consolidated companies to take account of permanent losses in value:

	31/12/98
Apokè Six Srl	31,330
Banco del Desarrollo SA	21,493
Eurotunnel	6,449
Rimoldi Necchi SpA	6,154
Abete Sviluppo SpA	5,000
Other adjustments	9,151
Total	79,577

Section 6
Other statement
of income captions

Consolidated statement of income captions 30, 70, 110, 190, 200, 230 and 240, not discussed above, comprise:

	31/12/98	31/12/97 (pro forma)	Change %
Dividends and other revenues (caption 30)	278,778	202,207	+37.9
Other operating income (caption 70)	433,720	533,450	-18.7
Other operating expenses (caption 110)	99,544	102,302	-2.7
Extraordinary income (caption 190)	432,408	494,835	-12.6
Extraordinary expenses (caption 200)	124,247	172,452	-28.0
Change in the reserve for general banking risks (caption 230)	-16,162	-10,605	+52.4
Income taxes for the year (caption 240)	1,220,285	572,107	+113.3

Dividends and other revenues (caption 30)

	31/12/98	31/12/97 (pro forma)	Change %
Shares, quotas and other equities			
- dividends	145,757	98,399	+48.1
- tax credits	83,571	51,788	+61.4
Equity investments, other than those consolidated line-by-line or carried at equity			
- dividends	33,201	33,591	-1.2
- tax credits	16,249	18,429	-11.8
Total	278,778	202,207	+37.9

Other operating income (caption 70)

Analysis of caption 70 "Other operating income" (table 6.1 B.1)

	31/12/98	31/12/97 (pro forma)	Change %
Expenses recovered from customers			
- stamp duties	220,947	212,598	+3.9
- other taxes	33,882	58,463	-42.0
- legal costs	20,590	19,817	+3.9
- other recoveries	43,920	36,704	+19.7
Reimbursement of services rendered to third parties	14,229	33,411	-57.4
Gains on the sale of leased assets	7,433	23,143	-67.9
Property rental income	45,466	57,467	-20.9
Income from merchant banking activities	18,773	27,751	-32.4
Other income	28,480	64,096	-55.6
Total	433,720	533,450	-18.7

Other operating expenses (caption 110)

Analysis of caption 1100 "Other operating expenses" (table 6.2 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
Losses on the sale of leased assets	29,152	32,261	-25.7
Leasing charges on furniture and fittings	1,948	4,252	-54.2
Losses from merchant banking activities	2,950	-	n.s.
Other expenses for marketing network agents	17,286	12,561	+37.6
Other expenses	48,208	46,228	+4.3
Total	99,544	102,302	-2.7

Extraordinary income (caption 190)

Analysis of caption 190 "Extraordinary income" (table 6.3 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
Out-of-period income			
- income taxes for the year paid in advance	166,128	86,000	93.2
- use of tax reserve and deferred taxation in excess relating to prior years	34,557	5,000	591.1
- collection of default interest relating to prior years	1,680	-	n.s.
- exchange rate effect on consolidation adjustments	14,863	1,797	727.1
- other out-of-period income	84,494	104,637	-19.3
Amounts not payable	4,746	15,429	-69.2
Gains on:			
- translation into foreign currency of endowment funds of foreign branches	-	53,832	n.s.
- translation into foreign currency of foreign equity investments	45	619	-92.7
- disposal of financial fixed assets - equity investments	33,961	214,313	-84.2
- disposal of financial fixed assets - investment securities	4,905	6,183	-20.7
- disposal of financial fixed assets - other	71,033	-	n.s.
- disposal of tangible fixed assets	15,996	7,025	127.7
Total	432,408	494,835	-12.6

Extraordinary expense (caption 200)

Analysis of caption 200 "Extraordinary expense" (table 6.4 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
Settlements relating to legal disputes	2,611	29,204	-91.1
Severance bonus incentive for voluntary redundancy	46,729	30,622	+52.6
Exchange rate effect on consolidation adjustments	12,425	12,116	+2.6
Other out-of-period expenses	48,117	48,636	-1.1
Amounts not collectible	5,692	844	+574.4
Losses on:			
- translation into foreign currency of foreign equity investments	-	6	n.s.
- financial fixed assets	4,018	44,292	-90.9
- translation into foreign currency of endowment funds of foreign branches	-	2,371	n.s.
- disposal of tangible fixed assets	4,655	4,361	+6.7
Total	124,247	172,452	-28.0

Section 7
Other information
regarding the statement
of income

Geographical distribution
of revenues

The geographical distribution of revenues, based on the location of the Bank's branches and of consolidated companies, is as follows:

(table 7.1 B.I)

in millions of lire

	31/12/98				31/12/97			
	Italy	Other EU countries	Other countries	Total	Italy	Other EU countries	Other countries	Total
Interest income and similar revenues	15,065,037	4,234,950	25,678	19,325,665	17,950,490	3,466,882	1,434,222	22,851,594
Dividends and other revenues	191,390	87,388	-	278,778	111,959	90,216	32	202,207
Commission income	3,484,363	832,480	727	4,317,570	2,584,992	563,262	18,137	3,166,391
Profits (losses) on financial transactions	426,711	-28,400	666	398,977	348,518	38,979	8,809	396,306
Other operating income	395,606	37,289	825	433,720	430,980	100,800	1,670	533,450
Total revenues	19,563,107	5,163,707	27,896	24,754,710	21,426,939	4,260,139	1,462,870	27,149,948

Part D - Other information

Section 1 - Directors and statutory auditors

Remuneration

The remuneration of Directors and Statutory Auditors for the performance of their duties on behalf of the Bank and subsidiary companies is reported below:

(table I.1 B.I)

	31/12/98	31/12/97 (pro forma)	Change %
Directors	5,995	5,304	+13.0
Statutory Auditors	1,778	1,923	-7.5

in millions of lire

Following the San Paolo IMI merger which took place, the amounts reported above also include those pertaining to the Directors and Statutory Auditors of former IMI for activities carried out on behalf of the incorporated company.

A detailed analysis of emoluments paid to Directors, Statutory Auditors and General Managers in compliance with art. 32 of Consob resolution 11520 dated July 1, 1998, has been included in the explanatory notes to the financial statements of the Bank (Part D - Other information).

Stock option plan

In implementation of the resolution passed by the shareholders' meeting of San Paolo held on July 31, 1998, on February 9, 1999 the bank's board of directors launched a stock option plan for Managing Directors - General Managers and other officers who cover significant positions within the Group.

The plan's guidelines have been discussed in the explanatory notes and financial statements of the bank (Part D - Section I "Directors and Statutory Auditors")

Loans and guarantees given

Loans and guarantees given (table 1.2 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
Directors	203,561	534,944	-61.9
Statutory Auditors	2,553	739	+245.5

The amounts indicated above include loans granted to and guarantees given by the Group to the Directors and Statutory Auditors, 164 million lire, and to companies and banks identified pursuant to article 136 of the Consolidated Banking Act, 205,950 million lire, including the drawdown against credit lines granted to the latter.

Attachments

Statement of changes in Group share of consolidated shareholders' equity

	<i>in millions of lire</i>							
	Capital	Additional paid-in capital	Reserves	Revaluation reserves	Reserve for general banking risks	Negative goodwill arising on consolida- tion and application of the equity method	Net income for the year	Total
San Paolo Group share of shareholders' equity as of December 31, 1997	8,159,929	275,000	1,091,916	111	22,005	44,817	167,799	9,761,577
IMI SpA shareholders' equity as of December 31, 1997	3,000,000	-	1,539,927	-	650,000	-	467,130	5,657,057
Effect of consolidating the subsidiary IMI as of December 31, 1997	-	-	1,687,105	-	7,762	130,105	102,512	1,927,484
Pro forma adjustments (*)	- 2,746,819	-	1,894,726	-	-	-	-	- 852,093
Pro forma shareholders' equity as of December 31, 1997	8,413,110	275,000	6,213,673	111	679,767	174,922	737,441	16,494,024
Allocation of 1997 net income:								
- to reserves of former San Paolo Group	-	-	167,799	-	-	-	- 167,799	-
- to reserves of former IMI Group	-	-	149,642	-	-	-	- 149,642	-
- dividends (former IMI Group)	-	-	-	-	-	-	- 420,000	- 420,000
Allocation of reserves								
- former San Paolo SpA (Ordinary Meeting April 1998)	-	-	- 89,759	-	-	-	-	- 89,759
- former IMI SpA (Ordinary Meeting April 1998)	-	-	- 330,000	-	-	-	-	- 330,000
- former IMI SpA (Extraordinary Meeting May 1998)	-	-	- 600,000	-	-	-	-	- 600,000
1992 dividends fallen into prescription (art. 22 Articles of Assoc.)	-	-	159	-	-	-	-	159
Use of reserves to cover payment								
of capital taxes	-	-	- 87,051	-	-	-	-	- 87,051
Transfers between reserves	-	- 275,000	275,000	-	-	-	-	-
Adjustments re. initial consolidation of former IMI SpA equity investments	-	-	120,939	-	-	- 41,625	-	79,314
Change in reserve for general banking risks	-	-	-	-	16,162	-	-	16,162
Differences arising on the translation of foreign currency financial statements and other adjustments	-	-	- 20,990	-	- 23	- 17,453	-	- 38,465
Net income for the year	-	-	-	-	-	-	1,760,177	1,760,177
Shareholders' equity as of December 31, 1998	8,413,110	-	5,799,413	111	695,906	115,844	1,760,177	16,784,561

(*) Includes adjustments made for calculating pro forma consolidated shareholders' equity commented on in the introduction to the explanatory notes.

Statement of consolidated cash flows (a)

in billions of lire

APPLICATION OF FUNDS

Use of funds generated by operations		1,654
Dividends paid	1,440	
Use of reserves to cover payment of capital taxes	87	
Use of reserve for termination indemnities	68	
Use of provisions for risks and charges	59	
Increase in funds applied		498
Equity investments	136	
Intangible fixed assets	362	
Decrease in funds taken		41,378
Due to banks	21,890	
Due to customers and securities issued	17,504	
Other liability captions	1,332	
Minority interests	21	
Subordinated liabilities	631	

Total		43,530
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(a) Statement of cash flows was prepared using the pro forma reclassified balance sheet and the reclassified statement of income as of December 31, 1997.

SOURCES OF FUNDS

Funds generated by operations		3,869
Net income for the year	1,760	
Provision for termination indemnities	88	
Net adjustments to loans and provisions for guarantees and commitments	1,017	
Provisions for risks and charges	242	
Adjustments to tangible fixed assets	290	
Adjustments to intangible fixed assets	304	
Adjustments to financial fixed assets	130	
Exchange differences on translating the net equity of consolidated companies and other adjustments	38	
Decrease in funds applied		39,661
Cash and deposits with central banks	41	
Due from banks	23,021	
Dealing securities	3,855	
Tangible fixed assets	318	
Loans to customers	9,807	
Investment securities	1,202	
Goodwill arising on consolidation and on application of the equity method	115	
Other asset captions	1,302	
Total		43,530

Reconciliation of the Bank's financial statements and the consolidated financial statements

in millions of lire

	Net income for the year	Capital and reserves	Shareholders' equity	Reserve for possible loan losses	Total
Per financial statements of the Parent Bank (*)	1,435,634	13,097,828	14,533,462	-	14,533,462
Balance of subsidiary companies consolidated line-by-line	1,082,711	7,618,281	8,700,992	404,052	9,105,044
Consolidation adjustments			0		0
carrying value for equity investments	-	-5,589,875	-5,589,875		-5,589,875
dividends	-851,965	752,300	-99,665		-99,665
elimination of writedowns made to cover losses of companies consolidated line-by-line or using the equity method	48,107	-	48,107		48,107
effect of consolidating subsidiary companies using the equity method	159,518	77,425	236,943		236,943
provisions made solely for fiscal purposes	135,879	232,013	367,892	-367,892	0
other	-69,256	-581,655	-650,911		-650,911
minority interests	-180,451	-581,933	-762,384		-762,384
Balance as per consolidated financial statements	1,760,177	15,024,384	16,784,561	36,160	16,820,721

(*) Net income for the year pertaining to the Parent Bank is stated before the provision of 172,520 million lire pursuant to Law 218/90.

THE BANK'S FINANCIAL STATEMENTS AND REPORTS

Reclassified statement of income

	1998		1997	Change (%)
	(Euro/mln)	(L/bln)	(pro forma) (L/bln)	
Interest income and similar revenues	7,446	14,409	17,974	-19.8
Interest expense and similar charges	-5,375	-10,399	-13,809	-24.6
NET INTEREST INCOME	2,071	4,010	4,165	-3.7
Net commissions and other dealing revenues	1,164	2,254	1,546	+45.8
Profits/(losses) on financial transactions and investment income	199	386	417	-7.4
Dividends on equity investments	386	747	530	+40.9
NET INTEREST AND OTHER BANKING INCOME	3,820	7,397	6,658	+11.1
Administrative costs	-2,016	-3,904	-4,206	-7.2
• <i>personnel</i>	-1,286	-2,490	-2,671	-6.8
• <i>other administrative costs</i>	-584	-1,131	-1,200	-5.8
• <i>indirect taxes and similar dues</i>	-146	-283	-335	-15.5
Other operating income, net	168	326	348	-6.3
Adjustments to tangible and intangible fixed assets	-179	-346	-402	-13.9
OPERATING INCOME	1,793	3,473	2,398	+44.8
Provisions for risks and charges	-76	-148	-92	+60.9
Adjustments to loans and provisions for guarantees and commitments, net	-462	-894	-1,430	-37.5
Writedowns of financial fixed assets, net	-90	-175	-343	-49.0
INCOME BEFORE EXTRAORDINARY ITEMS	1,165	2,256	533	+323.3
Net extraordinary income	54	105	307	-65.8
INCOME BEFORE TAXES	1,219	2,361	840	+181.1
Income taxes	-478	-926	-320	+189.4
NET INCOME	741	1,435	520	+176.0
Provision to the reserve created under Art. 7.3 of Law 218/90	-89	-172	-53	+224.5
Distributable net income	652	1,263	467	+170.4

Reclassified balance sheet

ASSETS	31/12/98		31/12/97	Change
	(Euro/mln)	(L/bln)	(pro forma) (L/bln)	
Cash and deposits with central banks and post offices	395	764	739	+3.4
Loans	84,144	162,926	196,970	-17.3
• <i>due from banks</i>	14,920	28,889	52,394	-44.9
• <i>loans to customers</i>	69,224	134,037	144,576	-7.3
Dealing securities	14,274	27,639	30,520	-9.4
Fixed assets	6,257	12,115	13,355	-9.3
• <i>investment securities</i>	1,495	2,894	3,916	-26.1
• <i>equity investments</i>	3,243	6,279	6,209	+1.1
• <i>intangible fixed assets</i>	191	370	427	-13.3
• <i>tangible fixed assets</i>	1,328	2,572	2,803	-8.2
Other assets	13,275	25,704	28,513	-9.9
Total assets	118,345	228,148	270,097	-15.2

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/98		31/12/97	Change
	(Euro/mln)	(L/bln)	(pro forma) (L/bln)	
Payables	92,651	179,397	217,729	-17.6
• <i>due to banks</i>	24,661	47,751	72,716	-34.3
• <i>due to customers and securities issued</i>	67,989	131,646	145,013	-9.2
Reserves	1,684	3,262	2,188	+49.1
• <i>for taxation</i>	956	1,853	944	+96.3
• <i>for employee termination indemnities</i>	396	767	750	+2.3
• <i>for risks and charges</i>	283	547	390	+40.3
• <i>for pensions and similar obligations</i>	49	95	104	-8.7
Other liabilities	15,137	29,310	32,353	-9.4
Subordinated liabilities	1,367	2,646	3,208	-17.5
Shareholders' equity	7,506	14,533	14,619	-0.6
• <i>capital</i>	4,345	8,413	8,413	-
• <i>equity reserves</i>	2,509	4,857	5,739	-15.4
• <i>net income for the year</i>	652	1,263	467	+170.4
Total liabilities and shareholders' equity	118.345	228,148	270,097	-15.2

GUARANTEES AND COMMITMENTS	31/12/98		31/12/97	Change
	(Euro/mln)	(L/bln)	(pro forma) (L/bln)	
Guarantees given	16,808	32,544	37,740	-13.8
Commitments	13,538	26,214	40,558	-35.4

Report on operations

Performance

Overview of results

The 1998 results of the Parent Bank Sanpaolo IMI SpA were in line with expectations. Net income amounted to 1,435 billion lire, before a transfer of 172 billion to the reserve created under Art. 7.3 of Law 218/90 (the 'Amato' law). The result compares with pro forma net income in 1997, as reconstructed on a consistent comparative basis, of 520 billion lire.

A key factor in a year of significant progress was diversification of revenue sources, aimed at reducing dependence on traditional banking; also relevant were effective control of administrative costs and a lower level of provisions against the loans portfolio, as asset quality improved.

Net commissions and similar income climbed by 45.8%, confirming a now well-established contribution from savings-management, collection, payment and other services, to 'net interest and other banking income'.

Dividend income on the Bank's equity investments rose by 40.9%, as results improved across the Group, notably in the banking and savings-management sectors.

The steep rises in commission and dividend income more than compensated for a 3.7% decline in net interest income (in conditions of falling interest rates and lower banking volumes) combined with a 7.4% reduction in profits on financial transactions; the latter were affected by the market crisis that developed during the third quarter.

The effect on operating income of the overall increase in revenues and a 7.2% reduction in administrative costs was a jump of 44.8%.

Net income was also boosted by a 34.8% decrease in provisions and net writedowns against lending assets and equity investments, a reflection of the improvement in lending quality.

Changes to accounting policies

The attached financial statements are affected by certain changes to the Bank's accounting policies, described in detail in the explanatory notes. The main change arises from bringing Group accounting policies into line with international standards, and concerns the valuation of non-performing and other problem loans. These are now stated on a discounted present value basis that reflects the financial cost caused by their partial or total lack of income generation; the statement of income is unaffected however, the relevant charges having been covered by IMI's previous reserves for lending losses.

As explained in the notes, the format of the statement of income has been modified to present a more meaningful picture of the results of the post-merger enterprise.

Net interest income

The first change of note revealed by the statement of income is the 3.7% reduction in net interest income, to 4,010 billion lire.

	1998 (L/bln)	1997 (pro forma) (L/bln)	Change (%)
Interest income and similar revenues	14,409	17,974	-19.8
Interest expense and similar charges	-10,399	-13,809	-24.6
Net interest income	4,010	4,165	-3.7

The main cause was a decline in interest rates that eroded the yield on the Bank's liquid funds by an average 110 basis points. Also, liquid funds were down, following the payment of dividends totaling over 1,440 billion lire, including extraordinary dividends of 1,020 billion.

The interest margin was also affected by declining levels of interest-bearing assets and liabilities, caused by:

- displacement of direct deposit funds (with the highest servicing cost) in favor of managed savings;
- decreases in the loans and securities portfolios and in interbank deposits, under a risk-reduction policy that sought maximum returns at the level of the individual transaction.

The effect of the lower volumes was only partly offset by a better average spread between interest rates charged to borrowers and paid to depositors. The latter improvement was attributable to the medium/long-term lending sector, where indexing of variable rates resulted in a lag effect, postponing adjustments in line with the general downward trend.

Net interest and other banking income

Net interest and other banking income amounted to 7,397 billion lire, an improvement on 1997 of 11.1%.

	1998 (L/bln)	1997 (pro forma) (L/bln)	Change (%)
Net interest income	4,010	4,165	-3.7
Net commissions and similar income	2,254	1,546	+45.8
• <i>Management, dealing and consultancy services</i>	1,344	828	+62.3
• <i>savings management</i>	1,031	497	+107.4
• <i>securities and forex dealing and administration</i>	313	331	-5.4
• <i>Loans and guarantees area</i>	325	277	+17.3
• <i>Collection and payment services area</i>	202	136	+48.5
• <i>Current and deposit accounts area</i>	340	283	+20.1
• <i>Other dealing commissions and income, net</i>	43	22	+95.5
Profits on financial transactions	386	417	-7.4
Dividends on equity investments	747	530	+40.9
Net interest and other banking income	7,397	6,658	+11.1

Net commissions and similar income

Net commissions and similar income totaled 2,254 billion lire, a jump of 45.8% compared with the 1997 level. All the main commission-earning areas contributed to the rise; in the case of the management, dealing and consultancy area, the increase amounted to 62.3%.

A doubling of commissions derived from savings management reflected rising volumes and steady margins, as customer portfolios diversified into innovative, higher added-value products, including asset-allocation funds and unit-linked insurance policies.

Commissions on payment and collection services climbed by 48.5%. This was helped by the impact of campaigns to promote the use of credit and debit cards, as well as growing levels of transactions via Bancomat ATMs and POS terminals.

Profits on financial transactions and dividends on securities

Income under this caption amounted to 386 billion lire, down on the 1997 total by 7.4%. Results differed sharply as between the two half-years, the first accounting for 318 billion lire, while the outcome of the second (profits of 68 billion lire) was severely affected by the crisis among the financial markets that developed during the third quarter.

Dividends on equity investments

At Lire 747 billion lire, these were up by a significant 40.9%, on the strength of generally improved results among the subsidiaries.

The total was also boosted by extraordinary dividends of 192 billion lire in the form of interim dividends and distribution of reserves by IMIBANK (64 billion), IMI International (54 billion), Banque Sanpaolo (50 billion) e Turis AG (24 billion).

Operating income



Operating income amounted to 3,473 billion lire, up by 44.8% on the corresponding 1997 result.

	1998 (L/bln)	1997 (pro forma) (L/bln)	Change (%)
Net interest and other banking income	7,397	6,658	+11.1
Administrative costs	-3,904	-4,206	-7.2
• <i>personnel</i>	-2,490	-2,671	-6.8
• <i>other administrative costs</i>	-1,131	-1,200	-5.8
• <i>indirect taxes and similar dues</i>	-283	-335	-15.5
Other operating income, net	326	348	-6.3
Adjustments to tangible fixed assets	-203	-263	-22.8
Adjustments to intangible fixed assets	-143	-139	-2.9
Operating income	3,473	2,398	+44.8

Administrative costs

Savings totaled 302 billion lire, comprising reductions of 181 billion in the payroll and 69 billion and 52 billion in other administrative costs and indirect taxes respectively.

At 2,490 billion lire (excluding leaving incentives), the payroll was down by 6.8%. Ignoring the effect of the abolition of health service contributions during the year, following the introduction of IRAP, the saving amounted 2.1%.

Administrative costs were lower by 5.8%. The heading includes 28 billion lire incurred on preparations for the introduction of the Euro; further expenditure of 14 billion on the purchase of software was capitalized.

Indirect taxes and similar dues were 15.5% down, at 283 billion lire.

Other operating income, net

This caption largely comprises cost-recoveries from customers and rental income, less lease payments. The total was similar to that in 1997.

Adjustments to tangible and intangible fixed assets

These charges totaled 346 billion lire, lower than in 1997 by 13.9%. However, ignoring extraordinary writedowns of 45 billion lire against certain properties in the previous year, the reduction amounted to 3.1%.

Income before extra-ordinary items



t 2,256 billion lire, income before extraordinary items was up by over 300%.

	1998 (L/bln)	1997 (pro forma) (L/bln)	Change (%)
Operating income	3,473	2,398	+44.7
Provisions for risks and charges	-148	-92	+60.9
Adjustments to loans and provisions for guarantees and commitments	-894	-1,430	-37.5
• writedowns and losses, net	-1,114	-1,690	-34.1
• provisions for guarantees and commitments	-24	-1	n.s.
• recoveries of principal	244	261	-6.2
Adjustments to financial fixed assets	-175	-343	-50.0
• writedowns of equity investments, net	-125	-331	-62.2
• writedowns of investment securities, net	-50	-12	+316.7
Income before extraordinary items	2,256	533	+323.3

Adjustments to loans; provisions

Provisions of 148 billion lire included 116 billion for pending legal disputes, exposures arising on divestments of equity interests and associated with membership of the Interbank Deposit Guarantee Fund; 32 billion related principally to employee long-service bonuses and pension commitments.

Net writedowns of loans plus provisions for guarantees and commitments amounted to 894 billion lire, compared with 1,430 billion in 1997. The 1998 figure comprises :

- 1,114 billion lire in loan writedowns (net of reinstatements) and losses on settlement in bankruptcy and other cases
- 24 billion lire in provisions to the reserve for guarantees and commitments, in respect of exposures on documentary loans
- less 244 billion lire in reinstatements, following recoveries of principal exceeding carrying values written down in earlier years, and of default interest.

Adjustments to financial fixed assets

Such writedowns (net of reinstatements) amounted to 175 billion lire. Around 50 billion lire related to investment securities obtained on conversion of loans subject to country risk; the remaining approximately 125 billion was the total for amounts written off equity investments regarded, in the light of their performance or conditions of financial crisis in the relevant markets, as having suffered a permanent decline in value.

Net income

Net income amounted to 1,435 billion lire. A provision of 172 billion lire was made to the reserve created under Art. 7.3 of Law 218/90 (the 'Amato' Law), this sum representing the remaining amount eligible for deferral of taxation in relation to the absorptions of Crediop and Banca Nazionale delle Comunicazioni, finalized by San Paolo in 1995.

	1998 (L/bln)	1997 (pro forma) (L/bln)	Change (%)
Income before extraordinary items	2,256	533	+323.3
Extraordinary income/(expense):	105	307	-65.8
• net gains on disposals of properties and equity investments	16	159	-89.9
• other extraordinary income, net	89	148	-39.9
Income before income taxes	2,361	840	+181.1
Income taxes	926	320	+189.4
Net income	1,435	520	+176.0

Extraordinary items

Extraordinary income totaled 192 billion lire, including 106 billion in prepaid taxes relating to earlier years, following an extension of the reference period for calculating deferred taxation. Extraordinary expense of 87 billion lire included 43 billion in employee leaving incentives.

Income taxes

The tax charge for the year of 926 billion lire is not directly comparable with the pro forma figure for 1997, because of the introduction of IRAP and the change to the reference period for calculating deferred taxation (mentioned above). The effective tax rate for the year amounted to 39.2%.

Operating volumes and organization

Deposits

The level of total customer deposits rose by 8% during 1998 to 328 billion lire; the component representing managed savings leaped by 72.1%, more than compensating for a decline in direct deposits.

	31/12/98		31/12/97 (pro forma)		Change (%)
	(L/bln)	%	(L/bln)	%	
Direct customer deposits	131,646	40.1	145,013	47.7	-9.2
• ordinary	71,289	21.7	76,305	25.1	-6.4
• securities issued	60,257	18.4	68,708	22.6	-12.3
Indirect customer deposits	196,258	59.9	158,696	52.3	23.7
• managed savings	92,840	28.4	53,947	17.8	72.1
• administered savings	103,418	31.5	104,749	34.5	-1.3
Total customer deposits	327,904	100.0	303,709	100.0	8.0

Market shares

The Bank's share of the deposits market remained at 8.5%. That of the indirect deposits market rose from 8.4% to 9.4%, offsetting a decline of around a point in the case of direct deposits.

Market shares	%	
	31/12/98	31/12/97
Direct deposits	7.5	8.5
Indirect deposits	9.4	8.4
Total financial assets of customers	8.5	8.5

Direct deposits

Direct customer deposits stood at 131,646 billion lire at the end of 1998, having declined during the year by 9.2%.

	31/12/98		31/12/97 (pro forma)		Change (%)
	(L/bln)	%	(L/bln)	%	
Deposits with the domestic branches	113,055	85.9	124,708	86.0	-9.3
• current accounts and savings deposits	47,472	36.1	45,170	31.2	5.1
• certificates of deposit	14,167	10.8	22,868	15.8	-38.0
• bonds	41,170	31.3	41,668	28.7	-1.2
• linked to repurchase agreements	7,968	6.1	12,481	8.6	-36.2
• other	2,279	1.6	2,521	1.7	-9.6
Deposits with the foreign branches	18,590	14.1	20,305	14.0	-8.4
Direct customer deposits	131,646	100.0	145,013	100.0	-9.2

The level of direct deposits with the domestic branch network declined by 9.3%. However, the change was confined to CDs, repurchase-agreement linked deposits and other forms involving high servicing costs. Deposits in current and savings accounts rose by 5.1%, their proportion of the total increasing from 31% to 36%.

Curtailement of banking volumes in the branch network abroad, as part of a risk-reduction strategy, was responsible for reversing the rising trend of the last two years in deposits with the foreign branches, the level of these declining by 8.4%. This reduction was due to lower activity among the foreign branches, both with customers and in the interbank market, in order to reduce risk exposure.

Indirect deposits

Indirect deposits with the Bank, including managed and administered savings, rose by 23.7% to reach 196,000 billion lire.

	31/12/98		31/12/97 (pro forma)		Change (%)
	(L/blr)	%	(L/blr)	%	
Managed savings	92,840	47.3	53,947	34.0	+72.1
• <i>mutual funds</i>	67,275	34.3	41,872	26.4	+60.7
• <i>portfolio management</i>	20,620	10.5	9,415	5.9	+119.0
• <i>insurance policies</i>	4,945	2.5	2,660	1.7	+85.9
Administered savings	103,418	52.7	104,749	66.0	-1.3
• <i>government stocks</i>	35,990	18.3	43,488	27.4	-17.2
• <i>other securities</i>	67,428	34.4	61,261	38.6	+10.1
Indirect customer deposits	196,258	100.0	158,696	100.0	+23.7

Managed savings

Sanpaolo IMI further extended its lead in the mutual funds sector during 1998, taking full advantage of an evolving market scenario characterized by globalization, declining yields on money-market investments, and a growing preference among personal customers for diversification into professionally-managed forms of savings. The Bank made full use of its extensive distribution network, maintained the flow of new products and continued to focus closely on management methods in the sector.

The rise of over 60% in deposits in the form of mutual-fund shares reflected an effective portfolio asset-allocation process that resulted in a significant increase in the proportion of investments in equities-based and balanced funds, from 16.3% to 23.7%.

The results were also boosted by the growth in portfolio management, which climbed by 119% on the strength of mutual-fund investments.

Placings of insurance policies were also highly encouraging, as regards both traditional life cover and the index- and unit-linked types developed

during the year. Premium revenues almost doubled the 1997 total, reaching around 2,300 billion lire, including nearly 800 billion relating to unit-linked policies.

Administered savings

Administered savings totaled approximately 103,000 billion lire at the end of 1998, down on the level a year earlier by 1.3%. The decline was the combined effect of appreciation of customers' holdings and an appreciable reduction in volumes. The former change was mainly in equities, reflecting the strong performance of the Italian stockmarket (the MIBTEL index rose by 41%). Volumes were affected by a dramatic shift in investor and private-individual preferences, towards managed savings and liquidity respectively.

Lending

The loans portfolio totaled 134,037 billion lire (after writedowns) at the end of 1998, lower than a year earlier by 7.3%.

A slowing of lending outflows largely reflected a rigorously selective approach to new business that aimed at maximizing returns at the level of the individual agreement. Other factors included intensifying competition (both domestic and foreign) and early repayments by large borrowers, in conditions of increased availability of internally-generated and capital market funds.

	31/12/98		31/12/97 (pro forma)		Change (%)
	(L/bln)	%	(L/bln)	%	
Short-term	52,841	39.4	60,286	41.7	-12.3
Medium / long-term	77,656	58.0	80,786	55.9	-3.9
Non-performing loans	3,540	2.6	4,577	3.1	-22.7
less: IMI reserve for lending losses	–	–	-1,073	- 0.7	–
Customer loans portfolio	134,037	100.0	144,576	100.0	-7.3

The steepest decline (12.3%) was in the short-term sector, reflecting the curtailment of lending activity at the foreign branches.

Medium- and long-term loans (58% of the total portfolio) eased by 3.9%; the downturn largely affected the corporate sector. The levels increased in the cases of personal mortgages and medium/long-term loans to small and medium-sized enterprises.

Market shares

The Bank's share of the domestic market represented by the deposits of Italian residents declined from 10.4% at the end of 1997 to 9.2%.

	%	
Shares of lending market	31/12/98	31/12/97
Short-term	6.2	7.7
Medium/long-term	12.2	13.3
Total	9.2	10.4

By customer segment

Significant shifts in the portfolio included a 4% increase in the proportion absorbed by the consumer segment. Levels declined across all the other segments – by around 19% in the case of loans to finance-sector companies.

	31/12/98		31/12/97 (pro forma)		Change
	(L/bln)	%	(L/bln)	%	(%)
Consumers	18,262	13.6	17,566	12.1	+4.0
Family businesses and non finance-sector companies	77,283	57.7	83,128	57.1	-7.0
Finance companies	21,011	15.68	26,061	17.9	-19.4
Governments and public bodies	16,682	12.5	18,368	12.6	-9.2
Other	799	0.6	526	0.4	+51.9
less: IMI reserve for lending losses	--	--	-1,073	--	--
Total customer loans	134,037	100.0	144,576	100.0	-7.3

By type of loan

More than 80% of loans to consumers, which totaled over 18,000 billion lire, were in the form of mortgages for home purchase or improvement. These benefited from a well-aimed commercial policy and the timely introduction of new products, and rose by 4.7% during the year. Personal loans were also up, by 12.1%.

	31/12/98		31/12/97 (pro forma)		Change (%)
	(L/bln)	%	(L/bln)	%	
Consumers	18,262	13.6	17,566	12.1	+4.0
• Domestic network	18,257	13.6	17,562	12.1	+4.0
• overdrafts	1,252	0.9	1,358	0.9	-7.8
• personal loans	889	0.7	793	0.5	+12.1
• mortgages	15,000	11.2	14,326	9.8	+4.7
• non-performing loans	671	0.5	693	0.5	-3.2
• other	445	0.3	392	0.3	+13.5
• Foreign network	5	0.0	4	0.0	+25.0
Family businesses, companies, governments, public bodies and other	115,775	86.4	128,083	87.9	-9.6
• Domestic network	104,428	77.9	111,179	76.3	-6.1
• installment-based loans	56,314	42.0	58,157	39.9	-3.2
• overdrafts	15,935	11.9	19,196	13.2	-17.0
• advances against uncleared items	4,738	3.5	5,930	4.1	-20.1
• repurchase agreements	3,473	2.6	1,239	0.9	+180.3
• non-performing loans	2,862	2.1	3,880	2.7	-26.2
• import/export financing	2,632	2.0	3,198	2.2	-17.7
• portfolio risk	1,551	1.2	1,604	1.1	-3.3
• leasing	-	-	-	-	n.s.
• other	16,925	12.6	17,975	12.3	-5.9
• Foreign network	11,347	8.5	16,904	11.6	-32.9
less: IMI reserve for lending losses	-	-	-1,073	-	-
Total customer loans	134,037	100.0	144,576	100.0	-7.3

Problem loans

The total of non-performing and other problem loans fell by almost 20% during 1998. One factor was a change in the Bank's accounting policies, to bring these into line with international standards for the valuation of lending assets. As indicated in the explanatory notes, non-performing and other problem loans are now valued on a basis that reflects the financial cost caused by their partial or total lack of income generation.

	31/12/98		31/12/97 (pro forma)		Change (%)
	(L/bln)	%	(L/bln)	%	
Non-performing	3,540	2.6	4,577	3.2	-22.7
Problem, rescheduled, being rescheduled	3,108	2.3	3,469	2.4	-10.4
Customer loans subject to country risk	187	0.1	343	0.2	-45.5
Normally-performing loans	127,202	95.0	137,260	95.0	-7.3
less: IMI reserve for lending losses	-	-	-1,073	-	n.s.
Total customer loans	134,037	100.0	144,576	100.0	-7.3
Non-performing and problem loans to banks	8		2		n.s.
Loans to banks subject to country risk	202		380		-46.8

On an after-writedowns basis, non-performing loans declined by 22.7% during the year, to 3,540 billion lire; the corresponding reduction in their ratio to the total portfolio was from 3.1% to 2.6%. Ignoring writedowns, accruing default interest saw a 3.1% rise; the incidence of non-performing loans on the same basis amounted to 5.5%, compared with the average of 9.1%. Coverage amounted to 54.2%; after adjustments, it was 66.5%.

On an after-writedowns basis, problem and rescheduled loans and loans being rescheduled totaled 3,108 billion lire, some 10.4% below the level a year earlier. Ignoring writedowns, the reduction was of 6.1%, while coverage in terms of total writedowns measured 24.2%, or 33.8% including write-offs.

Largely reflecting writedowns to 60% of face value against unsecured loans to parties in Russia, net lending to customers and banks exposed to country risk were 46.2% down, at 389 billion lire.

Operations in the financial markets

The Bank's operations during 1998 were affected by a strategy aimed at containing overall risk. Liquidity management was mainly concerned with the shortest maturities, with the twin aims of reducing risk and taking advantage of the slower convergence of short-term as against long-term rates.

The decision to reduce the Bank's risk profile led to a reduction of 11.3% in the dealing securities portfolio, while a 26.1% decline in holdings of investment securities resulted from not replacing government stocks reaching maturity, following a decrease in the types of deposit business serviced by them. Also reflecting the policy aimed at reducing market and counterparty risk, there was a reduction in the volume of derivatives trading in unregulated markets.

	31/12/98		31/12/97 (pro forma)		Change (%)
	(L/bln)	%	(L/bln)	%	
Investment securities	2,894	9.5	3,916	11.4	-26.1
Dealing securities	27,639	90.5	30,520	88.6	9.4
Total portfolio	30,533	100.0	34,436	100.0	-11.3
Short positions in securities	2,205		4,280		-48.5
Due from banks, medium / long-term	2,539		3,273		-22.4
Funding by international institutions	8,412		9,405		-10.6
Due to banks, medium / long-term	10,850		12,430		-12.7
Net short-term interbank funding	-2,139		-1,760		21.5
Derivatives and forward forex transactions	464,029		660,541		-29.8

There was a reduction of around 12% in medium- and long-term funding from international institutions and other banks, reflecting a slowdown in related lending outflows. Recourse to short-term interbank funding increased, however.

The Bank acted as a specialist in the secondary screen-based market for government stocks (the MTS), with 1.6% and 6% shares respectively of the securities and repurchase-agreement markets.

The Bank's placing activities were curtailed as part of a rationalization in the wake of the merger, which involved centralizing investment banking within the Banca IMI subsidiary. Parent Bank placings nonetheless included around 500 billion lire in Eurolira bonds and approximately 250 billion in bonds denominated in foreign currencies. Share placings totaled 1,620 billion lire; the Bank acted as lead manager in the Targetti Sankey flotation (market share 50%+) and joint lead manager in the ENI4 and BNL operations (shares of 10.6% and 9.69% respectively).

Equity investments

Equity investments totaled 6,279 billion lire at the end of 1998, 70 billion lire higher than the level a year earlier.

	31/12/98		31/12/97 (pro forma)		Change (%)
	(L/bln)	%	(L/bln)	%	
Equity investments	6,279	100.0	6,209	100.0	+1.1
• in Group companies	4,691	74.7	4,685	75.5	+0.1
• in other companies	1,588	25.3	1,524	24.5	+4.2

Equity investments in Group companies

Changes to the Bank's equity investments in subsidiaries during 1998 included:

- Subscription to the increases in capital by Banca IMI SpA totaling 450 billion lire to fund its acquisition of IMI Bank SA and IMI Investments SA from the Parent Bank, as part of the program to bring all stockmarket dealing activities under Banca IMI;
- A capital injection, of 75 billion lire, also in the case of the Netherlands-based LDV Holding BV to support an expanded role in the merchant banking sector;
- A capital injection of 50 billion lire to support the growing operating volumes of the subsidiary Sanpaolo Vita SpA.

Investments in other companies

Changes in the Bank's interests in companies outside the Group included:

- Acquisition of an initial interest of 0.46% in Banco Santander, at a cost of 170 billion lire; the holding was increased to 1% in early 1999 given the Spanish bank's merger with Banco Central Hispano, involving a further investment of 405 billion;
- Joint acquisition with the Santander Group of control of Finconsumo SpA., (in which the Bank already held a 20% interest), involving an outlay of some 20 billion lire.

Following the end of the period, the investment in INA was raised from 3% to 3.7% and a shareholding of 9.7% was acquired in Banca Agricola Mantovana.

Complete details are included in the explanatory notes.

The branch network, automated facilities and electronic banking

During the year, the Bank made further progress in a program of consolidation and specialization within the branch network. While only four new branches were opened during 1998 (taking the total to 1,289), the focus was rather on reorganizing the branches to make them more customer-oriented. There were no additions to the 11 existing foreign branches.

By contrast, expansion was a priority for automated and electronic banking facilities. The number of debit cards in circulation rose by 7% to 1,460,000; store purchases using these cards jumped by 60% to 16 million. As expected, the volumes of transactions via the Bancomat ATMs and POS terminals continued to grow, by 14% and 32% respectively.

In the area of Direct Banking, the Directa Green electronic banking service continue to attract business; new agreements were up by 50% and transaction volumes by 135% (to over 1.5 million).

Electronic services addressing the corporate customer also gained ground; the number of remote banking links increased by 9,500 to 30,000, while transaction volumes reached 12 million.

	31/12/98 No.	31/12/97 No.	Change (%)
Banking branches and area offices			
• Italy	1,289	1,285	0.3%
• Abroad	11	11	–
Representative offices	12	12	–

Payment systems

In payment systems and safekeeping and administration of securities, the Bank reinforced its position in lira and Euro clearing, through measures including steps needed to maintain clearing status for the Euro.

The BIREL system supporting commercial and other clearing services at international level moved into full operation during 1998. The Bank's use of the system amounted to over a million transactions, representing an 11% market share and underscoring Sanpaolo IMI's status as a primary Italian clearing bank. Commercial clearing volumes exceeded 1997 levels by 13.7% in terms of transactions processed and 10.2% in terms of operating volumes.

The Bank retained its lead in the Euro market, and participated in the European Banking Association (EBA) initiatives and in the Inter Bank On-line System (IBOS), as the basis for providing customers with real-time international payment and cash-management services. It took the role of 'pilot bank' in the TARGET Project - the system that integrates the various domestic clearing systems at EU level.

Employees

The Bank's workforce numbered 20,510 at the end of 1998 (20,040 in Italy and 470 abroad). The total declined during the year by 789, reflecting a strict headcount-containment policy that focused on management of staff turnover and the provision of leaving incentives, which led to over 480 people leaving the Bank.

	1998		1997		Change (%)
	No.	%	No.	%	
Employees at year-end	20,510	100.0	21,299	100.0	-3.7%
• Executives	204	1.1	227	1.1	-10.7%
• Managers	3,427	16.7	3,655	16.7	-6.2%
• Other employees	16,879	82.3	17,417	81.8	-3.1%
Average headcount	20,904		21,452		-2.6%

Capital and reserves

Shareholders' equity

Shareholders' equity in the Bank stood at 14,533 billion lire at the end of 1998. The year's movements are summarized below:

	<i>in billions of lire</i>
Shareholders' equity as of January 1, 1998	14,619
Increases	
• Net income for the year	+1,435
Decreases	
• Dividends in respect of 1997	-420
• Extraordinary distribution of reserves	-1,020
• Capital tax under Law 461/92 charged to reserves	-81
Shareholders' equity as of December 31, 1998	14,533

In the interests of comparability, opening shareholders' equity (14,619 billion lire) has been restated to reflect changes arising from the merger, described in detail in the explanatory notes.

Own shares

The Bank held none of its own shares at the end of 1998; nor were there any dealings in such shares during the year.

Regulatory capital and capital adequacy

Regulatory capital amounted to 15,061 billion lire at the end of 1998, comprising Tier 1 and Tier 2 capital of 12,901 billion and 2,245 billion respectively, after deducting equity investments of 85 billion in accordance with Bank of Italy rules

Regulatory capital reflects risk-weighted assets (including off-balance sheet assets) of 141,031 billion lire, comprising 129,756 billion exposed to lending risk and 11,275 billion to market risk.

The ratio of total regulatory capital to total assets weighted for lending and market risk amounted to 10.68% at the year end, compared with a (pro forma) ratio 12 months earlier of 9.89%. The capital adequacy ratio was 11.61% of assets exposed to lending risk alone, compared with a required minimum of 7%. At 9.15%, the ratio of Tier 1 capital to weighted assets compares with 8.19% (pro forma basis) at the end of 1997.

	31/12/98 (L/bln)	31/12/97 (L/bln)	Change (%)
Regulatory capital			
Tier 1 capital	12,901	12,670	+1.8
Tier 2 capital	2,245	2,772	-19.0
less: prescribed deductions	-85	-148	-42.6
Total capital	15,061	15,294	-1.5
Weighted assets			
Lending risk	129,756	139,982	-7.3
Market risk	11,275	14,647	-23.0
Total assets	141,031	154,629	-8.8
Capital adequacy ratios			
Tier 1 capital ratio	9.15%	8.19%	
Total capital ratio	10.68%	9.89%	

Supplementary information

Officers and management committees

The following information is provided in compliance with a CONSOB Recommendation published on February 20, 1997.

Under Art. 15 of the Articles of Association, the Board of Directors appoints an Executive Committee from among its number, fixing the size of the Committee, the relevant levels of authority and term in office, as well as its working rules and powers, with special reference to lending operations. It also appoints, and decides the terms of reference of, one or more Managing Directors. In addition, the Board is empowered, under Art. 20 of the Articles, to appoint one or more General Managers and one or more Deputy General Managers.

The Executive Committee exercises powers conferred by the Board in connection with operations, personnel and expenditure, as well as the authority in urgent cases to take any measures needed to protect the Bank's interests; such action is reported to the Board at its next meeting.

The powers of the Managing Directors, also fixed by the Board, refer to operations, control and management of risk, personnel, organization and expenditure, together - in general or as part of specific mandates - with the levels of authority required for the purposes of day-to-day management of the business of the Bank. In some cases, the latter authority levels are partially restricted by the Articles of Association and other Board resolutions that assign sole responsibility for particular functions elsewhere.

Under Art. 20, the General Manager's functions also include:

- implementing the decisions of the Board, its Executive Committee, the Chairman and the Managing Director, together with the management of day-to-day operations;
- supervising the Bank's organization and proper functions;
- deciding the departments and functions of personnel, other than Senior executives.

Under delegation arrangements made by the Managing Director, the Deputy General Managers have special powers in relation to their respective areas of responsibility.

Intercompany transactions; transactions with related parties

The arrangements for the rates and prices underlying transactions between the Bank and other Group companies (subsidiaries and those subject to significant influence by the Bank) conform with the relevant legislation on the basis of mutual valuation.

Transactions with related parties as defined in the relevant CONSOB Communications dated February 20, 1997 and February 27, 1998 - including those with personnel and officers of the Sanpaolo IMI Group and companies they control - similarly comply with the legislation and are conducted on an arm's-length basis. The holdings in the Bank and its

subsidiaries of directors, statutory auditors and general managers are listed in detail in the report on the consolidated financial statements.

The year's intercompany transactions are summarized below, together with the related balances at the year end:

San Paolo IMI Banking Group companies	Balances included among:			<i>in millions of lire</i>	
	Assets (a)	Liabilities	Guarantees and commitments	Revenues (b)	Costs
Apokè Six Srl	227,659	414	-	-	-
Apokè Two Srl in liquidation	87,708	1,328	5,788	-	-
Banca Fideuram SpA	418,274	5,723	-	6,968	10,526
Banque Sanpaolo SA	662,286	219,514	147	18,983	11,850
Bim Imi SpA	1,087,218	173,080	34,624	132,295	82,537
C. Fin SpA	-	207	-	-	20
Crediop BV	-	245	-	-	65
Crediop Overseas Bank Ltd	-	141,669	1,117,164	1,840	10,867
Crediop SpA	1,316,394	89,418	1,445	117,852	12,074
Euke Srl in liquidation	-	24	-	-	19
Fideuram Vita SpA	-	14	-	-	-
Fidimi Consulting SpA in liquidation	-	-	193	-	-
Gedit SA	146	-	-	454	-
Imi Bank (Lux) SA	157,940	117,106	-	36,303	51,111
Imi Fideuram Asset Management Sim SpA	-	-	-	1,439	-
Imi Funding Corp.	-	-	506,814	9	-
Imi International SA	-	-	-	105	-
Imi Lease SpA	143,081	-	21,479	12,843	792
Imi Sigeco (UK) Ltd	-	-	-	1,174	1,371
Imibank International SA	1,423	9,085,791	8,821,328	775	738,015
Imigest Immobiliare SpA	90,000	3,795	-	4,236	252
Imitec SpA	-	854	-	1,627	9,218
Immobiliare Roma Laurentina Srl	13,684	-	-	907	-
Intersim SpA	-	19,926	12,399	5,100	3,786
Ldv Holding Bv	-	-	-	253	83
Prospettive 2001 SpA	200	156	-	208	627
Sanpaolo Asset Management Sim SpA	-	3,085	3	59,322	933
Sanpaolo Bank Austria AG	16,730	94,397	3,829	498	3,500
Sanpaolo Bank Ireland Plc	621,459	154,278	-	47,685	19,642
Sanpaolo Bank SA	117,770	875,881	330	13,171	41,892
Sanpaolo Fiduciaria SpA	-	1,118	-	334	506
Sanpaolo Fondi SpA	-	132,009	361	852,980	1,931
Sanpaolo Gestion International SA	-	84	-	-	-
Sanpaolo Immobiliare SpA	534,645	11	-	2,042	4,486
Sanpaolo Invest Sim SpA	-	119,653	239	3,112	9,721
Sanpaolo Leasint SpA	2,312,621	1,623	470,408	66,187	10,576
Sanpaolo Riscossioni Genova SpA	144,930	691	195	3,817	4,165
Sanpaolo Riscossioni Prato SpA	29,945	109	14,760	302	658
Sanpaolo Vita SpA	81,376	3,813	373	56,499	638
San Paolo U.S. Financial Co.	-	1,929,671	1,929,526	-	66,888
Sep SpA	-	908	25	1,365	9,793
Studi e ricerche fiscali consorzio	-	200	-	-	1,246
Group companies total	8,065,489	13,176,795	12,941,430	1,450,685	1,109,788
Jointly-controlled companies:					
Finconsumo SpA (owned in equal shares with Santander Group)	24,576	3,455	43,781	2,730	1
Imi-Abn Amro Investments SpA (owned in equal shares with Abn Amro Group)	-	-	-	21	-
Total	8,090,065	13,180,250	12,985,211	1,453,436	1,109,788

(a) Not including the carrying value of the equity investment.

(b) Not including dividends.

The corresponding information relating to non-Group companies over which the Bank exercises a significant influence is summarized in the following table:

Companies subject to significant influence	Balances included among:		Guarantees and commitments	Revenues (b)	Costs
	Assets (a)	Liabilities			
Banca Italo-Romena SpA	42,970	47	-	2469	1
BNC Assicurazioni SpA	-	15,998	97	-	2,846
Consorzio U.S.A.S	7,005	84	-	634	3
Esatri SpA	457,404	-	325,686	4,696	3,225
Eurofondo Scpaz	-	59	-	-	1
Galileo Holding SpA	10,836	-	-	39	-
Gedeam Investments Group Inc	45,381	-	-	2,559	-
Giorgio Grati SpA	-	2	-	2	-
Inter-Europa Bank RT	39,197	9,728	40,524	1,310	307
Società Italiana di Monitoraggio SpA	-	533	530	-	6
Tecnation SpA (in liquidation)	-	369	-	-	8
Total	602,793	26,820	366,837	11,709	6,397

(a) Not including the carrying value of the equity investment.

(b) Not including dividends.

The Euro and the Year 2000

The Euro and Year 2000 projects are discussed in the report accompanying the consolidated financial statements.

Additional information

During 1998, the Turin public prosecutor launched an investigation into the Bank's 1996 and interim 1997 financial statements with specific reference to the writedowns against the loans portfolio and the Bank's equity investments. The investigation is still in progress; CONSOB has also carried out an inspection on this area.

Significant events after the year end

The Bank's performance

The trends in Sanpaolo IMI's banking aggregates apparent during 1998 persisted into early 1999. During January and February, total customer deposits increased at a rate equivalent to 3.3% p.a., as managed savings climbed (by an annualized 56.9%), while the shorter-term direct deposit levels at the domestic branches also rose (by 6.9% on the same basis). The loans portfolio continued to decline, at an annual-equivalent rate of 8.9%; the reduction was largely attributable to lower operating volumes at the foreign branches.

The results for the two months improved on the same period of last year, boosted by rising commission income, further cost reductions and a lower level of writedowns against the loans portfolio. These factors compensated for erosion of the interest margin and declining profits on financial transactions.

Events affecting the Bank

The events of significance to the Bank in early 1999 are described in the report on the consolidated financial statements.

Outlook for 1999

The prospects for this year's results are good, matching up to the objectives set in the business plan associated with the Sanpaolo-IMI merger.

Turin, March 30, 1999

The Board of Directors

Mandate to the Board of Directors under arts. 2443 and 2420ter of the Italian Civil Code; related amendment of Art. 6 of the Articles of Association.

Shareholders,

We have called you to this extraordinary shareholders' meeting to submit the following amendments to the Articles of Association for your approval.

The proposals in point 1 of the agenda draw on various changes that have taken place recently in company law. Taking account of the legislation implementing new measures in the field of financial services (Decree 58 of 24/2/98) and Legislative Decree 213 of 24/6/98 (introducing a new system of dematerialized financial instruments), we thought it best to adjust our Articles of Association, particularly those clauses dealing with the publication of the notice of calling to shareholders' meetings and the right of shareholders to intervene at such meetings.

Other amendments are inspired by the new rules on Corporate Governance, especially as they concern the boards of directors and statutory auditors of banks.

A further intervention concerns the name of the Bank. With a view to simplification, we thought it best to adopt only one abbreviated form, namely "SANPAOLO IMI SpA". In any case, the second paragraph of article 1 of the Articles of Association provide a description of the origin of the name and of the constituent parts of the Group. The same amendment has been made to all clauses in the Articles of Association that mention the Bank's name.

In line with international practice, which appreciates and enhances a streamlined form of corporate administration, we also thought it advisable to insert a clause permitting meetings of the Board of Directors by videoconference.

Other proposals concern the Bank's corporate bodies and office bearers, with particular reference to the possibility of appointing one or more Deputy Chairmen, as well as the setting up of special consultative Committees made up of Directors. A specific procedure has also been introduced for the issuance of copies and extracts of board minutes.

As regards point 2 of the agenda, there is a proposal to delegate to the Board of Directors the power to increase the share capital as per arts. 2443

and 2420 ter of the Italian Civil Code in light of the need for flexibility in its calculation. This is also in line with the articles of association of most large quoted companies. The power granted in relation to the stock option plans for employees of the Bank and of the Group would not be affected by this.

All of these proposals are explained in detail in the attached document, which contains a comparative version with both the existing text and the proposed text.

The proposed changes to the Articles of Association can be summarized as follows:

- the Company's name (art. 1, paragraph 1; art. 4, paragraph 4; art. 19, last paragraph)
- delegation of power to the Board of Directors to increase the share capital (art. 6, paragraph 3 of the new version)
- terms and methods of calling shareholders' meetings (art. 8, paragraph 4)
- right of shareholders to intervene and to be represented at shareholders' meetings (art. 9)
- appointment of one or more Deputy Chairmen (art. 15, paragraphs 1 and 2 of the new version)
- setting up of special consultative Committees (art. 15, paragraph 3 of the new version)
- meetings of the Board of Directors by videoconference and issuance of extracts and copies of board minutes (art. 17, paragraphs 5 and 8 of the new version)

Shareholders,

If you are in favor of these proposals, you are invited to approve them.

Turin, March 16, 1999

The Board of Directors

Art. 6.

Existing text

The share capital amounts to L. 8,413,109,688,000 (eight thousand four hundred and thirteen billion, one hundred and nine million, six hundred and eighty-eight thousand) split into 1,402,184,948 ordinary shares of par value L. 6,000 (six thousand) each. The share capital can be increased also by issuing shares with different rights compared with those of existing shares.

The ordinary shares are registered.

The Board of Directors has the power to increase the share capital for payment, on one or more occasions, for a maximum par value of L. 80,000,000,000 (eighty billion) by issuing ordinary shares to be reserved for subscription (as per art. 2441, para. 8 of the Civil Code and art. 134 of Decree 58/1998) by employees of the Bank or of subsidiaries (as per art. 2359 of the Civil Code) that are participants in the stock option plan approved by the Board. This power will have to be exercised by July 28, 2003.

Under the power mentioned in the preceding paragraph, on February 9, 1999 the Board of Directors approved a rights issue increasing the share capital for a maximum par value of L. 42,000,000,000 (forty-two billion) (*paragraph subject to approval*).

Proposed text

The share capital amounts to L. 8,413,109,688,000 (eight thousand four hundred and thirteen billion, one hundred and nine million, six hundred and eighty-eight thousand) split into 1,402,184,948 ordinary shares of par value L. 6,000 (six thousand) each. The share capital can be increased also by issuing shares with different rights compared with those of existing shares.

The ordinary shares are registered.

The Board of Directors has the power to increase the share capital, on one or more occasions, up to a total par value of L. 15,000,000,000,000 (fifteen thousand billion) and to issue on one or more occasions convertible or cum warrant bonds up to the same figure, but for an amount that on each occasion does not exceed the legal limit. This power will have to be exercised by April 28, 2004.

The Board of Directors **also** has the power to increase the share capital for payment, on one or more occasions, for a maximum par value of L. 80,000,000,000 (eighty billion) by issuing ordinary shares to be reserved for subscription (as per art. 2441, para. 8 of the Civil Code and art. 134 of Legislative Decree 58/1998) by employees of the Bank or of subsidiaries (as per art. 2359 of the Civil Code) that are participants in the stock option plan approved by the Board. This power will have to be exercised by July 28, 2003.

Under the power mentioned in the preceding paragraph, on February 9, 1999 the Board of Directors approved a rights issue increasing the share capital for a maximum par value of L. 42,000,000,000 (forty-two billion) (*paragraph subject to approval*).

Increase in the legal reserve to the maximum permitted under art. 2430.1 of the Italian civil code by transferring the reserve as per art. 7.3 of law 218/90, the additional paid-in capital, the extraordinary reserve and part of the merger difference

Shareholders,

Following completion of the merger between San Paolo and IMI which, among other things, has led to the formation of a merger surplus of 3,637 billion lire, we have decided that we need to redefine the composition of Sanpaolo IMI's post-merger shareholders' equity with a view to rationalizing its various components.

This process has led to the formulation of the following proposals to the shareholders' meeting:

- increase in the legal reserve by partial use of the merger difference (and other accounts) to be approved during the extraordinary meeting as explained below.
- allocation of the merger difference to specific asset and liability captions, to be approved during the ordinary meeting as part of the approval of the 1998 financial statements and of the allocation of the net income for the year;

In this connection, we would propose to you to increase the legal reserve up to the maximum limit foreseen by art. 2430, para. 1, of the Civil Code (20% of share capital).

This allocation is advisable as it allows the Bank to satisfy in a single amount and in advance all of its obligations to provide for the legal reserve. Otherwise, it would have to be increased out of the net income for 1998 and future years.

To conclude, we would ask you to approve an increase in the legal reserve to 1,682,621,937,600 lire by transferring the following equity reserves:

- Reserve as per art. 7.3 of Law 218/90 for 575,330,242,351 lire, this being the balance on the reserve prior to approval of the 1998 financial statements;
- Merger difference (surplus) for 422,589,156,550 lire;
- Additional paid-in capital for 275,000,000,000 lire;
- Extraordinary reserve for 203,742,440,783 lire.

Turin, March 16, 1999

The Board of Directors

1998 financial statements and accompanying reports; allocation of the merger difference and of the net income for the year

Shareholders,

Before seeking your approval for the 1998 financial statements, we first ask you to approve the allocations (indicated below) of the portion of the merger difference arising on the absorption of IMI that remains after the increase in the legal reserve approved at today's extraordinary meeting. The proposed allocation of this balance, amounting to Lire 3,214,106,489,948, is as follows:

- Lire 650,000,000,000 to restore the absorbed bank's reserve for general banking risks
- Lire 139,424,431,700 to restore the former IMI's reserve under Law 169/83
- Lire 240,500,000,000 to establish a specific reserve for deferred taxation relating to the reserve for general banking risks
- Lire 51,587,039,729 to establish a specific reserve for deferred taxation relating to the reserve under Law 169/83
- Lire 2,132,595,018,519 to be credited to 'Other Reserves' (Caption 140d).

The table below shows the composition of shareholders' equity (before allocating the net income for the year), allowing for: the creation of the reserve as per Art. 21 of Legislative Decree 213/98 (Lire 79,099,137,838) relating to the revaluation of equity investments denominated in Euro-area currencies, using the recently fixed exchange rates; and for the changes approved at the extraordinary meeting.

	Capital and reserves as of 31/12/98 (a)	Increase in legal reserve to legal maximum (20% of share capital)	Allocation of the residual merger difference (b)	Composition of capital and reserves prior to approval of as of 31/12/98
Capital	8,413,109,688,000	-	-	8,413,109,688,000
Merger difference	3,636,695,646,498	-422,589,156,550	-3,214,106,489,948	-
Additional paid-in capital	275,000,000,000	-275,000,000,000	-	-
Legal reserve	205,960,097,916	1,476,661,839,684	-	1,682,621,937,600
Other reserves:				
Extraordinary reserve	203,742,440,783	-203,742,440,783	-	-
Reserve art. 7.3 Law 218/90	747,850,444,803	-575,330,242,351	-	172,520,202,452
Reserve art. 13.6 Legislative Decree 124/93	977,896,365	-	-	977,896,365
Reserve art. 21 Legislative Decree 213/98	79,099,137,838	-	-	79,099,137,838
Reserve L. 169/83	-	-	139,424,431,700	139,424,431,700
Residual merger difference	-	-	2,132,595,018,519	2,132,595,018,519
Reserve for general banking risks	-	-	650,000,000,000	650,000,000,000
Net income for the year	1,263,113,872,160	-	-	1,263,113,872,160
	14,825,549,224,363	0	-292,087,039,729	14,533,462,184,634

(a) After allocation to the Reserve as per art. 7.3 Law 218/90 and setting up the Reserve as per Decree 213/98.

(b) When preparing the financial statements, taking account of the setting up of the reserves for deferred taxation on the Reserve for general banking risks and the Reserve as per Law 169/83.

Following the relevant earlier approval at the extraordinary meeting, the legal reserve now stands at the maximum level prescribed by Art. 2430.1 of the Italian Civil Code (20% of capital); there is consequently no need to allocate 10% of the year's net income to this reserve (as otherwise required by the legislation and the Articles of Association). Our proposals for allocating the net income of Lire 1,263,113,872,160 remaining after the transfer of Lire 172,520,202,452 to the special reserve under Art 7.3 of Law 218/90, are as follows:

- Lire 1,261,966,453,200 as dividend, at Lire 900 per share on the 1,402,184,948 ordinary shares
- Lire 1,038,169,263 to be transferred to the reserve created under Art. 13.6 of Decree 124/93, which permits deferral of taxation in respect of up to 3% of the amounts set aside for supplementary pension cover as part of the provision for employee termination indemnities
- Lire 109,249,697 to be carried forward as retained earnings.

Dividends will be payable as from May 31, 1999, and in accordance with Decree 467/97 will attract tax credits of 58.73%.

The proposed dividend level is consistent with the Bank's performance since the year end, and with maintaining Bank and Group regulatory capital and capital adequacy ratios above the levels prescribed by the Bank of Italy.

The composition of shareholders' equity in the Bank at the end of 1998 assuming approval of our proposals for allocating the net income for the year is follows:

	Composition of capital and reserves after allocation of the 1998 net income
Capital	8,413,109,688,000
Legal reserve	1,682,621,937,600
Other reserves:	
<i>Reserve art. 7.3 Law 218/90</i>	<i>172,520,202,452</i>
<i>Reserve Law 169/83</i>	<i>139,424,431,700</i>
<i>Reserve art. 21 Legislative Decree 213/98</i>	<i>79,099,137,838</i>
<i>Reserve art. 13.6 Legislative Decree 124/93</i>	<i>2,016,065,628</i>
<i>Residual merger difference</i>	<i>2,132,595,018,519</i>
Reserve for general banking risks	650,000,000,000
Net income for the year	109,249,697
	13,271,495,731,434

Turin, March 30, 1999

The Board of Directors

Transactions in own shares (resolutions pursuant to arts. 2357 and 2357ter of the Italian civil code and art. 132 of decree 58 of February 24, 1998).

Shareholders,

We propose that you pass a resolution pursuant to arts. 2357 and 2357 ter of the Civil Code and to art. 132 of Legislative Decree 58/1998, authorizing the purchase of own ordinary shares of par value 6,000 lire each up to a maximum of 140 million shares at a price, including ancillary purchase costs, of not less than a 30% below and not more than 10% above the reference price that the stock will post on the stock exchange day prior to each individual operation. The purchase can take place on one or more occasions and for a period of eighteen months from the date of the shareholders' resolution.

The reason for Sanpaolo IMI dealing in its own shares is to ensure that there is a reasonable relationship between their market value and their intrinsic value, bearing in mind domestic and international market contingencies, improving the liquidity of such markets and encouraging normal trading conditions.

Without affecting the provisions of art. 132.3 of Legislative Decree 58/1998, purchases will be made on the market according to the methods laid down in the official market regulations as run by Borsa Italiana SpA pursuant to art. 132 of Legislative Decree 58/1998.

We would also like to propose that you authorize the total or partial sale of the Bank's own ordinary shares purchased, without time restraints, at a minimum price of not less than 10% of the reference price that the stock posts on the stock exchange day prior to each sale. These transactions will be carried out in compliance with the CONSOB rules on trading in listed stocks.

We would like to propose setting up a specific reserve for the purchase of own shares of 1,500 billion lire, to be transferred from the merger difference. This figure would then constitute the limit for the amount of own shares held by the Bank at any one time.

Lastly, we would invite you to authorize the Board of Directors to delegate all or part of the power to initiate the purchase and sale of own shares.

Turin, March 16, 1999

The Board of Director

Report of the Board of Statutory Auditors on the financial statements as of December 31, 1998 pursuant to article 2429 of the Italian Civil Code

Shareholders,
The 1998 financial statements, presented for your approval and submitted to us within the legally required timeframe, were prepared in compliance with the provisions of Legislative Decree 87/92, as well as the Bank of Italy Regulation dated July 30, 1992 and subsequent amendments.

The financial statements comprise the balance sheet, the statement of income and the explanatory notes, and are accompanied by the directors' report on operations. The financial statements are summarized below:

	<i>in lire</i>
<hr/> BALANCE SHEET <hr/>	
Assets	229,147,953,591,741
Liabilities	215,264,491,407,107
Shareholders' equity	13,883,462,184,634
Guarantees	32,544,135,779,566
Commitments	26,214,013,355,867
<hr/>	
	<i>in lire</i>
<hr/> STATEMENT OF INCOME <hr/>	
Revenues	19,923,290,906,525
Costs	18,487,656,831,913
Net income for the year	1,435,634,074,612
Provision to the reserve (art. 7.3, Law 218/90)	172,520,202,452
Distributable net income	1,263,113,872,160
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The Bank's financial statements include the balance sheet and statement of income balances of IMI - Istituto Mobiliare Italiano SpA, the company absorbed by the Bank with effect for tax and accounting purposes as of January 1, 1998. The balance sheet, in particular, includes the assets and liabilities of the absorbed bank, net of any reciprocal receivable or payable balances, while the statement of income includes the profits and losses of the two companies, gross of any reciprocal income balances.

The explanatory notes illustrate the accounting policies adopted and analyze the balance sheet and statement of income captions. The notes provide all the information required by law, including any additional data considered necessary to give a true and fair view of the financial and operating position of the Bank.

The notes also describe the accounting effect produced by the merger which occurred during the year and, more specifically, the allocation of the resulting merger surplus which, with our agreement, has resulted in:

- the reconstruction of the Reserve for general banking risks originating from ex IMI SpA;
- the increase of the legal reserve up to the maximum levels allowed by law;
- the reconstruction of the Reserve under Law 169/83 originating from ex IMI SpA;
- creation of a Reserve for deferred taxation relative to the Reserve for general banking risks;
- the creation of a Reserve for deferred taxation relative to the Reserve under Law 169/83.

Bearing in mind the effects of the merger, the balances in the financial statements, explanatory notes and report on operations for 1998 have been presented along with the pro-forma aggregate figures for San Paolo and IMI for 1997. The sole purpose of this exercise is to provide comparative figures. In addition, the notes fully illustrate the basis for determining the aggregate pro-forma balances.

The report on operations prepared by the Board of Directors provides a full and complete description of the Bank's financial and operating position, both in relation to performance in 1998 and to events which took place subsequent to the balance sheet date.

The report on operations and the explanatory notes include the information required under Consob Resolution no. 11520/98 and by Consob recommendations 97001574 of February 20, 1997, 98015375 of February 27, 1998, 98079574 of October 9, 1998, 98083971 of October 26, 1998 and 98084143 of October 27, 1998.

The directors have also fully supplemented the financial statements for 1998, for compliance with the new provisions issued by the Bank of Italy regarding:

- reporting on the degree of risk inherent in the loan portfolio and on capital adequacy ratios;
- disclosures on "internal deals" (internal contracts for the management of financial positions);
- disclosure of the effects deriving from the introduction of the Euro.

The accounting policies adopted by the Board of Directors are essentially consistent with those applied in the prior year; the only exceptions with regard to the balance sheet and statement of income effect are detailed below:

- dealing securities quoted on organized markets: these are stated at market value rather than the lower of cost and market;
- valuation of loans: the calculation of the estimated realizable value of problem loans has been supplemented via the introduction of discounting;
- deferred taxation: deferred taxation relating to certain equity items originating from ex IMI SpA (which would be subject to taxation in the event of use) has been booked to the financial statements. Such taxation has been charged against the merger surplus deriving from the San Paolo IMI merger; at the same time setting up specific Reserves for deferred taxation.

We concur with the accounting policies adopted by the Board of Directors which have been fully illustrated in the explanatory notes. In particular, we wish to point out that:

- intangible fixed assets are stated at purchase or production cost, including related charges, and amortized systematically over the period they are expected to benefit, as described below:
 - formation and capital increase expenses and other deferred charges are recorded in the financial statements with our agreement and are generally amortized on a straight-line basis over five years;
 - differences arising on the merger of Banca Provinciale Lombarda and Banco Lariano in 1993 and on the merger of Crediop in 1995, net of the portion allocated to more closely reflect the value of the related assets, are amortized, with our consent, on a straight-line basis. We concur that amortization should be provided over a period of ten years in the case of Banca Provinciale Lombarda and Banco Lariano, and over five years with regard to Crediop and that these amortization periods are justifiable in view of the durability of the goodwill accumulated by the merged banks, as assessed in expert appraisals prepared for the respective mergers.

The provision to the special reserve as per art. 7.3 of Law 218/90 (Amato Law), discussed in Part A, Section 2 of the explanatory notes, among provisions recorded solely for fiscal purposes, refers to the last quota of goodwill regarding the mergers of Crediop and BNC. Again with regard to Part A Section 2 of the explanatory notes, as recorded solely for fiscal purposes, the representation at “open balances” of the reclassification of the Reserve for possible loan losses against discounting and the hedging of general risk inherent in the loan portfolio has also been illustrated; this representation has been made by booking the use of the Reserve for possible loan losses to extraordinary income and the connected writedowns to adjustments to loans.

The disclosures required under article 10 of Law 72/83 are provided in the section of the notes relating to revalued assets.

On the basis of the regular checks performed by us, we confirm that the financial statements agree with the underlying accounting records, which have been properly kept in accordance with legal requirements and the Articles of Association. We also determined compliance with statutory, fiscal and social security regulations, as well as the adequacy and effectiveness of the systems of accounting and internal control; the latter was also confirmed by the independent auditors. In this regard, pursuant to Consob Recommendation 98079574 dated October 9, 1998, we, in collaboration with the independent auditors, carried out the necessary control on the efficiency of the action taken by the Board of Directors in relation to the "Year 2000 problem". These initiatives are illustrated in detail in the report on operations.

In their report, the Directors have provided comprehensive information on transactions with Group companies and other related parties. These transactions have all been entered into in observance of current legislation and on the basis of an evaluation of mutual economic benefit.

In the performance of our duties during the year, we complied with the rules of conduct for Boards of Statutory Auditors established by the Italian Accounting Profession. We attended 16 meetings of the Board of Directors and 21 of the Executive Committee held in 1998. During the same period, we held 21 meetings for the performance of our work.

The report on operations for the first six months of 1998, submitted to us by the Board of Directors within the legally-prescribed timescale, was prepared and made public on the basis required by Consob.

As far as the extraordinary part of this meeting is concerned, we note that the proposals of the directors refer to certain amendments to the Articles of Association, as well as to the increase of the Legal reserve up to the maximum limit as per art. 2430.1 of the Italian Civil Code, via allocation of the Reserve under art. 7.3 of Law 218/90, the share premium reserve, the extraordinary reserve and part of the merger surplus; such proposals comply with current legislation and the Articles of Association.

In view of the foregoing, having also examined the content of the auditors' report issued by Arthur Andersen SpA, we concur with the proposal to approve the financial statements for 1998 and confirm that the allocation of distributable net income proposed by the Board of Directors is consistent with legal requirements and the articles of association and is suitably justified given the financial and operating position of the Bank.

In relation to the application for authorization to purchase own shares, we note that the resolution conforms with the provisions of articles 2357 and 2357ter of the Italian Civil Code, article 132 of Law 58 dated February 24, 1998 and the instructions issued for this purpose by Consob.

In accordance with Consob's recommendation of February 20 1997, shareholders are informed that in addition to the audit of the financial statements, the Bank has engaged Arthur Andersen SpA, to provide the professional services in connection with the "report on the fairness of the exchange ratio" prepared for the purpose of absorbing IMI SpA, and the preparation of the "Form-4 and Form-20 prospectuses", regarding the listing of Sanpaolo Imi on the New York Stock Exchange, at a cost of 5,900 million lire. In relation to its foreign operations, the Bank has engaged foreign offices belonging to the Arthur Andersen organization for other services, in addition to the audit of the financial statements, with fees totaling 627 million lire.

We would like to point out that the shareholder EFIN Srl, represented by its Sole Director Mr. Caradonna, under a letter dated March 29, 1999 addressed to the Chairman of the Board of Statutory Auditors, with copy to the Chairman of the Board of Directors, filed a formal complaint pursuant to art. 2408 of the Italian Civil Code. The complaint required us to check and report to the shareholders in relation to observance of Law 257/92 concerning harmful substances used for building work, to communicate any action taken following said checks and to illustrate the costs incurred or being incurred.

In this connection, following detailed investigations, we can confirm that the procedures established by current legislation on the matter have been respected.

Turin, 13 April 1999

The Board of Statutory Auditors

REPORT OF THE INDEPENDENT AUDITORS

PURSUANT TO ART. 4 OF PRESIDENTIAL DECREE No. 136 OF MARCH 31, 1975
(Translation from the original issued in Italian)

To the Stockholders of
Istituto Bancario San Paolo di Torino
Istituto Mobiliare Italiano S.p.A.:

1. We have audited the financial statements of ISTITUTO BANCARIO SAN PAOLO DI TORINO ISTITUTO MOBILIARE ITALIANO S.p.A. (hereinafter the Istituto) as of and for the year ended December 31, 1998. We have also reviewed the consistency of the Board of Directors' report on operations with the financial statements.
2. Our examination was made in accordance with the auditing standards and procedures recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("CONSOB") and included such tests as we considered necessary for the purposes of our engagement. For our opinion on the prior year's financial statements, which are presented for comparative purposes as required by law, reference should be made to our auditors' report dated March 31, 1998. In order to facilitate the comparison with the financial statement data as of December 31, 1998, the Istituto has also presented pro-forma data as of December 31, 1997, including amounts for Istituto Mobiliare Italiano S.p.A., merged during the year. The main adaptations are described in the explanatory notes.

The financial statements of certain subsidiaries and of certain enterprises in which the Istituto has a significant influence have been examined by other auditing firms, who have provided us with their reports. Our opinion expressed in this report, insofar as it relates to the amounts included for such companies, amounting to 59% of total investments and 1.6% of total assets, is also based upon the audits of other auditing firms.

3. In our opinion, the financial statements, taken as a whole, have been prepared clearly and give a true and fair view of the financial position and results of operations of the Istituto, in accordance with the law related to financial statements. Therefore, we certify the financial statements of the Istituto Bancario San Paolo di Torino Istituto Mobiliare Italiano S.p.A. as of December 31, 1998.

4. For a better understanding of the financial statements, attention is drawn to the following information which is more fully described in the explanatory notes:
 - (a) Through a deed dated October 12, 1998, Istituto Mobiliare Italiano S.p.A. merged into Istituto Bancario San Paolo di Torino S.p.A. The merger was effective from a legal point of view from November 1, 1998, whereas from an accounting and tax standpoint it was effective retroactively from January 1, 1998. Consequently, the financial statements include the assets and liabilities, costs and revenues of the merged company for the whole year.

 - (b) Pursuant to art. 7.3 of Law No. 218/1990, in order to secure the relevant tax benefits, the Istituto has charged a provision of Lire 172,520 million against 1998 income, crediting such amount to a special reserve included in stockholders' equity. This had the effect of reducing net income for the year by Lire 108,688 million, net of the related tax effect.

 - (c) In the preparation of the financial statements as of December 31, 1998, the Istituto has modified certain accounting criteria with respect to those used in the preparation of the prior year's financial statements. In particular:
 - The portfolio dealing securities quoted on organized markets has been valued at market instead of the lower of cost or market.

 - The calculation of deferred taxes related to temporary differences between the book and tax value of assets and liabilities has been made without the time limit used in 1997. In addition, deferred tax liabilities have been calculated on certain stockholders equity items deriving from Istituto Mobiliare Italiano S.p.A., to take account of the possibility of their future taxation.

 - In the context of the process of convergence with international accounting principles, the accounting treatment of problem loans has been integrated through the introduction of the concept of actualizing problem loans to their net present value to take into account the loss in value connected with the total or partial idleness and the delayed repayment of such loans. The reserve for losses on loans deriving from Istituto Mobiliare Italiano S.p.A. has been partially utilized to cover losses from the net present value calculation.

The reason for the changes and the related income statement and balance sheet effects have been described in detail in the explanatory notes.

5. The Istituto holds controlling interests in companies and has therefore prepared consolidated financial statements for the Group. These consolidated financial statements provide appropriate complementary information on the financial position and results of operations of the Istituto and the Group. Such consolidated financial statements, which we have examined, have been presented together with our auditors' report dated April 6, 1999.

ARTHUR ANDERSEN S.p.A.
s/Giulio Lubatti - Partner

Turin, Italy,
April 6, 1999

Financial statements

Balance sheet

Assets	31/12/98	31/12/97	31/12/97 (pro forma)
10. Cash and deposits with central banks and post offices	763,855,423,614	737,981,972,351	738,817,247,452
20. Treasury bills and similar bills eligible for refinancing with central banks	8,670,300,662,748	12,511,445,534,625	12,819,902,491,491
30. Due from banks	28,889,375,588,014	49,077,694,814,544	52,393,879,507,088
a) repayable on demand	4,626,226,412,928	7,211,265,583,705	7,419,849,835,373
b) other deposits	24,263,149,175,086	41,866,429,230,839	44,974,085,671,715
40. Loans to customers	134,038,620,902,969	99,502,143,153,753	145,649,269,867,887
including:			
- loans using public funds	130,428,949,107	115,625,666,039	161,881,193,337
50. Bonds and other debt securities	20,624,605,343,101	20,081,266,760,864	20,133,369,369,627
a) public entities	15,235,928,102,590	13,282,913,222,997	13,333,265,311,747
b) banks	3,880,397,927,882	5,158,957,121,274	5,160,707,641,287
including:			
- own bonds	1,022,775,461,762	1,238,952,603,564	1,240,703,123,577
c) financial institutions	123,238,307,935	564,235,905,987	564,235,905,987
including:			
- own bonds	-	-	-
d) other issuers	1,385,041,004,695	1,075,160,510,606	1,075,160,510,606
60. Shares, quotas and other equities	1,238,211,329,710	1,410,037,586,995	1,482,680,251,438
70. Equity investments	1,587,838,728,560	629,875,271,591	1,523,774,943,731
80. Investments in Group companies	4,690,814,035,675	2,765,192,059,437	4,685,380,793,618
90. Intangible fixed assets	370,306,218,237	407,282,707,747	426,769,141,279
including:			
- start-up costs	-	4,791,305	4,791,305
- goodwill	-	-	-
100. Tangible fixed assets	2,572,421,302,695	2,276,253,380,719	2,803,502,397,485
130. Other assets	17,004,325,384,072	14,781,400,369,590	16,836,734,181,680
140. Accrued income and prepaid expenses	8,699,014,427,346	10,582,352,263,814	11,676,205,929,757
a) accrued income	7,430,956,537,868	10,160,117,576,125	11,124,577,314,400
b) prepaid expenses	1,268,057,889,478	422,234,687,689	551,628,615,357
including:			
- discounts on bond issues	9,944,386,787	14,595,994,402	14,874,581,418
Total assets	229,147,953,591,741	214,762,925,876,030	271,170,342,122,533

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Liabilities and shareholders' equity	31/12/98	31/12/97	31/12/97 (pro forma)
10. Due to banks	47,750,549,040,771	46,910,981,218,324	72,716,061,982,753
a) repayable on demand	4,988,975,839,357	7,338,733,426,082	8,060,259,627,302
b) time deposits or with notice period	42,761,573,201,414	39,572,247,792,242	64,655,802,355,451
20. Due to customers	71,254,659,757,677	73,857,889,158,131	76,140,136,824,837
a) repayable on demand	47,918,473,945,191	47,675,941,273,833	48,253,485,766,551
b) time deposits or with notice period	23,336,185,812,486	26,181,947,884,298	27,886,651,058,286
30. Securities issued	60,256,500,484,378	49,534,147,401,306	68,707,852,497,903
a) bonds	41,169,601,144,720	24,079,431,012,960	41,668,224,555,667
b) certificates of deposit	18,466,125,391,219	24,906,090,858,129	26,491,002,412,019
c) other	620,773,948,439	548,625,530,217	548,625,530,217
40. Public funds administered	134,278,124,106	119,111,536,756	165,367,064,054
50. Other liabilities	20,391,366,825,692	18,866,136,649,847	19,943,091,680,789
60. Accrued expense and deferred income	8,918,857,204,343	11,284,104,599,603	12,409,864,569,085
a) accrued expense	8,546,222,420,611	10,897,664,908,178	12,020,067,887,788
b) deferred income	372,634,783,732	386,439,691,425	389,796,681,297
70. Provision for termination indemnities	767,258,549,920	706,597,403,011	750,079,971,284
80. Provisions for risks and charges	2,494,704,935,044	684,198,210,642	1,437,959,812,991
a) pensions and similar commitments	95,170,032,644	-	103,974,933,581
b) taxation	1,494,094,342,175	294,192,620,195	943,623,478,422
c) other	546,349,306,820	390,005,590,447	390,361,400,988
90. Reserves for possible loan losses	-	-	1,073,279,107,819
100. Reserves for general banking risks	650,000,000,000	-	650,000,000,000
110. Subordinated liabilities	2,646,316,485,176	3,207,523,229,067	3,207,523,229,067
120. Capital	8,413,109,688,000	8,159,928,520,000	8,413,109,688,000
130. Additional paid-in capital	-	275,000,000,000	275,000,000,000
140. Reserves	4,207,238,624,474	1,157,307,949,343	4,813,879,375,030
a) legal reserve	1,682,621,937,600	205,960,097,916	205,960,097,916
b) reserve for own shares	-	-	-
c) statutory reserves	-	65,924,793,032	65,924,793,032
d) other reserves	2,524,616,686,874	885,423,058,395	4,541,994,484,082
160. Profit carried forward	-	-	6,640,717
170. Distributable net income	1,263,113,872,160	-	467,129,678,204
Total liabilities and shareholders' equity	229,147,953,591,741	214,762,925,876,030	271,170,342,122,533

Guarantees and commitments	31/12/98	31/12/97	31/12/97 (pro forma)
10. Guarantees given	32,544,135,779,566	23,699,754,354,633	37,740,054,781,744
including:			
- acceptances	307,803,737,414	387,686,092,019	387,686,092,019
- other guarantees	32,236,332,042,152	23,312,068,262,614	37,352,368,689,725
20. Commitments	26,214,013,355,867	34,815,311,719,265	40,558,469,347,260
including:			
- repurchase agreements	-	-	-

Statement of income

	1998	1997	1997 (pro forma)	lire
10. Interest income and similar revenues	14,409,205,132,576	13,696,072,068,173	17,973,685,925,822	
including from:				
- loans to customers	10,295,059,253,851	8,076,153,513,690	12,013,348,565,928	
- debt securities	2,062,308,619,056	2,830,917,806,668	2,901,498,208,963	
20. Interest expense and similar charges	-10,399,231,962,752	-10,270,571,373,296	-13,809,120,634,659	
including on:				
- deposits from customers	-2,424,287,793,054	-3,157,496,755,644	-3,332,728,763,304	
- securities issued	-4,112,912,232,070	-4,256,499,620,153	-5,849,291,812,919	
30. Dividends and other revenues	839,389,189,705	346,952,470,052	694,181,797,005	
a) from shares, quotas and other equities	92,485,645,279	93,067,871,851	94,502,371,851	
b) from equity investments	65,107,954,406	60,810,382,526	100,156,702,671	
c) from investments in Group companies	681,795,590,020	193,074,215,675	499,522,722,483	
40. Commission income	2,431,817,528,406	1,660,752,198,909	1,816,129,419,868	
50. Commission expense	-192,129,229,147	-176,181,076,058	-276,625,455,399	
60. Profits (losses) on financial transactions	293,406,272,663	230,602,547,382	252,892,784,462	
70. Other operating income	356,168,590,186	325,210,710,485	370,383,680,485	
80. Administrative costs	-3,906,070,360,740	-3,918,984,383,163	-4,205,595,579,095	
a) personnel	-2,491,813,172,563	-2,620,746,799,589	-2,670,452,080,514	
including:				
- wages and salaries	-1,784,392,585,905	-1,799,094,358,117	-1,810,610,856,560	
- social security charges	-585,061,407,351	-704,028,752,697	-735,392,047,008	
- termination indemnities	-120,919,165,827	-117,623,688,775	-122,928,505,223	
- pensions and similar commitments	-1,440,013,480	-	-1,520,780,872	
b) other	-1,414,257,188,177	-1,298,237,583,574	-1,535,143,498,581	
90. Adjustments to intangible and tangible fixed assets	-346,059,906,547	-371,491,278,682	-401,665,617,303	
100. Provisions for risks and charges	-147,593,595,593	-92,240,300,383	-92,240,300,383	
110. Other operating expenses	-14,913,366,085	-15,235,195,052	-15,856,498,902	
120. Adjustments to loans and provisions for guarantees and commitments	-1,322,965,920,156	-1,889,749,802,530	-1,908,124,817,246	
130. Writebacks of adjustments to loans and provisions for guarantees and commitments	430,880,644,340	608,919,267,773	652,725,654,327	
140. Provisions to the reserve for possible loan losses	-	-	-174,800,000,000	
150. Adjustments to financial fixed assets	-175,578,427,895	-330,910,346,693	-350,261,648,631	
160. Writebacks of adjustments to financial fixed assets	-	7,141,750,700	7,141,750,700	
170. Income from operating activities	2,256,324,588,961	-189,712,742,383	532,850,461,051	
180. Extraordinary income	191,906,647,554	501,671,929,928	516,048,341,536	
190. Extraordinary expenses	-87,026,778,504	-259,323,236,476	-209,633,173,314	
200. Extraordinary income, net	104,879,869,050	242,348,693,452	306,415,168,222	
220. Income taxes for the year	-925,570,383,399	-	-319,500,000,000	
230. Net income for the year	1,435,634,074,612	52,635,951,069	519,765,629,273	
240. Provision to reserve (art. 7,3, Law 218/90)	-172,520,202,452	-52,635,951,069	-52,635,951,069	
250. Distributable net income	1,263,113,872,160	-	467,129,678,204	

Explanatory notes to the financial statements

Introduction - Background information on the financial statements

- Form and content of the financial statements
- Merger through incorporation of Istituto Mobiliare Italiano SpA
- Changes in accounting policies
- Introduction of the Euro
- Audit of the financial statements
- Half-year report
- Comparison with the 1997 financial statements and basis for the pro forma financial statements of San Paolo IMI for 1997

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Part B - Balance sheet

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- Section 4 - Tangible and intangible fixed assets
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Part C – Statement of income

- Section 1 - Interest
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- Section 1 - Directors and statutory auditors
- Section 2 - Parent company

Introduction - Background information on the financial statements

Form and content of financial statements

The Bank's financial statements for 1998 have been prepared pursuant to Legislative Decree 87 of January 27, 1992, which implemented EEC Directive 86/635. They also take account of the requirements contained in the Bank of Italy regulations dated January 27, 1992, and subsequent amendments. All matters not covered by specific legislation will be regulated by the provisions of the Italian Civil Code, while making reference to Italian accounting principles.

The financial statements comprise the balance sheet, the statement of income and these explanatory notes, together with the report of the Board of Directors on the results of operations.

The financial statements are consistent with the underlying accounting records, which reflect all of the transactions carried out during the year.


The explanatory notes are presented with comparative figures taken from pro forma information prepared for Sanpaolo IMI SpA as of December 31, 1997 (for further information see paragraph "Comparison with 1997 financial statements"). These notes provide all the information required by law, including any additional data considered necessary to give a true and fair view of the financial and operating situation. The tables required by the Bank of Italy are numbered in accordance with Bank of Italy instructions.

The following schedules are attached to the financial statements:

- Statement of changes in shareholders' equity;
- Statement of cash flows;
- List of properties owned by the Bank.

In compliance with current legislation, the Bank's financial statements will be lodged at the registered offices, together with the attachments required by Article 2429 of the Italian Civil Code and Consob regulation (Art. 31 Resolution 11520/98).

Merger through incorporation of Istituto Mobiliare Italiano SpA

 On October 12, 1998 San Paolo registered the incorporation of Istituto Mobiliare Italiano SpA. The merger had legal effect as of November 1, 1998, while for accounting and fiscal purposes the merger was back-dated to January 1, 1998.

The balance sheet of San Paolo IMI as of December 31, 1998 therefore includes assets and liabilities of the former Istituto Mobiliare Italiano SpA, net of intercompany debit and credit accounts. Assets and liabilities of the merged Bank have been recorded at book value.

The 1998 income statement of San Paolo IMI includes profits and losses of the former Istituto Mobiliare Italiano SpA. Transactions between the two companies during the period prior to November 1, 1998 have not been eliminated.

As far as the legal aspects of the merger are concerned, for the purpose of the terms and conditions regulating the exchange of San Paolo and IMI shares (on the basis of the exchange ratio: 1.045 San Paolo shares for each IMI share), the share capital of the absorbing company was divided into a greater number of shares, each with a lower unit value. These were then re-distributed so that the shareholders of the merging company obtained a number of shares equivalent to their previous holding, while the shareholders of the incorporated company received the number of shares dictated by the exchange ratio. San Paolo shares owned by IMI have not been replaced.

The shares servicing the re-distribution transaction totaled 1,402,184,948. For the sole purpose of rounding-off the par value of the shares, the nominal value of the absorbed company's share capital was increased by 253,181,168,000 lire to service the merger. At the end of 1998, the share capital of the Bank amounted to 8,413,109,688,000 lire, represented by 1,402,184,948 ordinary shares with a par value of 6,000 lire each.

A comparison between the share capital increase of 253,181,168,000 lire and the book value of the shareholders' equity prior to the merger of IMI SpA - equal to 3,889,876,814,498 lire, net of the San Paolo shares held by IMI SpA - led to a merger surplus of 3,636,695,646,498 lire in the accounts of the Bank. This surplus will be used by the Bank, on the basis of the resolutions passed on approval of the 1998 financial statements and in accordance with current fiscal legislation, as follows:

- 650,000,000,000 lire for the reconstruction of the Reserve for general banking risks originating from ex IMI SpA;
- 422,589,156,550 lire to increase the legal reserve up to the maximum levels allowed by law;
- 139,424,431,700 lire for the reconstruction of the Reserve under Law 169/83 originating from ex IMI SpA;
- 240,500,000,000 lire for the creation of a reserve for deferred taxation relative to the reserve for general banking risks;
- 51,587,039,729 lire for the creation of a reserve for deferred taxation relative to the reserve under Law 169/83

The residual surplus of 2,132,595,018,519 lire will be allocated to the liability caption "Other reserves".

Changes in accounting policies

998 financial statements have been prepared on the basis of the same accounting principles as those of San Paolo in the prior year, with the following exceptions.

Changes already adopted in the 1998 First Half Report

Quoted dealing securities

Portfolio dealing securities quoted on organized markets are now stated at market value rather than at the lower of cost and market. This change in accounting policy, which was already adopted in the First Half Report as of June 30, 1998, is partly to provide consistency with the policies of IMI, who already used this accounting treatment; this change in policy has affected only a limited part of the securities portfolio, as securities held as part of complex financial portfolios were already shown at market value.

The change in accounting treatment means that the operating results are now perfectly aligned with the accounting results, as securities are marked to market on a daily basis. It also means applying one accounting policy to the whole of the Bank's dealing portfolio, eliminating the distinction between securities held or not held as part of complex financial portfolios.

Adopting a mark-to-market approach will also ensure consistency in the policy applied to the securities portfolios with international accounting standards and in particular with US GAAP, which have to be used for the disclosure documentation required under United States regulations for Sanpaolo IMI's listing on the New York Stock Exchange.

This change has had a positive impact on the statement of income of around 14 billion lire, net of the tax effect.

Other changes

Following the merger between San Paolo and IMI which, as noted, has resulted in the quotation of the new Bank on the American market, it became apparent that a review of the Company's entire framework of accounting principles would be appropriate, starting as far as possible from the financial statements for the year ended December 31, 1998.

This process of revision aims to reduce, within the time limits and using the methods permissible, the disparity that currently exists between Italian and international accounting standards (identifiable in the provisions established by the IASC - International Accounting Standards Committee) and more specifically, those adopted in the United States (chiefly issued by the FASB - Financial Accounting Standards Board and by the APB - Accounting Principles Board).

This process of alignment reflects a requirement strongly voiced by markets and international financial authorities. This is because, particularly

during periods of crisis such as the present, information mismatches determined by the lack of consistency between accounting standards used to prepare financial statements in certain countries, both emerging and western, are the cause of considerable misalignment in the international allocation of public and private funds.

The main areas where measures were taken concern loans and deferred taxation.

Valuation of loans

In 1998, San Paolo presented the Securities and Exchange Commission (SEC) with the report (Form F-4) requested by US regulations in relation to the quotation of San Paolo IMI securities on the New York Stock Exchange (NYSE). As part of this document, San Paolo presented a pro forma schedule of aggregate San Paolo - IMI data prepared using American accounting standards (US GAAP).

On the subject of the valuation of problem loans, the guidelines issued by the American Financial Accounting Standards Board (FASB) foresee the calculation of estimated realizable value on the basis of the current value of future cash flows. For the purposes of drawing up Form F-4 and in compliance with American accounting standards, San Paolo therefore proceeded, on the basis of certain detailed assumptions, to calculate additional writedowns on the loan portfolio in order to reflect the financial charges inherent to recovery times.

The contents of FAS No. 114 have on the whole been built into the recent document issued for consultation by the Basle Committee ("Sound Practices for Loan Accounting").

As part of this process of convergence towards international accounting standards, the accounting treatment of problem loans has been supplemented by introducing the concept of actualization. Under this new principle, the estimated realizable value of each loan for inclusion in the financial statements takes into account (as of December 31, 1998) not only the estimated recovery of the loan, but also the financial charges involved in the total or partial idleness of the loan and the delayed repayment of loans at risk.

The application in practice of actualization has resulted in a reduction of 852 billion lire in Sanpaolo IMI's problematical loans: 50 billion lire refers to adjustments booked in previous years for restructured loans while the remaining 802 billion lire have been booked against the loan loss reserve created as a result of the merger with IMI. The remaining 162 billion lire of this fund has been booked against generic risk in the loan portfolio and booked to reduce the amount of performing loans. In addition, for compliance with the extremely prudent approach taken by the tax legislation, discounting has been booked according to a system of "open balances". This

entails charging the statement of income with higher adjustments to the value of loans, offset by an equivalent amount of extraordinary income on utilization of the related risk reserve.

This treatment is only required for tax purposes. It also tends to distort any analysis of margin trends. For this reason, the reclassified statement of income and the report on operations have been prepared without taking this treatment into account.

Loans which have been actualized are as follows:

- non-performing loans;
- problem loans;
- restructured loans;
- loans being restructured;
- performing loans valued on a case-by-case basis (groups under observation).

The methodology of calculation for the increase in adjustments to problematic loans subjects to actualization is based on the difference between:

- estimated realizable value;
- the net present value of expected financial flows (principal and interest).

In determining the current value of financial flows, the essential elements are identification of estimated recoveries, their maturities and the discounting rate.

As far as the identification of estimated recoveries and related maturities are concerned, the Bank has made reference to the specific indications provided by those corporate departments whose function it is to evaluate loans. In certain cases, estimates and forfeit values based on statistics and sector analyses have been used.

As far as the discounting rate is concerned, American accounting standard FASB No. 114 specifies the actual lending rate. This should be the original contractual rate or the implicit rate which renders the current value of financial flows equal to the face value or purchase value of the loan.

The use of individual contractual lending rates is unfeasible, due to the complexity of the problem loan portfolio and the fact that over 85% of such loans are represented by positions regulated at floating rates of interest. The Bank has therefore used the six-month average RIBOR rate (for the last six months of the year) plus a spread of 1.75% as a reference parameter. The resulting interest rate, 5.96%, is deemed to be a best approximation, bearing in mind that six-month RIBOR is the principal indicator used for the repricing of long-term loans at floating rates of interest and the spread used is an

average figure which permits a return on risk in line with the medium-term yield expected by the Bank.

Deferred taxation

With a view to achieving the stated aim of maximum transparency in the financial statements, and as part of the process of convergence towards international accounting standards, the Bank has considered it advisable to book the deferred taxation to certain equity items in the financial statements.

These items have been identified in the equity reserves of the former IMI SpA re-constituted in the post-merger financial statements in compliance with current fiscal legislation: the Reserve for general banking risks (650 billion lire) and the Reserve under Law 169/83 (139 billion lire).

As regards the Reserve for general banking risks, the expediency of charging deferred taxation is attributable to the probability that any eventual loan losses may in future become non-deductible due to the fiscal nature of the reserve. This reserve is also an equity item that would be subject to taxation in the event of use.

On the other hand, the expediency of charging deferred taxation to the Reserve under Law 169/83 is linked to the likelihood that it may be taxed; this reserve, which is unrestricted for statutory purposes, is in fact subject to taxation on use and not merely on distribution.

Deferred taxation, 292 billion lire, on these equity items under similar fiscal regimes has been debited by the Parent Bank against the merger surplus deriving from the Sanpaolo/IMI merger; at the same time setting up specific Reserves for deferred taxation. Of course, these accounting entries, which are also reflected in the consolidated financial statements, do not involve any effective outlay of taxes.

For the sake of completeness, we would also like to point out with regard to the shareholder's equity of the Bank that the other balances that are in suspense for tax purposes - namely Capital (1,182 billion lire), the Legal reserve (651 billion lire after transfer of the Amato reserve) and the Amato Reserve itself (173 billion lire, which is the provision made in 1998) - are only subject to taxation in the event of distribution. Considering their restricted nature, the Bank has confirmed the previous accounting policy. No deferred tax has been charged against them, as the events that could give rise to their taxation are not expected to occur in the foreseeable future.

Deferred taxation has also been recorded by the Bank in relation to the Reserve pursuant to art. 21 of Legislative Decree 213/98 (for further information see the following paragraph).

In conclusion, we would like to point out that, beginning with the consolidated financial statements as of December 31, 1998, the recording of

deferred taxation on timing differences between the book value and fiscal value of assets and liabilities has been made without applying the limited time span of the next four years, as in 1997; provided that, based on objective elements, such as the company's budgeted income and its historical trend in taxable income, the requirement of reasonable certainty that sufficient taxable income will be generated in the future to permit full absorption of the deferred tax assets is satisfied.

This extension of the time span has led to a gain in the 1998 consolidated statement of income of around 264 billion lire, essentially attributable to full recovery by the Bank of taxes paid on loan writedowns deductible from the year 2003 onwards.

Introduction of the Euro

Following the establishment of the irrevocable exchange rates for the conversion of participating currencies of the European Union into euros, the exchange differences on assets and liabilities denominated in participating currencies previously held at historical exchange rates have now become definitive.

The only item affected at December 31, 1998 was equity investments denominated in foreign currency and not specifically hedged against exchange risks. As from 1997, San Paolo has booked equity investments in foreign currency (except for those expressed in non-convertible currencies) at current exchange rates, setting up the equivalent funding in foreign currency.

Given that Euro conversion rates have now been fixed and the accounting policies for equity investments in foreign currency deriving from IMI SpA and those used by San Paolo should be consistent, the Bank has translated these investments at current exchange rates.

As far as the fiscal and accounting treatment of exchange differences are concerned, in compliance with art. 21 of Legislative Decree 213/98, the Bank has charged the revaluation of around 125 billion lire to a restricted reserve subject to deferred taxation. In line with the approach expressed in the accounting standard for transition to the Single Currency drawn up by the Italian Accounting Profession with reference to international accounting standards for the recording of deferred taxation as a direct adjustment of shareholders' equity, this reserve was recorded in the financial statements for approximately 79 billion lire, net of deferred taxation of 46 billion lire booked to a specific liability reserve.

Costs involved in the transition to the Euro

The introduction of the Euro has resulted in costs relating essentially to projects for the modification and implementation of software; to a lesser extent such costs concern publicity and other literature on the transition to the Euro. The choice of accounting treatment for these costs has been made in accordance with the current accounting principles. This entailed analyzing their nature and, in particular, limiting their capitalization as intangible fixed assets to those items which are likely to produce future benefits. Total costs amounted to approximately 42 billion lire; 14 billion lire of this amount has been booked to intangible fixed assets as illustrated in Section 4 of the Explanatory Notes, while the remainder, 28 billion lire, was expensed as incurred.

Audit of the financial statements

The Bank's financial statements are audited by Arthur Andersen SpA, pursuant to Art. 4 of Decree 136/75, and in accordance with the shareholders' resolution dated April 30, 1998, which appointed this auditing firm for the three-year period 1998-2000.

Half-year report

The former Istituto Bancario San Paolo di Torino SpA and the former Istituto Mobiliare Italiano SpA have prepared and made public within the timescale imposed by the legislation and on the basis prescribed by Consob, the report on operations during the first six months of 1998.

The interim financial statements as of June 30, 1998 of both the Bank and the Group were reviewed by Arthur Andersen SpA in accordance with Consob Recommendation No. 97001574 of February 20, 1997.

Comparison with the 1997 financial statements and basis for the pro forma financial statements of San Paolo IMI for 1997

Bearing in mind the effects of the merger, the 1998 results are presented along with pro forma aggregate figures for San Paolo IMI for 1997. The sole purpose of this exercise is to provide comparative figures.

Note that the financial statements being compared show historical figures. Moreover, the report on operations includes comments on changes between 1997 and 1998, also to make allowance for the application of IRAP (regional tax on productive activities) which substituted health contributions, ILOR (local income tax), ICIAP (local tax on productive activities), capital tax and other levies.

In conclusion we would like to point out that the reclassified statement of income attached to this report has been adjusted in order to give a better representation of the new status of San Paolo IMI following the merger. In particular, in the new format:

- dividends have been included in the items making up net interest and other banking income: dividends on equity investments are shown as a separate item, while dividends on dealing securities are included in profits (losses) on financial transactions;
- other operating income has been divided into two components: the portion represented by gains generated as part of merchant banking activities and other net income from brokerage activities has been included in net interest and other banking income, while the portion comprising reimbursed expenses and rental and leasing charges has been included in the operating result.

Basis for the pro forma financial statements of San Paolo IMI for 1997

In order to guarantee the comparability of 1998 consolidated balance sheet and statement of income information with prior year amounts, it was necessary make certain adjustments to San Paolo and IMI's official aggregate figures for 1997.

These adjustments are the result of certain differences in presentation and accounting standards applied by the two banks.

The 1997 balances have also been adjusted to take into account certain changes in accounting policies introduced by the San Paolo IMI in 1998.

A summary of the adjustments made to 1997 balance sheet and statement of income information is presented below:

Pro forma statement of income for 1997:

- interest expense: this has been increased by around 31 billion lire as a contra-entry to commission on services. This adjustment derives from a difference in the presentation methods used by San Paolo and IMI in relation to commission for the placement of securities deferred over the economic life of the transaction;
- other net operating income: these have been reduced by around 10 billion lire as a contra-entry to commission on services (around 2 billion lire) and to writebacks on loans (around 8 billion lire). This adjustment derives from a difference in the presentation methods used by San Paolo and IMI in relation to commission on the early repayment of loans and to writebacks of loans previously written off;
- personnel costs: these have been reduced by around 94 billion lire, as a contra-entry to miscellaneous costs and expenses (around 74 billion lire) and extraordinary expenses (around 20 billion lire). Reclassification refers to cost items which were subject to different presentation methods in 1998, i.e. in line with the stance taken by the Italian Accounting Profession on this subject (issued following the introduction of IRAP: e.g. staff training costs and travel and assignment costs) and compliant with the provisions of the Bank of Italy (charges for staff leaving);
- other administrative costs: these have been increased in total by

approximately 148 billion lire as a contra-entry to personnel costs (around 74 billion lire) and extraordinary expenses (around 74 billion lire). The adjustments refer to certain payroll costs as mentioned above, as well as to the reclassification of charges incurred for support provided by the Interbank Deposit Guarantee Fund;

- adjustments made solely for reclassified financial statement purposes: other administrative costs have been increased by around 124 billion lire as a contra-entry to indirect taxation, following San Paolo's adoption from 1998 onwards of the new VAT system pursuant to art. 36 (b) (which has in substance transformed this tax into an ancillary charge on miscellaneous costs and expenses);
- an adjustment made solely for reclassified financial statement purposes: income taxes have been reduced by 200 billion lire as a contra-entry to extraordinary expenses, in recognition of prepaid taxes as deferred tax assets on initial application of IAS No. 12;
- default interest: San Paolo's accounting policy has been applied. This policy anticipates the complete reversal of default interest, both for San Paolo and for IMI which considered that a portion of such interest was recoverable. The consequent adjustments have resulted in a reduction of interest income (approximately 6 billion lire) and extraordinary income (around 6 billion lire) with a contra-entry reducing net adjustments to loans (by around 12 billion lire).

Pro forma balance sheet for 1997:

- loans: these have been reduced (only in the reclassified financial statements) by around 1,073 billion lire in relation to the changes in accounting policy introduced in 1998 (discounting and new general adjustments) and the consistency of treatment of default interest, as discussed previously. As a contra-entry, the reserve for possible loan losses has been reduced;
- equity reserves; these have been reduced by around 292 billion lire for latent taxation introduced in 1998 on the Reserve for general banking risks and the Reserve under Law 169/83. The reserves have also been reduced by the cancellation of San Paolo shares previously shown in the financial statements of IMI among equity investments for 417 billion lire;
- equity investments have been revalued by around 125 billion lire (revaluation as of December 31, 1997) following their conversion at current exchange rates; in compliance with rt. 21 of Decree 213/98 equity reserves have been increased by around 79 billion lire and the reserves for deferred taxation by around 46 billion lire,
- the pro forma capital is shown to the extent it exists subsequent to the merger; taking into consideration the cancellation of the San Paolo shares held by IMI SpA (417 billion lire); the ensuing adjustments were made as a contra-entry to "Reserves".

The following reconciliation schedules comprise the pro forma aggregate figures of San Paolo IMI for 1997, both in official and reclassified form.

Reclassified 1997 pro forma statement of income for Sanpaolo IMI

	San Paolo	IMI	Adjustments	<i>in billions of lire</i> Sanpaolo IMI (pro forma)
Interest income and similar revenues	13,696	4,284	-6	17,974
Interest expense and similar charges	-10,271	-3,507	-31	-13,809
NET INTEREST INCOME	3,425	777	-37	4,165
Net commissions	1,485	38	23	1,546
Profits (losses) on financial transactions	394	23	-	417
Dividends	184	346	-	530
NET INTEREST AND OTHER BANKING INCOME	5,488	1,184	-14	6,658
Administrative costs	-3,919	-233	-54	-4,206
<i>of which:</i>				
- <i>personnel costs</i>	-2,621	-144	94	-2,671
- <i>other expenses</i>	-852	-76	-272	-1,200
- <i>indirect taxation</i>	-446	-13	124	-335
Other operating income	310	38	-	348
Adjustments to tangible and intangible fixed assets	-371	-31	-	-402
OPERATING INCOME	1,508	958	-68	2,398
Provisions for risks and charges	-92	-	-	-92
Adjustments to loans	-1,281	-169	20	-1,430
Adjustments to financial fixed assets	-324	-19	-	-343
INCOME, NET OF EXTRAORDINARY ITEMS	-189	770	-48	533
Extraordinary income and expenses	442	17	-152	307
INCOME BEFORE INCOME TAXES	253	787	-200	840
Income taxes	-100	-320	100	-320
Substitute tax on merger differences	-100	-	100	-
NET INCOME FOR THE YEAR	53	467	-	520
Provision to Reserve under art. 7.3 Law 218/90	-53	-	-	-53
DISTRIBUTABLE NET INCOME	-	467	-	467

Reclassified 1997 pro forma balance sheet for Sanpaolo IMI

in billions of lire

Assets	San Paolo	IMI	Adjustments	Sanpaolo IMI (pro forma)
Cash and deposits with central banks and post offices	738	1	-	739
Loans	148,580	49,463	-1,073	196,970
- loans to customers	99,502	46,147	-1,073	144,576
- due from banks	49,078	3,316	-	52,394
Dealing securities	30,127	393	-	30,520
Fixed assets	9,954	3,693	-292	13,355
- investment securities	3,876	40	-	3,916
- equity investments	3,395	3,106	-292	6,209
- intangible fixed assets	407	20	-	427
- tangible fixed assets	2,276	527	-	2,803
Other assets	25,364	3,149	-	28,513
Total assets	214,763	56,699	-1,365	270,097

Liabilities and shareholders' equity	San Paolo	IMI	Adjustments	Sapaolo IMI pro forma
Payables	170,422	47,307	-	217,729
- due to banks	46,911	25,805	-	72,716
- due to customers and securities issued	123,511	21,502	-	145,013
Other liabilities	31,541	3,735	-735	34,541
<i>Of which</i>				
- provision for other risks and charges	179	-	-	179
- provision for risks on commitments and guarantees	32	-	-	32
- provision for other personnel charges	179	104	-	283
- provision for taxation	294	312	338	944
- provision for possible loan losses	-	1,073	-1,073	-
Subordinated liabilities	3,208	-	-	3,208
Shareholders' equity	9,592	5,657	-630	14,619
- shareholders' equity	8,160	3,000	-2,747	8,413
- reserves	1,432	1,540	2,117	5,089
- reserve for general banking risks	-	650	-	650
- net income for the year	-	467	-	467
Total liabilities and shareholders' equity	214,763	56,699	-1,365	270,097

Guarantees and commitments	San Paolo	IMI	Adjustments	Sapaolo IMI (pro forma)
Guarantees given	23,700	14,040	-	37,740
Commitments	34,815	5,743	-	40,558

Sanpaolo IMI pro forma balance sheet at December 31,1997

<i>in millions of lire</i>				
Assets	San Paolo	IMI	Adjustments	Sanpaolo IMI (pro forma)
10. Cash and deposits with central banks and post offices	737,982	835	-	738,817
20. Treasury bills and similar bills eligible for refinancing with central banks	12,511,446	308,457	-	12,819,903
30. Due from banks	49,077,695	3,316,241	-	52,393,936
a) repayable on demand	7,211,266	208,585	-	7,419,851
b) other deposits	41,866,429	3,107,656	-	44,974,085
40. Loans to customers	99,502,143	46,147,127	-	145,649,270
<i>including</i>				
- loans using public funds	11,626	46,256	-	57,882
50. Bonds and other debt securities	20,081,267	52,103	-	20,133,370
a) public entities	13,282,913	50,352	-	13,333,265
b) banks	5,158,957	1,751	-	5,160,708
<i>including</i>				
- own bonds	1,238,953	1,751	-	1,240,704
c) financial institutions	564,236	-	-	564,236
<i>including</i>				
- own bonds	-	-	-	-
d) other issuers	1,075,161	-	-	1,075,161
60. Shares, quotas and other equities	1,410,038	72,643	-	1,482,681
70. Equity investments	629,875	1,311,164	- 417,264	1,523,775
80. Investments in Group companies	2,765,192	1,794,550	125,638	4,685,380
90. Intangible fixed assets	407,283	19,486		426,769
<i>including</i>				
- start-up costs	5	-	-	5
- goodwill	-	-	-	-
100. Tangible fixed assets	2,276,253	527,249	-	2,803,502
130. Other assets	14,781,400	2,055,333	-	16,836,733
140. Accrued income and prepaid expenses	10,582,352	1,093,854	-	11,676,206
a) accrued income	10,160,117	964,460	-	11,124,577
b) prepaid expenses	422,235	129,394	-	551,629
<i>including</i>				
- discounts on bond issues	14,596	279	-	14,875
Total assets	214,762,926	56,699,042	- 291,626	271,170,342

in millions of lire

Liabilities and shareholders' equity	San Paolo	IMI	Adjustments	Sanpaolo IMI pro forma
10. Due to banks	46,910,981	25,805,081	-	72,716,062
a) repayable on demand	7,338,733	721,526	-	8,060,259
b) time deposits or with notice period	39,572,248	25,083,555	-	64,655,803
20. Due to customers	73,857,889	2,282,248	-	76,140,137
a) repayable on demand	47,675,941	577,544	-	48,253,485
b) time deposits or with notice period	26,181,948	1,704,704	-	27,886,652
30. Securities issued	49,534,147	19,173,705	-	68,707,852
a) bonds	24,079,431	17,588,794	-	41,668,225
b) certificates of deposit	24,906,090	1,584,911	-	26,491,001
c) other	548,626	-	-	548,626
40. Public funds administered	119,112	46,255	-	165,367
50. Other liabilities	18,866,137	1,076,955	-	19,943,092
60. Accrued expense and deferred income	11,284,105	1,125,760	-	12,409,865
a) accrued expense	10,897,665	1,122,403	-	12,020,068
b) deferred income	386,440	3,357	-	389,797
70. Provision for termination indemnities	706,597	43,483	-	750,080
80. Provisions for risks and charges	684,198	415,220	338,542	1,437,960
a) pensions and similar commitments	-	103,975	-	103,975
b) taxation	294,192	310,889	338,542	943,623
c) other	390,006	356	-	390,362
90. Reserves for possible loan losses	-	1,073,279	-	1,073,279
100. Reserve for general banking risks	-	650,000	-	650,000
110. Subordinated liabilities	3,207,523	-	-	3,207,523
120. Capital	8,159,929	3,000,000	- 2,746,819	8,413,110
130. Additional paid-in capital	275,000	-	-	275,000
140. Reserves	1,157,308	1,539,919	2,116,651	4,813,878
a) legal reserve	205,960	600,000	- 600,000	205,960
b) reserve for own shares	-	-	-	-
c) statutory reserves	65,925	524,000	-	589,925
d) other reserves	885,423	415,919	2,716,651	4,017,993
150. Revaluation reserves	-	-	-	-
160. Profit carried forward	-	7	-	7
170. Distributable net income	-	467,130	-	467,130
Total liabilities and shareholders' equity	214,762,926	56,699,042	- 291,626	271,170,342
Guarantees and commitments	San Paolo	IMI	Adjustments	Sanpaolo IMI pro forma
10. Guarantees given	23,699,754	14,040,300	-	37,740,054
including				
- acceptances	387,686	-	-	387,686
- other guarantees	23,312,068	14,040,300	-	37,352,368
20. Commitments	34,815,312	5,743,158	-	40,558,470
including				
- repurchase agreements	-	-	-	-

Sanpaolo IMI pro forma statement of income at December 31, 1997

	San Paolo	IMI	Adjustments	<i>in millions of lire</i> Sanpaolo IMI pro forma
10. Interest income and similar revenues	13,696,072	4,284,061	-6,447	17,973,686
<i>Including from:</i>				
- loans to customers	8,076,154	3,943,642	-6,447	12,013,349
- debt securities	2,830,918	70,580	-	2,901,498
20. Interest expense and similar charges	-10,270,571	-3,507,475	-31,075	-13,809,121
<i>including on:</i>				
- deposits from customers	- 3,157,497	-175,232	-	-3,332,729
- securities issued	-4,256,500	-1,561,717	-31,075	-5,849,292
30. Dividends and other revenues	346,952	347,229	-	694,181
a) from shares, quotas and other equities	93,068	1,434	-	94,502
b) from equity investments	60,810	39,346	-	100,156
c) from investments in Group companies	193,074	306,449	-	499,523
40. Commission income	1,660,752	153,722	1,655	1,816,129
50. Commission expense	- 176,181	- 131,519	31,075	- 276,625
60. Profits (losses) on financial transactions	230,603	22,290	-	252,893
70. Other operating income	325,211	55,063	- 9,890	370,384
80. Administrative costs	- 3,918,985	- 233,034	- 53,577	- 4,205,596
a) payroll	- 2,620,747	- 144,343	94,638	- 2,670,452
<i>including</i>				
- wages and salaries	- 1,799,094	- 88,055	76,539	- 1,810,610
- social security charges	- 704,029	- 31,363	-	- 735,392
- termination indemnities	- 117,624	- 5,305	-	- 122,929
- pensions and similar commitments	-	- 1,521	-	- 1,521
b) other	- 1,298,238	- 88,691	- 148,215	- 1,535,144
90. Adjustments to intangible and tangible fixed assets	- 371,491	- 30,174	-	- 401,665
100. Provisions for risks and charges	- 92,240	-	-	- 92,240
110. Other operating expenses	- 15,236	- 621	-	- 15,857
120. Adjustments to loans and provisions for guarantees and commitments	- 1,889,750	- 31,223	12,848	- 1,908,125
130. Writebacks of adjustments to loans and provisions for guarantees and commitments	608,919	35,572	8,235	652,726
140. Provisions to the reserve for possible loan losses	-	- 174,800	-	- 174,800
150. Adjustments to financial fixed assets	- 330,910	- 19,351	-	- 350,261
160. Writebacks of adjustments to financial fixed assets	7,142	-	-	7,142
170. Income from operating activities	- 189,713	769,740	- 47,176	532,851
180. Extraordinary income	501,672	20,777	- 6,401	516,048
190. Extraordinary expenses	- 259,323	- 3,887	53,577	- 209,633
200. Extraordinary income, net	242,349	16,890	47,176	306,415
220. Income taxes for the year	-	- 319,500	-	- 319,500
230. Net income for the year	52,636	467,130	-	519,766
240. Provision to reserve (art. 7.3, Law 218/90)	- 52,636	-	-	- 52,636
250. Distributable net income	-	467,130	-	467,130

Part A - Accounting policies

Section 1 Description of accounting policies

The accounting policies adopted are communicated to and, where required by law, approved by the Board of Statutory Auditors. These policies are consistent with those applied as of December 31, 1997 except for the changes discussed in the introduction to these explanatory notes.

Loans, guarantees and commitments

Loans

Loans, including principal and interest elements, are stated at their estimated realizable value, taking account of the solvency of debtors and the debt-servicing problems faced by the countries in which they are resident. The assessment performed also takes into consideration any guarantees received, market prices (where applicable) and the general difficulties experienced by the different categories of borrower. Estimated realizable value is determined following a detailed review of loans outstanding at year-end, considering the degree of risk associated with the various forms of lending and the risk of default inherent in loans that are currently performing normally. Estimated realizable value of problem loans (non-performing, problem and restructured loans, loans being restructured and loans to companies under observation valued on a case-by-case basis) takes into consideration not only the likelihood of eventual recovery, but also the financial cost of discounting loans at risk to factor in their total or partial lack of income generation and late repayment. In particular:

- non-performing loans, being loans to borrowers in a state of insolvency or similar, are valued on a case-by-case basis;
- problem loans, being loans to borrowers in temporary difficulties, are valued on a case-by-case basis;
- restructured loans, being loans for which a syndicate of banks (or a single bank) concedes a respite for payment of the loan or re-negotiates such loans at lower-than-market rates, are valued on a case-by-case basis;
- loans being restructured, being loans for which the debtor has applied for consolidation to a variety of banks not more than 12 months previously, are valued on a case-by-case basis;
- loans exposed to "country risk", being loans to borrowers resident in countries with debt-servicing difficulties, are valued on a general basis by applying writedown percentages not lower than those specified by the Bank of Italy; with the exception of case-by-case valuations of specific

positions which, on the basis of objective criteria, are valued consistently with the loan category to which they relate;

- performing loans, being loans to borrowers who, at this time, do not present specific insolvency risks, are valued on a general basis, except in relation to specific positions concerning certain companies under observation, which are valued on a case-by-case basis. The forfeit adjustments to performing loans are calculated on a historical-statistical basis, taking into consideration the net average total of performing loans which have ended up being reclassified as problem and non-performing loans during the last three years and applying to this total the average percentage for provisions previously applied to each risk category.

For the purpose of classifying loans as non-performing, problem and restructured loans and loans exposed to “country-risk”, the Bank has made reference to current Bank of Italy regulations on this subject. These have been supplemented, by specific and detailed instructions regarding, in particular, aspects of their implementation and the introduction of automatic rules for the transfer of loans to the various risk categories.

The year-end classifications and valuations of non-performing and problem loans are carried out on an analytical basis by the branches and area head offices, coordinated by the Head Office staff involved in management accounting and credit recovery. Certain balances due from large real estate groups are handled by the Real estate Division because of their complexity and specific nature.

Default interest accrued during the year is eliminated from the statement of income since collection is considered unlikely.

Writedowns, both specific and general, are made by means of an adjustment which reduces the value of the asset shown in the balance sheet based on the methods discussed above. The original values may be reinstated by means of writebacks if the reasons for the writedowns cease to apply.

The application of value adjustments for discounting purposes automatically means that there will be writebacks to discounted loans: in fact, the mere passage of time, with the consequent approach of the expected collection deadlines, implies an automatic reduction in the financial charges previously deducted from the value of the loans.

Loans deriving from financing and deposit contracts

These are recorded at the amount disbursed. The difference between the balance of the loans granted to customers and the amount actually disbursed

is charged to the statement of income in accordance with the loan repayment plan. Loans for discounted notes, acquired within the scope of lending activities, are recorded in the financial statements at face value, while the portion pertaining to future years is recorded among deferred income.

Reverse repurchase agreements on securities

Reverse repurchase agreements that require the holder to resell securities when the agreement matures are treated as lending transactions. The amounts disbursed in this way are therefore recorded as loans. Income from lending, comprising interest coupons on securities and the differential between the spot and forward prices for such securities, are recorded on an accruals basis as interest in the statement of income.

Securities lending and borrowing

Transactions involving securities lending and borrowing, guaranteed by sums of money which are at the lender's complete disposal, are treated in the same way as repurchase agreements on securities. Securities loaned, not guaranteed by sums of money, are represented in the financial statements as a combination of two functionally-linked lending or borrowing transactions with contra-entries as for deposit-taking or funding transactions. These transactions are essentially the same as repurchase agreements, which means that the securities loaned remain in the portfolio of the lender.

Guarantees and commitments

Guarantees and commitments giving rise to lending risk are recorded at the total value of the exposure and the related risk is assessed on the basis described in relation to loans. Expected losses in relation to guarantees and commitments are covered by the related provision.

Securities and off-balance sheet transactions (other than foreign currency transactions)

Investment securities

Investment securities, due to be held long term by the Bank as stable investments, are valued at cost, as adjusted by accrued issue discounts and accrued dealing discounts (being the difference between the cost of the securities and the related redemption price, net of issue discounts yet to mature).

Such securities are written down to reflect any lasting deterioration in the solvency of the issuers and the ability of the related nations to repay debt,

except where suitable guarantees are available. The original value of investment securities is reinstated when the reasons for any writedowns cease to apply.

Dealing securities

Securities held for dealing and treasury purposes are stated at average daily cost (adjusted to reflect accrued issue discounts). Value is determined as follows:

- securities quoted in organized markets: the value expressed by the official price quoted on the last trading day of the year;
- securities not quoted in organized markets: at the lower of cost and market value, determined with reference to quoted securities with similar characteristics. The original value of such securities is reinstated when the reasons for any writedowns cease to apply. Unquoted securities which are economically linked to derivative contracts are valued at market price consistent with the accounting treatment of the contracts concerned.

Any transfers between the investment and dealing portfolios are made on the basis of the book value of the securities subject to transfer at the time of the transaction; book value is determined using the method applicable to the originating portfolio. Securities transferred, still held in portfolios at year end, are valued using the method applicable to the destination portfolio.

Commitments to buy or sell for securities transactions to be settled

Commitments to buy are valued on the same basis as the destination portfolio. Commitments to sell, on the other hand, are valued taking into consideration the contractual forward sale price as well.

Equity investments

Equity investments are stated at cost, as revalued in the past at the time of transformation into a limited company or as a result of mergers, determined on a LIFO basis with annual increments. Cost is written down to reflect any permanent losses in value, taking into account any reductions in the equity value of the companies concerned and, where available, market prices. The original value of equity investments is reinstated if the reasons for any writedowns cease to apply.

Differences between the carrying value of "significant investments" and the corresponding proportion of their net equity as shown in the latest set of financial statements, if lower, can be justified by goodwill and the higher market value of the assets owned by the companies concerned.

Dividends and the related tax credits are recorded in the year in which they are collected.

Foreign currency assets and liabilities (including off balance sheet items other than derivatives)

Assets and liabilities denominated in foreign currency

Assets and liabilities denominated in foreign currencies, or in lire indexed to foreign exchange movements, as well as financial fixed assets funded in foreign currencies, or in lire indexed to foreign exchange movements, are valued using the spot exchange rates applying at year-end. Equity investments funded in lire and denominated in foreign currencies subject to local exchange-control restrictions (non-convertible currencies) are stated at the historical rates of exchange applying at the time of acquisition.

Foreign currency costs and revenues are stated using the exchange rates applying at the time they arose.

Unsettled spot and forward currency transactions

Unsettled spot and forward currency transactions carried out for hedging purposes are valued in the same way as the assets and liabilities being hedged, whether they are recorded on or off the balance sheet.

Transactions not carried out for hedging purposes are valued:

- at year-end spot exchange rates in the case of spot transactions still to be settled;
- at year-end forward exchange rates for the same maturities as the transactions being valued in the case of forward transactions.

The effect of these valuations is debited or credited to the statement of income.

Tangible fixed assets

Tangible fixed assets are stated at purchase cost, including related charges and the maintenance costs that lead to improvements. In certain cases, purchase cost may have been restated on transformation of the Bank at the time of mergers or as a result of applying monetary revaluation laws.

Operating assets are depreciated on a straight-line basis over their residual useful lives. Tangible fixed assets are written down in cases where there is a permanent loss in value, regardless of how much depreciation has already been accumulated. The value of such assets is reinstated in future accounting periods if the reasons for any writedowns no longer apply.

Repair and maintenance expenses that do not enhance the value of the related assets are charged against income as incurred.

Intangible fixed assets

Intangible fixed assets are stated at purchase or production cost, including related charges, and amortized systematically over the period they are expected to benefit, as described below:

- Formation and capital increase expenses and other deferred charges are generally amortized on a straight-line basis over five years.
- Costs incurred for the purchase of software or for its development using external resources, are generally amortized on a straight-line basis over three years, taking account of the residual period such software is expected to benefit.

The differences arising on the merger of Banca Provinciale Lombarda and Banco Lariano in 1993 and on the merger of Crediop - Credito per le Imprese e le Opere Pubbliche in 1995, net of the portion allocated to more closely reflect the value of the related assets, are amortized on a straight-line basis. Amortization is provided over a period of ten years in the case of Banca Provinciale Lombarda and Banco Lariano, and over five years with regard to Crediop. These amortization periods are justifiable in view of the durability of the goodwill accumulated by the merged banks, as assessed in expert appraisals prepared for the respective mergers.

Payables

Payables are stated at their nominal value. The difference between the face value of loans received, or securities placed, and the amount actually received, which is recorded in the financial statements among deferrals, is charged to the statement of income on an accruals basis in accordance with the repayment plan implicit in the funding transaction. Zero-coupon securities issued are stated at issue price plus accrued interest. In accordance with the first paragraph of these accounting policies, funding repurchase agreements that require the holder to resell the securities acquired when the agreement matures are recorded among payables, as are related securities borrowing transactions.

Funding repurchase agreements on securities issued by Group companies, carried out by the same issuing company, are not shown in the financial statements on the above basis, but are recorded as securities issued with a forward purchase commitment.

Provision for employee termination indemnities

The provision for employee termination indemnities represents the liability to each employee at year-end, accrued in accordance with current legislation and contractual agreements.

Provisions for risks and charges

Provisions for risks and charges cover known or likely liabilities whose timing and extent cannot be determined at year-end or at the time the financial statements are prepared.

Pensions and similar commitments

The accumulated provisions under this heading relate to charges connected to supplementary pensions for the retired employees of former IMI. The accrued obligation in this connection is assessed on the basis of independent actuarial appraisals, in order to determine the provisions to technical reserves needed to cover future pensions.

Taxation

The provision for taxation covers income taxes for the year (IRPEG) and the regional tax on productive activities (IRAP), taking account of taxes applicable in the countries in which Group companies operates, deferred taxation, and outstanding or potential fiscal disputes.

Income taxes for the year are prudently determined with reference to taxable income on the basis of current fiscal legislation, taking account of disallowed costs and the benefits deriving from the special provision allowed under article 7.3 of Law 218/90.

Deferred taxation is calculated based on the tax effect of timing differences between the book value of assets and liabilities and their value for tax purposes, which will lead to taxable and deductible amounts in future years when there is a reasonable probability of their reversal. To this end, and in compliance with international accounting standard IAS 12, taxable timing differences are understood as those that in future years will lead to taxable amounts (deferred capital gains, for example); while deductible timing differences are those that in future years will lead to deductible amounts (such as those provisions and costs that can be deducted for tax purposes in subsequent years, e.g. loan writedowns in excess of the 0.5% of total loans limit). If deductible timing differences (deferred tax assets) are higher than the taxable timing differences (deferred tax liabilities), the net balance of the tax effect is booked to the balance sheet partly under asset caption 140.b) - prepaid expenses - and credited to income taxes for the year, and partly under caption 130 - other assets - and credited to extraordinary income for the portion in excess.

Provision is made for equity reserves subject to deferred taxation whatever their use and charged against shareholders' equity. Deferred taxation relating to revaluations for conversion to the Euro directly charged to a specific reserve (Reserve art. 21 of Decree 213/98) is provided against the reserve itself.

No provision is made for reserves subject to deferred taxation only in the event of distribution, if it refers to restricted equity capital or if the events which would give rise to such taxation are not expected to occur.

Other provisions

Provisions for guarantees and commitments cover losses in respect of guarantees given and, more generally, the contingencies associated with the Bank's guarantees and commitments.

Other provisions for risks and charges cover estimated losses arising from legal action and, in particular, from repayments claimed by the receivers of bankrupt customers. They also cover potential charges in connection with guarantees given on the sale of equity investments, future liabilities linked to the Bank's participation in any interventions by the Interbank Deposit Guarantee Fund and other potential liabilities.

The provision for other personnel charges comprises:

- provisions made on the basis of an independent actuarial report to a compulsory, independent supplementary pension fund to cover unfunded pension liabilities, as well as any provisions relating to possible contribution charges in relation to a subsidiary company;
- provisions made on an actuarial basis to set up a mathematical reserve to cover long-service bonuses payable when members of staff celebrate twenty-five and thirty-five years of employment with the Bank.

Reserve for general banking risks

This reserve covers the general business risks of the Bank and, as such, forms part of shareholders' equity in compliance with international supervisory standards and Bank of Italy instructions.

Accruals and deferrals

Accruals and deferrals are recognized in accordance with the matching principle. They are not applied directly to the balance sheet accounts concerned.

Settlement date

Transactions in securities and similar instruments, foreign currency transactions, interbank deposits and loans, and the portfolio of notes for collection, are stated with reference to their settlement dates.

Other information

Derivatives on currency, securities, interest rates, indices and other assets

Derivative contracts are valued individually using the methods applicable to the portfolio concerned (hedging contracts and non-hedging contracts).

The values expressed by the valuations are recorded separately in the balance sheet without off-setting assets and liabilities. The presence of any agreements between the parties for the compensation of reciprocal debits and credits in the case of default of one of the counterparts ("master netting agreement") is not considered relevant for the purpose of disclosure in the financial statements where an express restriction on compensating items is in force, but is taken into consideration solely in relation to the valuation of counterparty's lending risk.

The values determined by the contract valuation process (hedging and non-hedging) may be written down on a case-by-case or general basis in order to reflect the lending risk (counterparty or country risk) inherent to the contracts.

Hedging contracts

These are entered into with the aim of protecting the value of individual assets or liabilities, as well as any groups of assets or liabilities, on or off the balance sheet, from the risk of market fluctuations. In the latter case, the hedging objective is achieved via the use of asset and liability management techniques. A transaction is considered to be a hedge in the presence of the following documented conditions:

- a) intent to enter into a hedge;
- b) high degree of correlation between the technical and financial characteristics of the assets and liabilities hedged and those inherent to the hedging contract.

Should just one of the conditions above cease to apply over a period of time, then the contract will be re-qualified as "non-hedging".

Hedging derivatives are valued on a consistent basis with the assets and liabilities being hedged. The related procedures for presentation in the financial statements are summarized below:

Balance sheet: the relevant portions of differentials or interest margins in the process of maturing relative to contracts hedging the outcome of interest from interest-bearing assets and liabilities come together in the caption "Accrued income" or "Accrued expenses". The relevant portions of differentials relating to forward rate agreements hedging the outcome of interest from interest-bearing assets and liabilities converge in the caption "Prepaid expenses" and "Deferred income". "Other assets" or "Other liabilities" comprise the market values of contracts entered into to hedge the risk of price fluctuations, as well as the effects of valuing contracts hedging exchange risks on lending and funding activities (principal portion) at year-end spot exchange rates. Contracts entered into to hedge investment securities or against total loans and deposits, are valued at cost.

Statement of income: if the aim of the derivative contract is to protect the outcome of interest from interest-bearing assets and liabilities, the related statement of income results will form part of the interest margin on a proportional basis. In this case, the balance of all the differentials and margins is treated as interest income or expense, depending on its nature. If, on the other hand, the derivative contract hedges the risk of market price or exchange risk (principal portion) fluctuations, any revenues or costs generated are recorded in the caption "Profits (losses) on financial transactions". More specifically, differentials matured on derivative contracts entered into to hedge dealing securities are treated as interest, if they relate to multiple-flow contracts (e.g. IRS) or to single-flow contracts where the duration of the underlying assets is less than one year (e.g. FRA); but as profits/losses on financial transactions, if they relate to single-flow contracts where the duration of the underlying assets is more than one year (e.g. futures and options).

Non-hedging contracts

These are valued according to the following methods:

Contracts on securities, interest rates, indices and other assets; contracts quoted in organized markets are valued at the market value expressed on the last day of the year. Contracts linked to reference indicators subject to official observation are valued on the basis of the financial value (replacement cost) determined with reference to the market quotations for said indicators on the last day of the year. Other contracts are valued on the basis of other elements determined objectively and consistently.

Foreign currency derivatives: these are stated at the forward exchange rates ruling at the balance sheet date for maturities corresponding to those of the transactions subject to valuation.

The related procedures for presentation in the financial statements are summarized below:

Balance sheet: the values determined by the valuation of non-hedging contracts are shown in Other assets and Other liabilities.

Statement of income: statement of income results originating from non-hedging contracts are recorded in the caption "Profits (losses) on financial transactions". The composition of this caption, with regard to the portfolios in which transactions in financial instruments took place (securities, currency, other financial instruments) and the nature of the revenues/costs which are included here (from valuations or elsewhere) is illustrated in a specific table in the explanatory notes.

Settlement dates

Transactions in securities and other negotiable instruments, transactions in foreign currencies, intercredit financings and cash positions are recorded in the financial statements according to the settlement date.

Section 2

Adjustments and provisions recorded for fiscal purposes

Value adjustments recorded solely for fiscal purposes

The reclassification of IMI's Reserve for possible loan losses, in terms of both the discounting charges and the generic risk on the loan book, has been booked on an "open balance" basis. This treatment, which was chosen solely for tax purposes, entailed booking to the statement of income higher value adjustments and higher extraordinary income.

Provisions recorded solely for fiscal purposes

The provision made to the special reserve under art. 7.3 of Law 218/90, of 172,520 million lire, represents the last amounts relating to the mergers with Crediop and BNC.

The provision in 1998 reduced distributable net income by 108,688 million lire, net of the tax effect. The full amount, 172,520 million lire, has been classified among shareholders' equity. The accumulated provisions now amount to 747,850 million lire, net of the portion used to pay the 1997 extraordinary capital tax levied under Law 461/92.

On the basis of the proposal to the extraordinary meeting, 575,330 million lire of this reserve is to be transferred to the legal reserve.

Part B - Balance sheet

Section 1 Loans

The Bank's loan portfolio is analyzed below by type of counterparty:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Cash and deposits with central banks and post offices (caption 10)	763,855	738,817	3.4
Due from banks (caption 30)	28,889,376	52,393,880	-44.9
Loans to customers (caption 40)	134,036,885	144,576,047	-7.3
Total	163,690,116	197,708,744	-17.2

Due from banks (caption 30)

Amounts due from banks are analyzed below by type of counterparty and technical form:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Due from central banks			
- compulsory reserve	1,043,477	4,515,094	-76.9
- other	5,121	77,788	-93.4
Due from other banks			
- repurchase agreements and securities loaned	9,190,742	8,528,852	+7.8
- current accounts	1,070,507	1,903,768	-43.8
- deposits	13,942,528	32,416,610	-57.0
- loans	3,442,372	4,773,124	-27.9
- subordinated loans	110,330	161,371	-31.6
- other	84,299	17,329	+386.5
Total	28,889,376	52,393,936	-44.9

The compulsory reserve with the Bank of Italy identified above reflects the year-end position. The difference versus last year is due to the regulations issued by the Bank of Italy that progressively reduced from 15 to 2,5% the incidence of the reserve on the total amount of deposits subject to it. The average annual rate of remuneration was 4,18%. The average level of the reserve during 1998 was 4,364,000 million lire, compared with 4,611,000 million lire in 1997.

Detail of caption 30 "Due from banks" (table 1.1 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
a) deposits with central banks	1,048,598	4,592,882	-77.2
b) bills eligible for refinancing with central banks	-	-	-
c) repurchase agreements	9,145,898	8,487,684	+7.8
d) securities loaned	44,844	41,168	+8.9

**Loans to customers
(caption 40)**

Loans to customers are analyzed below, by technical form:

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
Mortgage loans	71,371,709	72,643,044	-1.8
Current accounts	17,427,874	20,973,181	-16.9
Other forms of finance not in current accounts – Italian branches	14,491,085	15,479,788	-6.4
Repurchase agreements and securities loaned	8,351,289	8,544,510	-2.3
Other forms of finance not in current accounts – foreign branches	5,745,264	8,480,850	-32.3
Advances with recourse	4,761,537	5,956,464	-20.1
Non-performing loans	3,539,941	4,577,410	-22.7
Import-export loans	2,631,826	3,198,460	-17.7
Risk on portfolio	2,005,339	2,002,495	+0.1
Loans	1,421,780	2,204,847	-35.5
Personal loans	964,582	862,850	+11.8
Other loans to customers	1,324,659	725,371	+82.6
Total	134,036,885	145,649,270	-8.0

Detail of caption 40 "Loans to customers" (table 1.2 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
a) Bills eligible for refinancing with central banks	-	407,311	n.s.
b) Repurchase agreements	8,326,760	8,365,405	-0.5
c) Securities loaned	24,529	179,105	-86.3

The detail of “secured loans to customers” excluding those granted directly to State or public entities for 16,682,368 million lire (L. 18,368,140 million lire at 31 December 1997), is the following:

Secured loans to customers (table 1.3 B.I) *in millions of lire*

	31/12/98	31/12/97 (pro forma)	Change %
a) Mortgages	31,917,171	32,510,660	-1.8
b) Pledged assets:			
1. cash deposits	265,933	1,017,208	-73.9
2. securities (*)	10,487,823	10,304,694	+1.8
3. other instruments	313,802	329,544	-4.8
c) Guarantees given by:			
1. Governments	8,539,837	9,746,225	-12.4
2. other public entities	23,297	225,048	-89.6
3. banks	2,354,058	2,867,253	-17.9
4. other operators	14,127,908	17,839,018	-20.8
Total	68,029,829	74,839,650	-9.1

(*) They include 8,326,760 million lire at 31/12/98 and 8,365,405 million lire at 31/12/97 of repurchasing agreements and similar operations guaranteed by securities.

Secured loans to customers and those granted directly to Governments or other public entities represent 63.2% of total loans to customers (64.5% as of December 31, 1997).

Loans guaranteed by securities include 4 positions, totalling 85,648 million lire, gross of writedowns, secured on shares representing the majority of the capital of the companies concerned. In such cases, the Bank is the holder of the voting rights in order to protect its interests as a creditor. In particular, the loan to Sapam 2, amounting to 82,936 million lire, gross of writedowns, is secured against the entire capital of the company. This loan was granted as part of the restructuring of amounts due to the Bank from the Acqua Marcia group.

Degree of risk in loan portfolio

The principal and interest elements of loans are stated at their estimated realisable value by applying the policies described in detail in part A, section I of these notes. The related writedowns are effected via direct reduction of the balance sheet asset value of the loans concerned.

From 1998 onwards, the estimated realizable value of problem loans takes into account not only the likelihood of recovery, but also the financial cost of discounting loans at risk to factor in their total or partial lack of income generation and late repayment. Total adjustments as of December 31, 1998 for discounting purposes total 851,856 million lire, of which 49,946 million lire refers to specific writedowns of restructured loans made in prior years.

With regard to the classification of loans subject to lending risk, the categories encompassing restructured loans and loans being restructured have been identified in detail in accordance with Bank of Italy instructions on disclosure in banks' financial statements. In prior years, these loans were classified in other categories of lending risk, essentially under problem loans, depending on their characteristics.

<i>Analysis of loans to customers</i>				<i>in millions of lire</i>		
	31/12/98			31/12/97 (pro forma)		
	Gross value	Total adjustments	Net book value	Gross value	Total adjustments	Net book value
A. Doubtful loans	12,056,403	5,221,304	6,835,099	12,253,088	3,863,844	8,389,244
A.1 Non-performing loans	7,722,907	4,182,966	3,539,941	7,492,607	2,915,197	4,577,410
A.2 Problem loans	3,716,838	898,961	2,817,877	4,338,372	869,899	3,468,473
A.3 Loans currently being restructured	4,466	1,226	3,240	-	-	-
A.4 Restructured loans	350,723	63,417	287,306	-	-	-
A.5 Unsecured loans exposed to country risk	261,469	74,734	186,735	422,109	78,748	343,361
B. Performing loans	127,671,007	469,221	127,201,786	137,593,701	333,675	137,260,026
Total loans to customers	139,727,410	5,690,525	134,036,885	149,846,789	4,197,519	145,649,270

The degree of coverage on non-performing and problem loans, gross and net of write-offs made, has increased significantly and is due in part to the increase in adjustments for actualization purposes. In particular, the percentage of coverage on non-performing loans, gross of write-offs, was 66.5% compared with 55.3% of the end of 1997, while the equivalent figure for problem loans rose to 33.8% as against 26.2% a year earlier. Net of write-offs, the coverage ratio was 54.2% for non-performing loans (38.9% in 1997) and 24.2% for problem loans (20.3% in 1997). As regards the various types of loan, the highest level of coverage is for ordinary loans, while the percentages on property loans are lower given the existence of mortgage guarantees on these positions.

	31/12/98			31/12/97 (pro forma)		
	Gross value	Total adjustments	Net book value	Gross value	Total adjustments	Net book value
A. Doubtful loans	402,452	193,029	209,423	461,270	78,804	382,466
A.1 Non-performing loans	5,360	4,799	561	5,973	3,618	2,355
A.2 Problem loans	8,489	1,934	6,555	-	-	-
A.3 Loans currently being restructured	-	-	-	-	-	-
A.4 Restructured loans	-	-	-	-	-	-
A.5 Unsecured loans exposed to country risk	388,603	186,296	202,307	455,297	75,186	380,111
B. Performing loans	28,680,020	67	28,679,953	52,011,480	10	52,011,470
Total loans to banks	29,082,472	193,096	28,889,376	52,472,750	78,814	52,393,936

Non-performing loans (table 1.4.B.1.)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
Non-performing loans (net amount, including default interest)(*)	3,540,502	4,579,765	-22,7

(*) The balance as of December 31, 1997 includes default interest previously relating to IMI, since the reclassification of IMI's writedown reserve was carried out at the end of 1998. The 1998 amount does not include default interest as it was completely eliminated from the income statement. This amount also takes account of the higher adjustments for actualization.

Movements during the year in the Bank's lending exposure, gross of the related adjustments, are set out below:

	in millions of lire					
	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Loans being restructured	
A. Gross value as of January 1, 1998	7,492,607	4,338,372	-	-	422,109	
A.1 including: for default interest	1,335,732	131,335	-	-	-	
B. Increases	1,701,748	2,905,114	4,535	408,754	106,038	
B.1 inflows from performing loans	367,338	1,904,405	3,929	111,913	56,882	
B.2 default interest	338,520	38,282	-	8	-	
B.3 transfers from other categories of problem loans	689,032	272,429	606	296,662	-	
B.4 other increases	306,858	689,998	-	171	49,156	
C. Decreases	1,471,448	3,526,648	69	58,031	266,678	
C.1 outflows to performing loans	99,359	597,548	-	-	-	
C.2 write-offs	431,139	296,125	-	11,495	3,285	
C.3 collections	678,201	1,639,281	69	46,536	251,067	
C.4 disposals	-	-	-	-	-	
C.5 transfer to other categories of problem loans	260,103	986,299	-	-	12,326	
C.6 other decreases	2,646	7,395	-	-	-	
D. Gross value as of December 31, 1998	7,722,907	3,716,838	4,466	350,723	261,469	
D.1 including: for default interest	1,517,319	106,984	-	513	-	

Movements in doubtful amounts due from banks

in millions of lire

	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
A. Gross value as of January 1, 1998	5,973	-	-	-	455,297
A.1 including: for default interest	59	-	-	-	-
B. Increases during the year	1,715	8,489	-	-	56,711
B.1 inflows of performing loans	1,659	8,489	-	-	51,409
B.2 default interest	5	-	-	-	-
B.3 transfers from other categories of problem loans	-	-	-	-	-
B.4 other increases	51	-	-	-	5,302
C. Decreases	2,328	-	-	-	123,405
C.1 outflows to performing loans	-	-	-	-	-
C.2 write-offs	-	-	-	-	2,822
C.3 collections	2,328	-	-	-	120,583
C.4 disposals	-	-	-	-	-
C.5 transfer to other categories of problem loans	-	-	-	-	-
C.6 other decreases	-	-	-	-	-
D. Gross value as of December 31, 1998	5,360	8,489	-	-	388,603
D.1 including: for default interest	64	-	-	-	-

Movements during the year in adjustments made to loans granted to customers

in millions of lire

	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Total adjustments as of January 1, 1998	2,915,197	869,899	-	-	78,748	333,675
A.1 including: for default interest	1,310,883	127,419	-	-	-	32,390
B. Increases	1,913,324	628,582	1,226	78,342	36,061	335,523
B.1 Adjustments	1,718,380	495,136	1,036	26,805	36,061	241,459
B.1.1 including: for default interest	338,520	38,282	-	8	-	9,605
B.2 Use of reserves for possible loan losses	-	-	-	-	-	-
B.3 Transfer from other categories of problem loans	120,091	108,329	61	51,537	-	91,272
B.4 Other increases	74,853	25,117	-	-	-	2,792
C. Decreases	645,555	599,520	-	14,925	40,075	199,977
C.1 Writebacks from valuations	69,825	48,835	-	3,425	28,748	3,178
C.1.1 including: for default interest	-	-	-	-	-	-
C.2 Writebacks of collections	75,033	39,913	-	5	5,199	23,486
C.2.1 including: for default interest	54,971	23,560	-	-	-	22,690
C.3 Write-offs	431,139	296,125	-	11,495	3,285	81,784
C.4 Transfers to other categories of problem loans	66,810	211,988	-	-	1,754	90,738
C.5 Other decreases	2,748	2,659	-	-	1,089	791
D. Total adjustments as of December 31, 1998	4,182,966	898,961	1,226	63,417	74,734	469,221
D.1 including: for default interest	1,517,319	106,984	-	513	-	9,307

As already discussed, total adjustments include 851,856 million lire relating to the adoption of a policy of actualizing loans as of December 31, 1998. Writedowns for discounting purposes total 602,066 million lire on non-performing loans. 210,476 million lire to problem loans and 39,314 million lire on restructured and performing loans valued on a case-by-case basis. These writedowns did not affect the income statement, as they were off-set by the reclassification of the reserve for possible loan losses of IMI of 801,910 million lire reducing the book value, in addition to adjustments made in prior years for the discounting of restructured loans.

As explained in detail in the Preface to the Explanatory Notes, the accounting presentation of the effects of actualization on "open positions", through increased adjustments and extraordinary income from the credit risk reserve, has been effected exclusively in prudent application of the tax régime.

The remaining balance of this Reserve, 271,369 million lire, net of 72,595 million lire to cover loan losses during the year, has been allocated as follows: 1,290 million lire against default interest considered recoverable, 28,876 million lire to direct adjustments to loans for default interest, 6,130 million lire to direct adjustments to loans for principal; 72,595 million lire to cover loan losses for transactions and disposals recorded during the year and 162,477 million lire to supplement general adjustments on performing loans.

A breakdown (by category of risk) of IMI's reserves reclassified to writedown the book value of problem loans, is included in caption B.4 – other increases – in the above table.

Adjustments to performing loans include 590,942 million lire of loans under observation, covered by adjustments for writedowns of 59,823 million lire. In addition, estimated risk on other performing loans is covered by a writedown of 409.398 million lire. In addition, estimated assets that could emerge in relation to recoveries of principal and interest on loan positions previously written down amount to around 400,000 million lire.

Movements during the year in adjustments made to loans granted to banks

in millions of lire

	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
A. Total adjustments as of January 1, 1998	3,618	-	-	-	75,186	10
A.1 including: for default interest	59	-	-	-	-	10
B. Increases	1,732	1,934	-	-	134,576	57
B.1 Adjustments	1,732	1,934	-	-	134,576	57
B.1.1 including: for default interest	5	-	-	-	-	57
B.2 Use of reserves for possible loan losses	-	-	-	-	-	-
B.3 Transfers from other categories of problem loans	-	-	-	-	-	-
B.4 Other increases	-	-	-	-	-	-
C. Decreases	551	-	-	-	23,466	-
C.1 Writebacks from valuations	551	-	-	-	12,623	-
C.1.1 including: for default interest	-	-	-	-	-	-
C.2 Writeback of collections:	-	-	-	-	3,439	-
C.2.1 including: for default interest	-	-	-	-	-	-
C.3 Write-offs	-	-	-	-	2,822	-
C.4 Transfers to other categories of problem loans	-	-	-	-	-	-
C.5 Other decreases	-	-	-	-	4,582	-
D. Total adjustments as of December 31, 1998	4,799	1,934	-	-	186,296	67
D.1 including: for default interest	64	-	-	-	-	67

Loans to customers and banks resident in nations exposed to country risk

in millions of lire

	Total exposure as of 31/12/98	Of which: unsecured				Net exposure (pro forma) as of 31/12/97	Change %
		Gross exposure as of 31/12/98	Gross weighted exposure as of 31/12/98	Total adjustments as of 31/12/98	Net exposure as of 31/12/98		
Russia	1,025,123	284,150	284,150	170,540	113,610	312,021	-63.6
Brazil	130,838	113,235	86,332	34,818	78,417	123,580	-36.5
South Korea	41,660	41,660	36,004	7,201	34,459	115,640	-70.2
Qatar	100,770	36,350	36,350	5,453	30,897	-	n.s.
South Africa	33,062	33,062	33,062	4,959	28,103	-	n.s.
Thailand	36,681	30,193	28,459	4,269	25,924	52,559	-50.7
Argentina	92,299	26,873	26,862	5,276	21,597	13,741	+57.2
India	26,263	18,213	18,213	2,732	15,481	-	n.s.
Yugoslavia	10,329	10,329	10,329	8,295	2,034	-	n.s.
Venezuela	33,803	9,193	9,193	1,839	7,354	-	n.s.
Morocco	30,082	8,483	8,483	1,697	6,786	20,069	-66.2
Algeria	309,809	3,826	3,826	1,148	2,678	2,619	+2.3
Iran	289,812	268	268	67	201	-	n.s.
Bermuda	103,319	-	-	-	-	22,430	-100.0
Other countries	260,468	34,237	34,153	12,736	21,501	60,813	-64.6
Total	2,524,318	650,072	615,684	261,030	389,042	723,472	-46.2

Adjustments to unsecured loans exposed to country risk have been made by applying the writedown percentages agreed industry-wide by the Italian bankers' association. The Bank has not applied the additional percentages resulting from a review of the valuation methods for country risk to the reduced extent of 70%, as would be permitted on a provisional basis under certain circumstances. In particular, a writedown percentage of 60% has been confirmed for unsecured loans to customers resident in Russia, as already applied at the time the interim report was prepared.

Secured loans, amounting to 1,874,246 million lire, are insured by SACE or by sureties from banking operators in the OECD area (1,118,237 million lire) and by other forms of guarantee deemed adequate to cover the lending risk (756,009 million lire). The latter include mainly loans for 514,142 million lire granted to Rao Gazprom (Russia) and for 161,177 million lire to the National Iranian Oil Company (oil company of the Iranian State), that are guaranteed by loans deriving from supply contracts towards main West European companies. In compliance with norms issued by the Bank of Italy, the "risk country" factor is calculated also on these loans, and it reduces the regulatory capital.

Other information relating to loans

Information regarding the distribution of loans, by category of borrower, industry, geographical area, currency and maturity, is provided in part B, section 11 of these notes.

Section 2 Securities

Securities owned by the Bank are analyzed as follows:

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
Treasury bills and similar bills eligible for refinancing with central banks (caption 20)	8,670,301	12,819,903	-32.4
Bonds and other debt securities (caption 50)	20,624,605	20,133,370	+2.4
Shares, quotas and other equities (caption 60)	1,238,211	1,482,681	-16.5
Total	30,533,117	34,435,954	-11.3
of which:			
• investment securities	2,893,894	3,916,225	-26.1
• dealing securities	27,639,223	30,519,729	-9.4

“Treasury bills and similar bills eligible for refinancing with central banks” represent securities which may be used for refinancing purposes; at the balance sheet date, securities had not been used for this purpose.

Investment securities

Investment securities, 2,893,894 million lire, are held for the long term as a stable investment.

This choice was made at the time of purchase, considering the following factors:

- the existence of related forms of funding;
- the existence of specific control regulations applied in the countries in which foreign branches are operating;
- the securities are not readily marketable because, for example, they were previously issued to secure loans granted by the Bank.

Securities held for the long term and generally through to redemption have characteristics rendering them particularly suitable as stable investments.

Investment securities (table 2.1 B.1)

in millions of lire

	31/12/98		31/12/97 (pro forma)	
	Book value (a)	Market value (b)	Book value (a)	Market value (b)
I. Debt securities				
I.1 Government securities				
- quoted	2,607,643	2,720,169	3,546,400	3,646,634
- unquoted	-	-	-	-
I.2 other securities				
- quoted	192,115	159,015	80,148	78,073
- unquoted	94,136	77,320	289,677	292,302
II. Equities				
- quoted	-	-	-	-
- unquoted	-	-	-	-
Total	2,893,894	2,956,504	3,916,225	4,017,009

(a) After year-end writedowns.

(b) The market value of quoted securities is determined with reference to the simple average of prices over the second half of the year.

A comparison between the market value and book value of “Government securities” reveals a net unrealized, unrecorded gain of 62,771 million lire on securities not hedged by derivative contracts and 49,755 million lire on securities hedged by interest rate swaps. The valuation of these derivatives reveals an unrealized loss of 51,807 million lire.

“Other securities”, with a difference between market and book value include South American and Eastern Europe securities covered by a US Treasury guarantee, the value of which on maturity covers 100% of the face value of the security. Certain securities issued by residents of Russia and sharing a capital loss have been general valued according to the Italian bankers’ association’s criteria.

<i>Changes in investment securities during the year (2.2 B.I)</i>	<i>in millions of lire</i>
A. Opening balance – pro forma	3,916,225
B. Increases	
B1. purchases	12,131
B2. writebacks	-
B3. transfers from dealing portfolio	-
B4. other changes	6,382
C. Decreases	
C1. sales	-
C2. redemption	919,588
C3. adjustments	50,506
including:	
<i>permanent writedowns</i>	50,506
C4. transfers to dealing portfolio	-
C5. other changes	70,750
D. Closing balance	2,893,894

The subcaption B1 “purchases” refers solely to securities issued by resident in Russia against the payment of overdue interest on restructured loans.

Subcaptions B4. “Increases - other changes” and C5. “Decreases - other changes” reflect exchange differences on securities denominated in foreign currency and accrued issue and dealing discounts.

The adjustments reported in subcaption C3 (of which 48,275 million lire relates to securities issued by banks resident in Russia) were required to adjust the carrying value of securities issued by countries at risk, deriving from the conversion of loans, to the industry writedown percentages agreed during the second half of the year which also confirmed the 60% writedown percentage applied to securities issued by residents in Russia at the time the first half report was prepared.

During the year, there have not been any transfers from the investment portfolio to the dealing portfolio, or vice-versa.

The total book value of investment fixed income securities, split by category, is 49,847 million lire lower than the redemption value. This amount is determined by lower redemption values compared with book values due to issue and dealing discounts that is shown in the income statement on an accruals basis for 29,927 million lire and higher redemption values for 79,774 million lire.

In accordance with the resolutions voted by the Board of Directors of the Bank, the limit of the investment securities portfolio is currently the lower of:

- 15% of the total securities owned;
- regulatory capital.

Both are considerably higher than the total amount of investment securities.

Dealing securities

These securities, held for treasury and dealing purposes, amount to 27,639,223 million lire, and comprise:

- L. 18,858,464 million lire linked to derivative contracts
- L. 8,780,759 million lire not linked to derivative contracts

Dealing securities (table 2.3 B.I)

in millions of lire

	31/12/98		31/12/97 (pro forma)	
	Book value (a)	Market value (b)	Book value (a)	Market value (b)
1. Debt securities	18,972,994	18,972,994	18,979,150	18,993,834
1.1 Government securities	18,972,994	18,972,994	18,979,150	18,993,834
- quoted	18,606,119	18,606,119	18,974,781	18,989,365
- unquoted	366,875	366,875	4,369	4,469
1.2 other securities				
- quoted	2,394,584	2,394,584	3,445,746	3,460,472
- unquoted	5,033,434	5,052,816	6,612,150	6,621,102
2. Equities				
- quoted	1,236,687	1,236,687	1,480,945	1,494,934
- unquoted	1,524	1,524	1,736	1,736
Total	27,639,223	27,658,605	30,519,727	30,572,078

(a) After year-end valuation, made using current accounting policies.

(b) Market value determined in accordance with current accounting policies.

As indicated in the introduction to these notes, the change in the accounting policy applied to determine the cost of dealing securities has had a positive impact on the statement of income of 25,233 million lire, gross of the tax effect.

Unquoted dealing securities not linked to derivative contracts, valued at the lower of cost and market, have led to writedowns and writebacks for 33,236 million lire and 561 million lire. In addition, this portfolio shows unrecorded, unrealized gains on dealing securities of 19,382 million lire, in addition to unrecorded, unrealized net gains of 548 million lire arising from the valuation of transactions in listed securities still to be settled.

Own bonds held for dealing purposes amount to 1,022,775 million lire.

<i>Changes in dealing securities during the year (2.4 B.)</i>		<i>in millions of lire</i>
A. Opening balance – pro forma		30,519,727
B. Increases		
B1. purchases		
- debt securities		
- government securities		362,675,715
- other securities		101,544,210
- equities		19,350,779
B2. writebacks and revaluations		24,598
B3. transfers from investment portfolio		-
B4. other changes		799,943
C. Decreases		
C1. sales and redemption		
- debt securities		
- government securities		362,550,898
- other securities		103,671,863
- equities		20,097,152
C2. adjustments		33,614
C3. transfers to investment portfolio		-
C5. other changes		922,222
D. Closing balance		27,639,223

Subcaption B4. "Increases - other changes" is detailed as follows:

<i>B4. "Increases - other changes"</i>		<i>in millions of lire</i>
Exchange differences		56,319
Net dealing income		667,544
Accrued issue discounts		5,152
Transfers from investment portfolio		70,928
Total other changes		799,943

Subcaption C5. "Decreases - other changes" reflects exchange differences on foreign currency securities.

Other information relating to securities

The composition of the securities portfolio is analyzed by geographical area, currency and liquidity in part B, section 11 of these notes.

Section 3 Equity investments

Equity investments, reported in asset captions 70 and 80 are detailed below:

	31/12/98	31/12/97 (pro forma)	Change %
Equity investments (caption 70)	1,587,839	1,523,775	+4.2
Investments in Group companies (caption 80)	4,690,814	4,685,380	+0.1
Total	6,278,653	6,209,155	+1.1
of which:			
• significant investments	5,012,742	5,064,456	-1.0
• other holdings	1,265,911	1,144,699	+10.6

in millions of lire

The pro forma figure at 31/12/97 includes 125,599 million lire of revaluations carried out on foreign currency investments at historical costs, deriving from IML. In compliance with Art. 21 of Legislative Decree 213/98 these investments have been valued at current exchange rate: the amount of the revaluation has been credited to equity reserves for 79,099 million lire and to the reserves for deferred taxation for 46,455 million lire, for investments in currencies participating in the Euro, while 45 million lire relating to investments in currencies not participating in the Euro have been booked to the statement of income. The pro forma figure at 31/12/97 is also net of 417,180 million lire stake in the former San Paolo held by the former IML.

Significant investments

Significant investments held by the Bank, being those in subsidiary companies or in companies subject to significant influence, as defined in articles 4 and 19 of Decree 87/92, are indicated in the table below:

Name of company	Registered offices	Business activity	Shareholders' equity (a)	Net income (loss)	Percentage ownership	Book value
<i>A. Subsidiary companies</i>						
Apokè Six Srl	Milan	non-finance	3,915	397	100.00	-
Apokè Two Srl (in liquidation)	Milan	non-finance	-15,490	-3,715	94.67	-
Banca Fideuram SpA	Milan	banking	769,122	177,932	74.09	110,207
Banque Sanpaolo SA	Paris	banking	816,640	80,908	100.00	747,195
Bim Imi SpA	Milan	banking	644,223	61,196	100.00	557,974
Consorzio Studi e Ricerche Fiscali	Rome	tax consultancy	500	-	50.00	250
Crediop Finance Plc in liquidation	London	finance	56	-	100.00	45
Crediop SpA	Rome	banking	972,651	104,786	60.00	523,500
Euke Srl in liquidation	Milan	holding company	259	116	100.00	-
Fidimi Consulting SpA in liquidation (b)	Rome	non finance	366	69	100.00	200
Finconsumo SpA	Turin	finance	51,461	11,160	50.00	24,636
Gedit SA	Luxembourg	holding company	152	633	90.00	-
Imi Abn Amro Investments SpA	Milan	finance	1,043	17	50.00	500
Imi Fideuram Asset Management Sim SpA	Milan	fin. consultancy	22,823	9,310	50.00	10,016
Imi Funding Corp.	New York	finance	349	24	100.00	138
Imi International SA	Luxembourg	finance	1,296,271	62,296	100.00	555,871
Imi Lease SpA	Rome	finance	418,546	29,561	100.00	372,819
Imibank International SA	Madeira	banking	366,831	14,558	69.01	182,986

continue

Significant investments (table 3.1 B.I)

in millions of lire

Name of company	Registered offices	Business activity	Shareholders' equity (a)	Net income (loss)	Percentage ownership	Book value
Imifin SpA in liquidation	Rome	finance	-61	-73	100.00	-
Imigest Immobiliare SpA	Rome	holding company	85,398	-6,837	100.00	33,000
Imitec SpA	Rome	operating	5,755	58	100.00	5,000
Intersim SpA	Milan	stockbroking	35,076	48,511	100.00	31,602
Ldv Holding Bv	Amsterdam	finance	99,131	1,079	100.00	97,974
Prospettive 2001 SpA (c)	Milan	non finance	40,284	-13,392	100.00	25,533
Sanpaolo Asset Management Sim SpA	Milan	trust management.	21,230	5,996	95.88	21,610
Sanpaolo Bank Ireland Plc	Dublin	banking	721,403	51,896	100.00	715,622
Sanpaolo Bank SA	Luxembourg	banking	70,171	8,530	100.00	78,840
Sanpaolo Fiduciaria SpA	Turin	trust management	2,939	337	100.00	2,350
Sanpaolo Fondi SpA	Turin	mutual funds	34,557	21,558	100.00	82,676
Sanpaolo Gestion Internationale SA	Luxembourg	finance	3,338	2,124	100.00	5,298
Sanpaolo Immobiliare SpA	Turin	finance	12,790	7,006	100.00	5,784
Sanpaolo Invest Sim SpA	Rome	sales network management	63,964	27,338	100.00	13,343
Sanpaolo Leasint SpA	Milan	leasing	98,834	9,839	100.00	105,257
Sanpaolo Riscossioni Genova SpA	Genoa	tax collection	6,519	4,358	100.00	7,794
Sanpaolo Riscossioni Prato SpA	Prato	tax collection	2,051	1,781	100.00	5,132
Sanpaolo Services SA	Luxembourg	operating	484	-	99.60	482
Sanpaolo Us Financial Co.	Wilmington	finance	126	10	100.00	2
Sanpaolo Us Holding Co. in liquidation	Wilmington	finance	5,169	-2,890	100.00	5,169
Sanpaolo Vita SpA	Milan	insurance	185,383	24,181	100.00	384,143
Sep SpA	Turin	services	3,043	354	100.00	3,000
Spb I 650 Van Ness Corp.	Los Angeles	operating	-	-	100.00	-
Spb Delta Towers Llc	New York	operating	2	-	100.00	2
Total						4,715,950

(a) Excluding share of net income due for distribution.

(b) Financial statements as of December 31, 1998 not yet approved.

(c) At June 30, 1998.

Significant investments (table 3.1 B.I)

in millions of lire

Name of company	Registered offices	Business activity	Shareholders' equity (a)	Net income (loss)	Percentage ownership	Book value
<i>B. Companies subject to significant influence</i>						
Banca Italo-Romena SpA	Rome	banking	28,007	386	20.00	4,600
Bnc Assicurazioni SpA	Rome	insurance	288,945	7,646	30.00	88,365
Cbe Service Sprl	Bruxelles	non finance	48	-	20.00	10
Consorzio Bancario Sir SpA in liquidation (b)	Rome	finance	3,225	-10	32.49	975
Consorzio Usas	Turin	services	909	4	23.09	200
Esatri SpA	Milan	tax collection	62,460	29,254	31.50	8,187
Eurofondo SCpA (b)	Rome	finance	374	-48	25.00	22
Finexpance SpA in liquidation (b) (d)	Lavagna	non finance	516	-	30.00	-
Finnat Investments SpA	Rome	finance	1,547	1,137	20.00	220
Galileo Holding SpA in liquidation (b)	Venice	holding company	-19,377	-41,796	31.52	-
Gedeam I.G. SA (b)	Luxembourg	holding company	355,334	-4,552	49.26	157,486
Giorgio Grati SpA	Ancona	non finance	21,254	-1,527	20.00	2,500
Inter Europa Bank RT	Budapest	banking	92,316	3,163	32.51	33,927
Napoli Orientale SCpA.	Naples	non finance	500	-	20.00	100
Società Italiana Monitoraggio SpA (b)	Rome	non finance	2,119	-555	20.00	200
Tecnation SpA in liquidation (c)	Turin	non finance	376	-404	32.50	-
Total						296,792

(a) Excluding share of net income due for distribution.

(b) Financial statements as of December 31, 1997.

(c) Final financial statements for liquidation as of 20/12/98.

(d) Position covered and losses not expected.

As described in part A, section I of these notes, the difference between the book value of significant investments and the value of the Bank's share of their latest reported shareholders' equity, if lower, can generally be justified as goodwill and the higher market value of their tangible fixed assets.

In particular:

- the book value of Apokè Two, formed as part of the debt restructuring of the Uno Holding group, was written off in 1995. In regard to the negative shareholders' equity resulting from the financial situation prepared as of December 31, 1998, which has been considerably reduced during the year as a result of the waiver of loans on the part of the Bank, this will be offset by future gains on the liquidation of assets. In addition, it is worth noting that the cost to the Bank of such restructuring is already covered by specific reserves.
- The differences relating to Sanpaolo Bank, Sanpaolo Fondi, Sanpaolo Gestion Internationale, Sanpaolo Riscossioni Prato, Sanpaolo Riscossioni Genova, Sanpaolo Vita, Finconsumo, Bnc Assicurazioni and Inter Europa Bank reflect purchased goodwill representing the income-earning potential of the individual companies. The controlling interest in Sanpaolo Vita was acquired during 1996 and the higher book value with respect to its shareholders' equity reflects goodwill determined with reference to independent appraisals.
- As regards the investment in Galileo Holding, acquired as part of the restructuring of the related group, the company's equity deficit should be offset by the effect of the proposed debt restructuring. The Bank's exposure to the company is covered by specific loan writedowns.

Other equity investments

Other important equity investments are listed below:

			<i>in millions of lire</i>
Name and location of registered offices	Business activity	Percentage ownership	Book value
Telecom Italia SpA - Turin	telecommunications	0.75	451,248
Ina SpA - Rome	insurance	3.00	235,875
Banco Santander SA - Madrid	banking	0.46	169,876
Banca d'Italia - Rome	banking	2.00	106,414
Eni SpA - Rome	non finance	0.11	54,298
Unim SpA - Rome	non finance	2.56	44,375
Mediaset SpA - Milan	non finance	0.41	33,220
Banco del Desarrollo SA - Santiago del Cile	banking	16.21	30,907
Credito Bergamasco SpA - Milan	banking	1.34	29,377
Biat SA - Tunisi	banking	6.73	15,200
Simest SpA - Rome	finance	3.31	9,308
Banca Mediocredito SpA - Turin	banking	1.11	8,153
Eurotunnel - Folkestone	non finance	0.25	7,960
Rimoldi Necchi Srl - Milan	non finance	16.92	6,000
Banksiel SpA - Milan	services	7.00	5,475
Cedel International SA - Luxembourg	banking	1.32	5,460
Fata Group SpA - Turin	non finance	13.17	5,200
Others			47,565
Total			1,265,911

Composition of investment portfolio

Analysis of caption 80 - Investments in Group companies (table 3.5 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
a) Investment in banks	2,916,324		
1. quoted	110,207	108,516	+1.6
2. unquoted	2,806,117	1,720,212	+63.1
b) Investment in financial institutions			
1. quoted	-	-	
2. unquoted	1,355,879	2,427,395	-44.1
c) Other investments			
1. quoted	-	-	
2. unquoted	418,611	429,257	-2.5
Total	4,690,814	4,685,380	+0.1

Analysis of caption 70 - Equity investments (table 3.4 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
a) Investment in banks	409,256	1,828,728	
1. quoted	248,401	15,200	+1534.2
2. unquoted	160,855	260,378	-38.2
b) Investment in financial institutions			
1. quoted	-	-	
2. unquoted	65,504	46,056	+42.2
c) Other investments			
1. quoted	829,071	856,271	-3.2
2. unquoted	284,008	345,870	-17.9
Total	1,587,839	1,523,775	+4.2

Changes during the year in the investment portfolio

Investments in Group companies (table 3.6.1 B.I)

in millions of lire

A. Opening balance - pro forma	4,685,380
B. Increases	
B1. purchases	605,141
B2. writebacks	-
B3. revaluations	-
B4. other changes	37,035
C. Decreases	
C1. sales	525,166
C2. adjustments	33,815
including:	
permanent writedowns	33,815
C3. other changes	77,761
D. Closing balance	4,690,814
E. Total revaluations	83,385
F. Total adjustments	915,493

The subcaption B I "Purchases" is mainly influenced by the following transactions:

- the subscription of a capital increase of BIM IMI SpA, for a total of 450 billion lire, partly by transfer of Imi Investments and partly by transfer of capital for the acquisition of IMI Bank (Lux) SA;
- the capitalization of the associated company Ldv Holding Bv (Holland) for a total amount of 75,455 million lire;
- the total subscription of the capital increase of the subsidiary Sanpaolo Vita SpA for 50 billion lire;
- the purchase of total control of Prospettive 2001 SpA for an amount of 9,533 million lire;
- the purchase of total control of Sanpaolo Fondi by acquiring the residual investment for L, 6,207 million lire from the Hambros group;
- the acquisition of 100% of Sanpaolo Gestion Internationale SA from Sanpaolo Bank SA for 5,323 million lire.

The subcaption C I "Sales" refers mainly to the following transactions:

- transfer of the investment in Imi Bank SA to BIM IMI SpA for 191,933 million lire and transfer of Imi Investments SA to the same company for 263,877 million lire;
- sale of the investment in Sotim Srl to Fin.Cab SpA, finance company of the Patti Group, for 20,575 million lire;
- sale of the subsidiary Turis AG to Banca Fideruram SpA, for 47,479 million lire and a loss on sale of 19,028 million lire.

Subcaptions B4. "Increases - other changes" and C3. "Decreases - other changes" are detailed below:

<i>B4. "Increases - other changes"</i>	<i>in millions of lire</i>
Gains on disposals	1,260
Translation effect	4,410
Revaluation of Imi Funding Corp., as per Legislative Decree 213/98	35
Waiver by the Bank of loans to Apokè Six Srl	31,330
Total	37,035

<i>C3. "Decreases - other changes"</i>	<i>in millions of lire</i>
Losses on disposals	19,028
Translation effect	39,255
Partial liquidation of Crediop Finance Plc	871
Partial liquidation of Euke Srl	14,632
Partial liquidation of Fidimi Consulting SpA	600
Liquidation Sige Services Srl	3,234
Liquidation Sanpaolo Vermoögensverwaltung GmbH	141
Total	77,761

A. Opening balance - pro forma	1,523,775
B. Increases	
B1. purchases	375,296
B2. writebacks	-
B3. revaluations	-
B4. other changes	99,138
C. Decreases	
C1. sales	199,715
C2. adjustments	91,259
including:	
permanent writedowns	91,259
C3. other changes	119,396
D. Closing balance	1,587,839
E. Total revaluations	206,659
F. Total adjustments	550,759

The subcaption B I “Purchases” is mainly influenced by the following transactions:

- purchase on the market of shares in Banco Santander Sa, for a total of 169,876 million lire;
- acquisition of joint control, together with the Santander Group, of FinconsumoSpA for 19,500 million lire;
- subscription to the Bank’s quota of the capital increase in Inter Europa Bank Rt, for an amount of L.5,626 million lire and the purchase of shares on the market for 1,690 million lire;
- the purchase from Banca Popolare di Verona of an interest in Credito Bergamasco SpA for 150 billion.

The subcaption C I “Sales” refers mainly to the following transactions:

- sale to Banca Popolare di Verona of a stake in Credito Bergamasco for 50,446 million lire, with a capital gain of 446 million lire;
- sale of a 32% investment in Ruegg Bank AG to Société Générale for 32,882 million lire with a capital gain of 10,462 million lire. The overall profit on disposal of this investment amounts to 23 billion lire, also considering the extraordinary dividends distributed by the company;
- sale of Mediaset shares for 28,462 million lire with a capital gain of 11,687 million lire;
- sale of a quoted investment in Acquedotto Nicolay SpA for 17,237 million lire with a capital gain of 2,353 million lire;
- sale to the Gavio Group of an interest in Sitaf SpA for 11,304 million lire with a capital gain of 2,995 million lire;

- sale of an interest in Meliorbanca SpA to SirefSpA for 10,575 million lire with a capital gain of 2,514 million lire;
- sale of an investment in Finmeccanica SpA for 7,048 million lire and a capital gain of 3,853 million lire.

Subcaptions B4. "Increases - other changes" and C3. "Decreases - other changes" are detailed below:

<i>B4. "Increases - other changes"</i>	<i>in millions of lire</i>
Gains on disposals	39,752
Translation effect	119
Revaluation of Interfund Sicav as per Decree. 213/98	10
Allocation of Unim SpA shares following the spin-off from INA SpA	44,375
Reclassification to equity investments of loans from Eurotunnel	14,882
Total	99,138

<i>C.3 "Decreases - other changes"</i>	<i>in millions of lire</i>
Losses on disposals	2,950
Translation effect	933
Replacement of INA SpA shares with Unim SpA shares for spin-off from INA SpA	44,375
Transfer to dealing portfolio	70,928
Partial liquidation of Finlombarda Leasing SpA	210
Total	119,396

Transfer to dealing portfolio refer to shares of Credito Bergamasco SpA (70,623 million lire) and Finmeccanica SpA (305 million lire).

Total revaluations and adjustments, identified in the above table, include all the revaluations and adjustments recorded over time in relation to equity investments held at year-end.

The spin-off transaction carried out by INA SpA determined the transfer of the investment in Unim SpA (beneficiary of the spin-off) for 44,375 million lire against the reduction of the investment held in INA SpA.

Amounts due to and from Group companies and investments (non-Group companies)

The following table sets out the amounts due to and from companies belonging to the San Paolo IMI Banking Group, as defined pursuant to article 4 of Legislative Decree 87/92, and the amounts due to and from investments that are not part of the Group:

Amounts due to and from Group companies (table 3.2 B.I)

in millions of lire

	31/12/98
a) Assets	
1. due from banks	3,719,886
of which:	
- subordinated	67,769
2. due from financial institutions	3,255,222
of which:	
- subordinated	-
3. due from other customers	410,773
of which:	
- subordinated	-
4. bonds and other debt securities	679,608
of which:	
- subordinated	39,462
Total assets	8,065,489
b) Liabilities	
1. due to banks	10,941,269
2. due to financial institutions	2,212,227
3. due to other customers	7,711
4. securities issued	-
5. subordinated liabilities	15,588
Total liabilities	13,176,795
c) Guarantees and commitments	
1. guarantees given	12,786,054
2. commitments	155,376
Total guarantees and commitments	12,941,430

Amounts due to and from investments (non-Group companies) (table 3.3 B.I)

in millions of lire

	31/12/98
a) Assets	
1. due from banks (*)	1,484,198
of which:	
- subordinated	560
2. due from financial institutions	764,918
of which:	
- subordinated	-
3. due from other customers	2,770,237
of which:	
- subordinated	-
4. bonds and other debt securities	510,601
of which:	
- subordinated	-
Total assets	5,529,954
b) Liabilities	
1. due to banks	312,738
2. due to financial institutions	144,671
3. due to other customers	345,641
4. securities issued	-
5. subordinated liabilities	-
Total liabilities	803,050
c) Guarantees and commitments	
1. guarantees given	781,354
2. commitments	63,135
Total guarantees and commitments	844,489

(*) Including the compulsory reserve deposited with the Bank of Italy

Details of revenues and expenses arising from transactions with Group companies, and with investments that are not part of the Group, are included in part C, section 7 of these notes.

Other information relating to equity investments

The information required pursuant to article 10 of Law 72/83 regarding revaluations recorded in prior years by San Paolo IMI is set out in an attachment to the financial statements.

	<i>in millions of lire</i>
Cost pre revaluations	5,988,609
L. 576/75 (a)	582
L. 72/83 (a)	83,385
L. 218/90 (b)	148,036
Merger of Crediop	58,041
Total revaluations	290,044
Gross book value	6,278,653

(a) Revaluations carried out by San Paolo when it was a public credit institution before restructuring, including revaluations by merged banks.

(b) Higher values attributed at the time of the Bank's transformation into a limited company.

The detail concerning relationships is given in the report on operations.

Section 4 Tangible and intangible fixed assets

The Bank's tangible and intangible fixed assets, reported in asset captions 100 and 90 are detailed below:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Tangible fixed assets (caption 100)	2,572,421	2,803,502	-8.2
Intangible fixed assets (caption 90)	370,306	426,769	-13.2
Total	2,942,727	3,230,271	-8.9

Tangible fixed assets (caption 100)

Tangible fixed assets comprise the following:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Property	2,462,770	2,676,000	
- operating	1,934,959	2,204,844	-12.2
- non-operating	527,811	471,156	+12.0
Furniture and installations	109,651		
- vehicles	406	674	-39.8
- office furniture and machines	28,917	37,068	-22.0
- electronic machines	54,240	57,400	-5.5
- general and specific installations	26,088	32,360	-19.4
Total	2,572,421	2,803,502	-8.2

Changes in tangible fixed assets during the year (table 4.1 B.I)

in millions of lire

A. Opening balance - pro forma	2,803,502
B. Increases	
B1. purchases	85,252
B2. writebacks	-
B3. revaluations	-
B4. other changes	25,184
C. Decreases	
C1. sales	135,264
C2. adjustments	
a) depreciation	202,582
b) permanent writedowns	-
C3. other changes	3,671
D. Closing balance	2,572,421
E. Total revaluations	2,421,617
F. Total adjustments	
a) accumulated depreciation	2,232,077
b) permanent writedowns	28,440

Changes in tangible fixed assets during the year are detailed below:

	<i>in millions of lire</i>	
	Property	Furniture and installations
Opening balance - pro forma	2,675,999	127,503
Increases		
- purchases	1,576	83,676
- other changes:		
- incremental costs	9,439	-
- gains on disposals	15,046	698
- exchange differences	1	-
Decreases		
- sales	133,522	1,729
- adjustments		
- depreciation	104,651	97,931
- permanent writedowns		
- other changes		
- losses on disposals	1,118	2,278
exchange differences		288
Closing balance	2,462,770	109,651
Total revaluations	2,421,617	-
Total adjustments		
- accumulated depreciation	1,037,061	1,195,016
- permanent writedowns	28,440	-

Advances paid for the purchase of tangible fixed assets totaled 1,494 million lire at year-end.

The table attached shows the list of properties, with indication of dimensions and book values.

Properties are depreciated according to their residual useful life: in 1998 the depreciation charge was 104,561 million lire. In the event of a enduring loss of value, the property is adequately written down.

**Intangible fixed assets
(caption 90)**

They comprise the following:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Merger differences (goodwill of merged companies)	228,115	298,887	-23.7
Software in use	44,431	44,334	+0.2
Software not yet in use	76,013	55,781	+36.3
Other deferred charges	21,747	27,767	-21.7
Total	370,306	426,769	-13.2

A. Opening balance - pro forma	426,769
B. Increases	
B1. purchases	87,401
B2. writebacks	-
B3. revaluations	-
B4. other changes	11,244
C. Decreases	
C1. sales	21
C2. adjustments	
a) amortization	143,478
b) permanent writedowns	-
C3. other changes	11,609
D. Closing balance	370,306
E. Total revaluations	-
F. Total adjustments	
a) accumulated amortization	503,114
b) permanent writedowns	-

Changes in intangible fixed assets during the year are detailed below:

	in millions of lire			
	Merger differences (goodwill of merged companies)	Software in use	Software not yet in use	Other deferred charges
Opening balance - pro forma	298,887	44,334	55,781	27,767
Increases				
- purchases	-	24,855	56,744	5,803
- other changes:				
- transfer of software developed in 1998			11,244	
Decreases				
- sales	-	18		3
- adjustments:				
- amortization	70,772	35,855	25,268	11,583
- permanent writedowns	-	-		-
- other changes:				
- transfer of software developed in 1998				11,244
- exchange differences and other changes		128		237
Closing balance	228,115	44,432	76,013	21,747
Total revaluations	-	-		-
Total adjustments				
- accumulated amortization	387,983	48,492	46,502	20,137
- permanent writedowns	-	-	-	-

The differences arising on the mergers of Banca Provinciale Lombarda and Banco Lariano in 1993 and that of Crediop in 1995 are recorded in the financial statements since they represent goodwill relating to merged companies. Such differences are stated net of the amounts allocated to the related assets acquired.

Increases in software in use relate to operating systems, for 24,854 million lire, in particular, to the acquisition of new programs to update operating network procedures and for 11,244 million lire to software that became operative during the year.

The purchases of “software not yet in use” relate to programs being developed by third parties.

Other deferred charges include leasehold improvements of 21,583 million lire.

Changes and new software applications with a useful life over more than one year connected to the introduction of Euro are included in “software not yet in use” for 10,488 million lire and in “software in use” for 3,466 million lire.

No advances have been paid for the purchase of intangible fixed assets.

Other information relating to tangible and intangible fixed assets

The information required pursuant to article 10 of Law 72/83, regarding revaluations recorded in prior years by San Paolo, including the period prior to the transformation into a limited company, is set out below:

	<i>In millions of lire</i>
Historical cost	1,106,654
Law 823/73 (a)	37,948
Law 576/75 (a)	41,215
Law 72/83 (a)	403,660
Others (a)	19,576
Law 218/90 (b)	1,128,751
Law 408/90 (a)	460,394
Law 413/91 (a)	71,663
Merger of Banca Provinciale Lombarda and Banco Lariano	235,751
Merger of Crediop	22,659
Total revaluations	2,421,617
Gross book value	3,528,271

(a) Revaluations carried out by the Bank and by the merged banks.

(b) Higher values attributed at the transformation from a public credit institution into a limited company

Section 5 Other assets



Asset captions 130 and 140 comprise the following:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Other assets (caption 130)	17,004,326	16,836,733	+1.0
Accrued income and prepaid expenses (caption 140)	8,699,014	11,676,206	-25.6
Total	25,703,339	28,512,939	-9.9

Other assets (caption 130)

Analysis of caption 130 "Other assets" (table 5.1 B I)

	<i>in millions of lire</i>		
	31/12/98	31/12/97 (pro forma)	Change %
Valuation of derivatives on interest rates and stockmarket indices	8,675,280	7,464,255	+16.2
Unprocessed transactions (a)	1,733,405	2,150,765	-19.4
Amounts in transit between branches (a)	1,957,147	1,326,037	+47.6
Transactions by foreign branches	1,173,762	1,447,868	-18.9
Due from tax authorities	1,227,464	1,577,654	-22.2
- tax credits relating to prior years	452,080	612,690	-26.2
- tax withholdings overpaid during the year on bank interest income	123,960	377,868	-67.2
- taxes withheld during the year	163,722	277,206	-40.9
- taxes paid in advance on termination indemnities (Law 662/96)	86,175	51,897	n,s
- prepaid current year direct taxes	401,527	257,993	+55.6
Deposits with clearing-houses	414,718	0	
Effect of currency hedges, forex swap and cross-currency swap transactions	379,274	604,867	-37.3
Net effect of translating funds from international agencies using current rates, with the exchange risk borne by third parties	93,403	596,100	-84.3
Deposits with clearing-houses to secure derivative contracts	41,415	126,670	-67.3
Premiums paid on purchased options	46,618	111,586	-58.2
Cheques and other instruments held	53,190	91,449	-41.8
Items relating to securities transactions	42,474	59,285	-28.4
Advance of current income taxes in excess of that due	-	86,000	n,s
Other	1,166,177	1,194,197	-2.3
Total	17,004,325	16,836,733	+1.0

(a) Mostly settled at the beginning of 1999.

The above assets have not been written down.

Accrued income and prepaid expenses (caption 140)

Analysis of caption 140 "Accrued income and prepaid expenses" (table 5.2 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
Accrued income			
- income from derivative contracts (a)	5,170,663	7,664,638	-32.5
- interest from loans to customers	1,494,776	1,889,977	-20.9
- interest on securities	618,747	983,288	-37.1
- bank interest	130,628	555,869	-76.5
- other income	16,142	30,806	-47.6
Prepaid expenses:			
- current income taxes paid in advance	928,091	200,000	+364.0
- charges on derivative contracts	80,879	116,488	-30.6
- commission on placement of securities and mortgage loans	186,244	130,337	+42.9
- discounts on bond issues	9,944	14,875	-33.1
- other charges	62,900	89,928	-30.1
Total	8,699,014	11,676,206	-25.5

(a) Accrued income from derivative contracts is recognized on a contract-by-contract basis with reference to the interest rates applicable at the time.

Prepaid expenses for taxes paid in advance include 359 billion lire in increased balance sheet adjustments for actualization and coverage of general portfolio risks against the use of the IMI credit risk reserve.

Distribution of subordinated assets (table 5.4 B.I)

in millions of lire

	31/12/98	31/12/97 (pro forma)	Change %
a) Due from banks	110,330	161,371	-31.6
b) Loans to customers	-	108,574	n.s.
c) Bonds and other debt securities	90,173	296,719	-69.6
Total	200,503	566,664	-64.6

Section 6 Payables

Total deposits and other sources of funds are detailed below:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 pro forma	Change %
Due to banks (caption 10)	47,750,549	72,716,062	-34.3
Due to customers (caption 20)	71,254,660	76,140,137	-6.4
Securities issued (caption 30)	60,256,500	68,707,852	-12.3
Public funds administered (caption 40)	134,278	165,367	-18.8
Total	179,395,987	217,729,418	-17.6

Due to banks (caption 10)

Deposits taken from banks are analyzed as follows:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 pro forma	Change %
Due to central banks	497.160	4.421.569	-88.8
- repurchase agreements and securities borrowed	-	2,235,624	-100.0
- other deposits from the Italian Exchange Office	71,996	1,517,834	-95.3
- other deposits from central banks	378,913	638,263	-40.6
- advances	46,251	29,848	+55.0
Due to banks	47,253,389	68,294,493	-30.8
- deposits	20,288,780	39,197,374	-48.2
- repurchase agreements and securities borrowed	6,141,752	3,413,982	+79.9
- long-term loans from international bodies	8,412,442	9,405,091	-10.6
- current accounts	1,311,034	3,657,336	-64.2
- other	71,362	17,366	+310.9
- other loans	11,028,019	12,603,344	-12.5
Total	47,750,549	72,716,062	-34.3

Detail of "Due to banks" (table 6.1 B.1)

	<i>in millions of lire</i>		
	31/12/98	31/12/97 pro forma	Change %
a) Repurchase agreements	6,080,469	5,608,437	+8.4
b) Securities borrowed	61,283	41,169	+48.9

Long-term loans from international bodies include loans used to finance investment projects in industrial sectors and public utility services.

Due to customers and Securities issued
(captions 20 and 30)

Funds obtained from customers, comprising deposits from customers and securities issued, are detailed below:

	31/12/98	31/12/97 pro forma	Change %
<i>in millions of lire</i>			
Due to customers			
- current accounts	48,068,178	50,058,931	-4.0
- repurchase agreements and securities borrowed	15,241,738	16,282,857	-6.4
- savings deposits	6,334,074	7,921,580	-20.0
- short-term payables relating to special management services carried out for the government	1,162,060	1,367,170	
- other	448,610	509,599	-12.0
Securities issued			
- bonds	41,169,601	41,668,225	-1.2
- certificates of deposit	18,466,125	26,491,001	-30.3
- bankers' drafts	524,481	519,871	+0.9
- other securities	96,293	28,755	+234.9
Total	131,511,160	144,847,989	-9.2

Detail of "Due to customers" (table 6.2 B.)

	31/12/98	31/12/97 pro forma	Change %
<i>in millions of lire</i>			
a) Repurchase agreements	15,225,995	16,103,752	-5.5
b) Securities borrowed	15,743	179,105	-91.2

Securities issued comprise those due or ready for repayment totalling 20,509 million lire.

There have been no issues of bonds convertible into shares of the Bank or other companies, or similar securities or bonus shares.

Public funds administered
(caption 40)

Public funds administered are provided by the State and other public entities mainly to act as a source of subsidised loans to customers. These funds are analyzed below:

	31/12/98	31/12/97 pro forma	Change %
<i>in millions of lire</i>			
Funds provided by the State	26,452	75,685	-65.0
Funds provided by regional public agencies	49,299	10,778	+357.4
Other funds	58,527	78,904	-25.8
Total	134,278	165,367	-18.8
<i>of which:</i>			
<i>Funds with risk borne by the government under Law 6/2/87 n. 19</i>	<i>42,393</i>	<i>46,256</i>	<i>-8.4</i>

Other information relating to payables

Information regarding the distribution of deposits by geographical area, currency and degree of liquidity is reported in part B, section 11 of these notes.

Section 7 Provisions

Provisions are detailed below:

	31/12/98	31/12/97 pro forma	Change %
Provision for termination indemnities (caption 70)	767,259	750,080	+2.3
Provisions for risks and charges (caption 80)			
- pensions and similar commitments (caption 80.a)	95,170	103,975	-8.5
- taxation (caption 80.b)	1,853,185	943,623	+96.4
- other provisions (caption 80.c)			
- provisions for guarantees and commitments	55,946	31,976	+75.0
- provisions for other risks and charges	287,100	179,000	+60.4
- provisions for other personnel charges	203,304	179,386	+13.3
Total	3,261,964	2,188,040	+49.1

Provision for termination indemnities (caption 70)

Changes in "Provision for termination indemnities" during the year "	in millions of lire
Opening balance - pro forma	750,080
Increases	
- provisions	74,914
- transfers	22
Decreases	
- advances allowed under Law 297/82	19,567
- indemnities to employees leaving the Bank	38,150
- transfers	40
- other changes	-
Closing balance	767,259

Provisions for risks and charges (caption 80)

Pensions and similar commitments (caption 80.a)

Changes in "Pensions and similar commitments" during the year	in millions of lire
Opening balance - pro forma	103,975
Increases	
- provisions	400
Decreases	
- utilizations	9,205
Closing balance	95,170

This provision was created to cover supplementary pension liabilities for former IMI SpA personnel already in retirement. The potential liability was evaluated on the basis of an independent actuarial appraisal.

Utilizations during the year refer to the payment of supplementary pensions due for the year under review.

Taxation (caption 80.b)

Changes in "Taxation" during the year "

in millions of lire

	Income taxes	Deferred taxation on the Reserve for General Banking Risks	Deferred taxes on the Reserve ex. L. 169/83	Deferred taxes on the Reserve ex Legislative Decree 213/98	Total
Opening balance - pro forma	605,081	240,500	51,587	46,455	943,623
Increases					
- provision for 1998 income taxes	1,459,475	-	-	-	1,459,475
- exchange differences	-	-	-	-	-
- other changes	-	-	-	-	-
Decreases					
- payment of 1997 income taxes	548,187	-	-	-	548,187
- exchange differences	1,726	-	-	-	1,726
- other changes	-	-	-	-	-
Closing balance	1,514,643	240,500	51,587	46,455	1,853,185
of which:					
- current direct and indirect taxes	1,461,643	-	-	-	-
- fiscal disputes	53,000	-	-	-	-

Current taxes cover income taxes due, including local taxes payable by foreign branches, as well as outstanding and potential fiscal disputes. Increased current changes (359 billion lire) relate to "open positions" in the reclassification of the IMI credit risk reserve. These have not affected net income in that adjustments to loans have implied equal items for prepaid taxes.

Fiscal disputes generally relate to legislative uncertainties about the definition of taxable income. The various levels of tax commission decisions have confirmed the approach taken by the Bank. The most significant dispute relates to the size and tax treatment of the difference arising on the merger of Banca Popolare dell'Agricoltura in 1986; the first level Turin tax commission has essentially confirmed the approach taken by the Bank. If this decision is accepted by the tax authorities, the total charge would amount to less than 10 billion lire. The dispute is currently pending before the High Court.

In regard to deferred taxation, on the basis of new accounting treatment adopted in line with international accounting principles, the Bank has a total of 928 billion lire of deferred tax assets deriving from prepaid taxes. Such deferred tax assets are limited to the difference between the book value and the value for tax purposes of assets and liabilities accrued in 1998 and prior years, which will almost certainly be absorbed in the future. In particular, during 1998, 111 billions lire of prepaid taxes recorded in 1997 have been annulled and new prepaid taxes for 753 billion, including 359 billion lire relating to the IMI credit risk reserve, have been recorded, of which 106 billion lire has been booked to extraordinary income.

As illustrated in detail in the Introduction to the explanatory notes as of December 31, 1998, in order to provide maximum transparency with regard to the financial statements and shareholders' equity, it was considered expedient to record the latent tax liability on reserves subject to deferred taxation (which will become taxable on use) within the financial statements. These reserves, which derive from IMI, have been reconstituted following the merger and are represented by the Reserve for General Banking Risks and the Reserve under Law 169/83. This entry was offset against the merger difference.

Taking account of the particular nature of the Reserve under Legislative Decree 213/98, which has been booked directly to equity for the revaluations at current exchange rates of certain equity investments expressed in currencies participating in the Euro, a specific reserve for deferred taxes on this reserve has been set up. This complies with the guidelines of Italian and international accounting principles in such cases.

Provisions for risks and charges - Other provisions (caption 80.c)

Analysis of caption 80.c "Provisions for risks and charges: other" (table 7.3 B.I) in millions of lire

	Guarantees and commitments	Other risks and charges	Other personnel charges	Total
Opening balance - pro forma	31,976	179,000	179,386	390,362
Increases				
- provisions	24,389	116,130	31,464	171,983
- exchange differences	-	-	8	8
Decreases				
- released to cover losses on guarantees given	372	-	-	372
- used to cover settlements disputes	-	8,030	-	8,030
- used to cover the payment of pensions and similar commitments	-	-	7,554	7,554
- exchange difference	47	-	-	47
Closing balance	55,946	287,100	203,304	546,350

Provisions for guarantees and commitments, 55,946 million lire, cover expected losses in respect of guarantees given and, more generally, the contingencies associated with the Bank's guarantees and commitments.

Provisions for other risks and charges, 287,100 million lire, cover expected losses deriving from legal action including, in particular, from repayments claimed by the receivers of bankrupt customers, as well as charges which might arise in connection with guarantees given on disposal of equity investments and from the Bank's commitment to the Interbank Deposit Guarantee Fund.

The provision for other personnel charges, 203, 304 million lire, includes:

- 180,000 million lire relating to provisions made by the Bank, on the basis of independent actuarial appraisals, to cover its commitment to the independent supplementary pension fund due to unfunded pension liabilities;
- 13,923 million lire provided to the technical reserves, determined on the basis of mathematical and actuarial criteria, designed to cover long-service bonuses to the Bank's employees;
- 8,000 million lire in relation to the provision made on the basis of an independent actuarial appraisal, to cover potential contributions for the employees of the Bank and a merged subsidiary;
- 1,381 million lire relating to likely costs to be incurred in connection with the personnel of the Bank's Frankfurt and New York offices and the renovation of the premises.

Reserve for possible loan losses (caption 90)

<i>Changes during the year in "Reserves for possible loan losses" (table 7.2 B.I)</i>		<i>in millions of lire</i>
A. Opening balance - pro forma		1,073,279
B. Increases		-
B1. provisions		-
B2. other changes		-
C. Decreases		-
C1. releases		-1,044,403
C2. other changes		-28,876
D. Closing balance		-

The credit risk reserve deriving from the former IMI has been wholly used during the course of 1998. In particular, the movements in the fund were as follows:

- 970,517 million lire have been used against extraordinary income, in relation to increased value adjustments placed in "open positions" as a result of the introduction of actualization and new general adjustments to cover risk inherent in the loan portfolio;
- 72,595 million lire have been used to cover losses on loans for transactions concluded within the year;
- 1,291 million lire have been used against receipt of default interest taken as non-recoverable and posted to extraordinary income;
- 28,876 million lire have been reclassified in reductions of credits for default interest in order to harmonize the treatment of such credits by the former IMI to those adopted by Sanpaolo IMI.

Section 8 Capital, reserves and subordinated liabilities

Shareholders' equity is detailed below:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 pro forma	Change %
Shareholders' equity			
- capital (caption 120)	8,413,110	8,413,110	-
- additional paid-in capital (caption 130)	-	275,000	n.s.
- reserve for general banking risks (caption 100)	650,000	650,000	-
- reserves (caption 140)			
a) legal reserve	1,682,622	205,960	+717.0
b) reserve for own shares	-	-	n.s.
c) statutory reserve	-	65,924	n.s.
d) other reserves:	2,524,616	4,541,994	-44.4
- extraordinary reserve	-	27,418	n.s.
- reserve (art. 7.3, Law 218/90)	172,520	657,027	-73.7
- reserve (art. 13.6, Legislative Decree 124/93)	978	978	n.s.
- unrestricted reserve for the purchase of own shares	-	200,000	n.s.
- reserve ex Law 169/83	139,424	-	n.s.
- reserve ex Legislative Decree 213/98	79,099	-	n.s.
- merger differences	2,132,595	-	n.s.
- other reserves of the merged company not included in the pro forma shareholder's equity as of 31/12/97	-	3,656,571	n.s.
- retained earnings (caption 160)	-	7	n.s.
- distributable net income (caption 170)	1,263,114	467,130	+170.4
Total shareholders' equity	14,533,462	14,619,125	-0.6
Subordinated liabilities (caption 110)	2,646,316	3,207,523	-17.5

Shareholders' equity *Capital (caption 120)*

After the 253,181,168,000 lire increase in capital made in connection with the merger with IMI, as described in the introduction of these explanatory notes, the capital amounts to 8,413,109,688,000 lire, represented by 1,402,184,948 ordinary shares, all issued and fully paid, par value 6,000 lire each.

Merger differences

Based on the resolutions to be taken upon approval of these financial statements, the 3,636,695,646,498 lire surplus originating from the merger with IMI has been allocated as follows:

- 650,000,000,000 lire to the re-establishment of the Reserve for General Banking Risks pertaining to the former IMI SpA;
- 422,589,156,550 lire to the Legal Reserve, in order to increase it up to the maximum level allowed by law;
- 139,424,431,700 lire to the re-establishment of the Reserve ex. Law 169/83 pertaining to the former IMI SpA;

- 240,500,000,000 lire to the establishment of a provision for deferred taxes in connection with the Reserve for General Banking Risks;
- 51,587,039,729 lire to the establishment of the provision for deferred taxes in connection with the Reserve ex. Law 169/83.

The balance of 2,132,595,018,519 lire is allocated to the liabilities caption 140 d) "Other reserves".

Legal reserve (caption 140.a)

Based on the resolutions to be taken upon the approval of the 1998 financial statements, the Legal Reserve is to be increased to 1,682,621,937,600 lire, which is the maximum amount allowed by art. 2430 para.1 of the Civil Code (20% of share capital), charging the following equity reserves:

- Reserve (art. 7.3, Law 218/90) of 575,330,242,351 lire, which is the same amount prior to the approval of the 1998 financial statements.
- Merger difference of 422,589,156,550 lire;
- Additional paid-in capital of 275,000,000,000 lire;
- Extraordinary reserve of 203,742,440,783 lire.

Reserve Legislative Decree 213/98

As explained in the introduction to these notes, given that Euro conversion rates have now been fixed and the accounting policies for equity investments in foreign currency deriving from IMI SpA not specifically hedged for exchange risk and those used by San Paolo should be consistent, the Bank has translated these investments at current exchange rates.

As far as the fiscal and accounting treatment of exchange differences are concerned, in compliance with art. 21 of Decree 213/98, the Bank has charged the revaluation of around 125 billion lire to a restricted reserve subject to deferred taxation for approximately 79 billion lire, net of deferred taxation of 46 billion lire booked to a specific liability reserve.

Reserve (art. 7.3, Law 218/90)

As of December 31, 1998 the Reserve (art. 7.3, Law 218/90) is equal to the provision for the year amounting to 172,520 million lire. As mentioned above, the whole of the reserve before the provision for the year (573,330 million lire, net of the 81,697 million lire withdrawal for the payment of the capital tax for 1997, pursuant to Law 461/92) is transferred to the Legal Reserve, as part of its increase to the maximum level permitted by law.

Operations in own shares

The 18 month deadline resolved by the Board Meeting of April 30, 1997 expired on October 30, 1998. Within such date Sanpaolo was allowed to purchase own shares. After such date, the 200 billion lire unrestricted reserve for the purchase of own shares (established in compliance with Board resolutions), has been transferred back to the Extraordinary reserve and subsequently transferred to the Legal reserve.

As already mentioned in the Report on operations, as part of this power, up to October 30, 1998 San Paolo had not bought or sold any of its own shares.

The 18 month deadline resolved by the Board Meeting of April 29, 1997 expired on October 29, 1998. Within such date the former IMI was allowed to purchase own shares. As part of this power, up to October 29, 1998 the former IMI had not bought or sold any of its own shares.

Subordinated liabilities (caption 110)

Loan	Book value as of 31/12/98 (millions of lire)	Original currency (in millions)	Interest rate	Issue date	Maturity date	Pro-forma book value as of 31/12/97 (millions of lire)
Notes in Luxembourg francs	47,819	1,000	7.75%	26/05/93	26/05/00	47,587
Notes in Luxembourg francs	47,819	1,000	7.63%	09/07/93	09/07/01	47,587
Notes in Luxembourg francs	47,819	1,000	9%	10/02/92	10/02/00	47,587
Notes in Luxembourg francs	-	-	9.38%	18/12/91	18/12/98	104,691
Notes in US dollars	246,477	149	floating	30/07/93	30/07/03	291,145
Notes in US dollars	147,126	89	floating	24/09/93	24/09/03	156,568
Notes in US dollars	156,218	94	floating	10/11/93	10/11/05	166,243
Notes in US dollars	132,248	80	floating	25/08/95	25/08/00	211,103
Notes in Canadian dollars	163,313	151	floating	10/11/93	10/11/03	185,017
Notes in Italian lire	701,825	700,000	10.40%	30/06/94	30/06/04	699,996
Notes in Eurolire	198,516	198,000	floating	06/07/95	06/07/00	197,999
Notes in Eurolire	52,136	52,000	floating	30/12/96	30/12/01	52,000
Subordinated loan in Italian lire	-	-	11.20%	01/06/95	01/06/05	125,000
Subordinated loan in Italian lire	-	-	floating	15/05/95	15/05/05	130,000
Subordinated loan in Italian lire	-	-	11.50%	01/07/95	01/07/00	210,000
Subordinated loan in Italian lire	-	-	floating	01/07/95	01/07/00	290,000
Subordinated loan in Italian lire	-	-	floating	01/08/95	01/08/00	245,000
Subordinated loan in Italian lire	125,000	125,000	5.10%	01/06/98	01/06/03	-
Subordinated loan in Italian lire	300,000	300,000	5.30%	01/01/98	01/01/03	-
Subordinated loan in Italian lire	280,000	280,000	floating	01/02/98	01/02/03	-
Total	2,646,316					3,207,523

Subordinated liabilities not included in the calculation of capital for Bank of Italy monitoring purposes amount to 185,193 million lire.

Contractually, subordinated loans may not be redeemed early, nor converted into capital or any other type of liability. In particular, such contracts lay down that:

- early redemption can only take place on the Bank's initiative and with the authorization of the Bank of Italy;
- the loan period must not be less than five years; if no maturity is stated, the contract must state that a notice period of at least five years has to be given;
- in the event that the Bank is put into liquidation, these subordinated loans can only be reimbursed once all other creditors, not similarly subordinated, have been satisfied.

Following the requisite authorization from the Bank of Italy, five issues in Italian lire for the equivalent of 1,000 billion lire were repaid during the year and three new subordinated loans in Italian lire for the equivalent of 705 billion lire were issued.

Other information relating to subordinated liabilities

Information regarding the distribution of subordinated liabilities by geographical area, currency and degree of liquidity is reported in part B, section II of these notes.

Other information

In line with Bank of Italy guidelines on disclosure of information, we provide below the breakdown of the regulatory capital as well as a description of the minimum requirements for supervisory purposes.

Category / Value	<i>in millions of lire</i>		
	31/12/98	31/12/97 pro forma	Change %
A. Regulatory capital			
A.1 Tier 1 capital	12,901,190	12,670,528	1.8
A.2 Tier 2 capital	2,244,811	2,772,234	-19.0
A.3 Items to be deducted	85,167	148,382	-42.6
A.4 Regulatory capital	15,060,834	15,294,380	-1.5
B. Minimum regulatory requirements			
B.1 Lending risk	9,082,920	9,798,711	-7.3
B.1 Market risk	901,992	1,171,793	-23.0
<i>of which:</i>			
- risks on trading portfolio	864,255	1,070,139	-19.2
- exchange risks	37,737	101,654	-62.9
B.3 Other minimum requirements	-	-	
B.4 Total minimum requirements	9,984,912	10,970,504	-9.0
C. Risk assets and capital-adequacy ratios			
C.1 Risk-weighted assets	141,030,764	154,628,856	-8.8
C.2 Tier 1 capital/risk-weighted assets	9.15%	8.19%	
C.3 Regulatory capital/risk-weighted assets	10.68%	9.89%	

An attachment provides a statement of changes in shareholders' equity for the year.

Section 9 Other liabilities

Liability captions 50 and 60 comprise the following:

	31/12/98	31/12/97 pro forma	Change %
Other liabilities (caption 50)	20.391.367	19.943.092	+2,2
Accrued expense and deferred income (caption 60)	8.918.857	12.409.865	-28,1
Total	29.310.224	32.352.957	-9,4

in millions of lire

Other liabilities (caption 50)

Analysis of caption 50 "other liabilities" (table 9.1 B.I.)

	31/12/98	31/12/97 pro forma	Change %
Valuation of derivatives on interest rates and stockmarket indices	7,721,563	5,975,599	+29.2
Unprocessed transactions (a)	3,651,731	1,345,600	+171.4
Items relating to securities transactions	2,299,559	4,305,213	-46.6
of which "short position"	2,205,374	4,280,400	-48.5
Amounts available for third parties	2,151,671	2,589,153	-16.9
Transactions involving foreign branches	1,437,898	1,114,414	+29.0
Amounts in transit with branches (a)	709,376	661,486	+7.2
Non-liquid balances from portfolio transactions	443,683	506,240	-12.4
Amounts due to employees	440,385	366,469	+20.2
Due to the tax authorities	317,974	315,435	+0.8
Value date adjustments	-	153,421	-100.0
Premiums collected on options sold	105,382	95,550	+10.3
Deposits guaranteeing agricultural and construction loans	47,885	112,952	-57.6
Other	1,064,260	2,401,560	-55.7
Total	20,391,367	19,943,092	+2.2

in millions of lire

(a) Mostly settled at the beginning of 1999.

Accrued expenses and deferred income (caption 60)

Analysis of caption 60 "Accrued expenses and deferred income" (table 9.2 B.I.)

	31/12/98	31/12/97 pro forma	Change %
Accrued expenses			
- charges on derivative contracts (a)	5,367,858	7,782,139	-31.0
- interest on securities issued	2,309,002	2,971,866	-22.3
- interest on amounts due to banks	550,719	852,666	-35.4
- interest on amounts due to customers	138,816	252,887	-45.1
- payroll and other operating costs	179,061	160,094	+11.8
- other	766	415	+84.6
Deferred income			
- interest on discounted notes	135,837	170,105	-20.1
- income from derivative contracts	188,581	152,754	+23.5
- other	48,217	66,939	-28.0
Total	8,918,857	12,409,865	-28.1

in millions of lire

(a) Accrued expenses relating to derivative contracts are recorded on a contract-by-contract basis with reference to the interest rates ruling at the time.

Section 10 Guarantees and commitments

Balance sheet captions 10 and 20, relating to the Bank's guarantees and commitments that involve credit risk are detailed as follows:

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
Guarantees given (caption 10)	32,544,136	37,740,054	-13.8
Commitments (caption 20)	26,214,013	40,558,470	-35.4
Total	58,758,149	78,298,524	-25.0

Guarantees given (caption 10)

Analysis of caption 10 "Guarantees given" (table 10.1 B.I)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
a) Commercial guarantees	17,031,881	18,176,452	-6.3
b) Financial guarantees	15,443,332	19,537,373	-21.0
c) Assets lodged in guarantee	68,923	26,229	+162.8
Total	32,544,136	37,740,054	-13.8

Unsecured guarantees given by the Bank, together with assets lodged to guarantee third-party commitments, comprise the following:

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
Endorsements and sureties	24,614,174	30,203,105	-18.5
Documentary credits	703,117	852,713	-17.5
Acceptances	307,804	387,686	-20.6
Other	6,850,118	6,270,321	+9.2
Assets lodged in guarantee			
- securities	9,924	12,847	-22.8
- other	58,999	13,382	+340.9
Total	32,544,136	37,740,054	-13.8

Commitments (caption 20)

Analysis of caption 20 "Commitments" (table 10.2 B.I)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
a) Commitments to grant finance (certain to be called on)	4,401,495	17,196,499	-74.4
b) Commitments to grant finance (not certain to be called on)	21,812,518	23,361,971	-6.6
Total	26,214,013	40,558,470	-35.4

Firm commitments are detailed below:

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
Undrawn lines of credit granted	16,658,813	12,078,261	+37.9
Deposits and loans to be made	791,265	7,765,459	-89.8
Purchase of securities	964,932	6,313,219	-84.7
Put options issued	3,271,686	8,069,865	-59.5
Mortgage loans to be disbursed	2,258,692	5,226,901	-56.8
Holder of former Crediop bonds transferred to the new Crediop SpA	1,634,429	430,632	+279.5
Membership of Interbank Deposit Guarantee Fund	121,873	109,151	+11.7
Other commitments certain to be called on	386,606	390,921	-1.1
Other commitments not certain to be called on	125,717	174,061	-27.8
Total	26,214,013	40,558,470	-35.4

Assets lodged to guarantee the Bank's liabilities

(table 10.3 B.I)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
Securities lodged with third parties to guarantee repurchase agreements	12,690,977	10,847,784	+17.0
Securities lodged to guarantee advances from central banks	2,427,921	477,936	+408.0
Securities lodged with the Bank of Italy to guarantee bankers' drafts	90,000	130,000	-30.8
Securities lodged with the clearing-house for the Italian futures exchange (MIF)	88,000	71,000	+23.9
Total	15,296,898	11,526,720	+32.7

Unused lines of credit

The Bank has unused lines of credit, excluding operating limits, as detailed below:

(table 10.4 B.I)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
a) Central banks	131,568	110,211	+19.4
b) Other banks	1,807,241	2,428,471	-25.6
Total	1,938,809	2,538,682	-23.6

Forward transactions

Forward transactions, excluding transactions between the Bank's head office and foreign branches as well as those carried out within organizational units and on behalf of third parties, are detailed below:

(table 10.5 B.I.)

in millions of lire

	Hedging	Dealing	Other	Total
I. Purchase/sale of				
I.1 securities				
- purchases	-	964,931	-	964,931
- sales	-	756,155	-	756,155
I.2 currency				
- currency against currency	19,358,669	362,643	-	19,721,312
- purchases against lire	23,795,921	1,084,975	-	24,880,896
- sales against lire	27,073,851	906,285	-	27,980,136
2. Deposits and loans				-
- to be disbursed	-	-	791,265	791,265
- to be received	-	-	1,132,216	1,132,216
3. Derivative contracts				
3.1 with exchange of capital				
a) securities				
- purchases	368,514	5,371,274	-	5,739,788
- sales	47,377	5,316,326	-	5,363,703
b) currency				-
- currency against currency	1,929,614	2,480,806	-	4,410,420
- purchases against lire	10,830,574	3,947,702	-	14,778,276
- sales against lire	324,000	3,278,679	-	3,602,679
c) other instruments				-
- purchases	-	-	-	-
- sales	-	-	-	-
3.2 without exchange of capital				
a) currency				
- currency against currency	-	-	-	-
- purchases against lire	1,810,871	9,092	-	1,819,963
- sales against lire	62,973	9,257	-	72,230
b) other instruments				
- purchases	16,232,247	154,060,753	4,383,300	174,676,300
- sales	21,286,917	153,432,683	6,263,900	180,983,500
Total	123,121,528	331,981,561	12,570,681	467,673,770

At year end, hedging contracts, entered into as part of credit intermediation activities, show an unrecognized net loss of 1,348 billion lire. In compliance with the accounting policies, this amount has not been recorded in the financial statements since the purpose of the derivatives contracts in question is to hedge interest and exchange rate risks with regard to funding activities (particularly deposit-taking transactions made via the issue of bonds with a structured yield) or lending activities. The above-mentioned contracts are in fact recorded on a consistent basis with those adopted for hedging transactions, with the identification of accruals in the financial statements. Had the assets and liabilities being hedged been valued in the same way, this would have led to a gain which would have offset the above loss.

Forward transactions denominated in Euro currencies are detailed below:

	<i>in millions of lire</i>	
	Total	of which : in participating currencies (a)
I. Purchase/sale of		
1.1 securities		
- purchases	964,931	735,930
- sales	756,155	667,584
1.2 currency		
- currency against currency	19,721,312	4,570,898
- purchases against lire	24,880,896	9,465,363
- sales against lire	27,980,136	27,980,136
2. Deposits and loans		
- to be disbursed	791,265	529,582
- to be received	1,132,216	109,295
3. Derivative contracts		
3.1 with exchange of capital		
a) securities		
- purchases	5,739,788	4,719,511
- sales	5,363,703	4,568,342
b) currency		
- currency against currency	4,410,420	848,505
- purchases against lire	14,778,276	14,200,406
- sales against lire	3,602,679	3,175,490
3.2 without exchange of capital		
a) currency		
- currency against currency	-	-
- purchases against lire	1,819,963	-
- sales against lire	72,230	34,419
b) other instruments		
- purchases	174,676,300	147,920,391
- sales	180,983,500	24,892,224
Total	467,673,770	244,418,076

(a) Including transactions in lire.

Internal deal contracts

The nominal amount of derivative contracts between Head office and foreign branches, as well as transactions carried out within organizational units is 65,345,462 million lire. The following table provides a breakdown of internal deals, reporting the same contract in both purchases and sales.

	<i>in millions of lire</i>	
	Hedging	Dealing
Derivative contracts with exchange of capital		
a) securities		
- purchases	-	-
- sales	-	-
b) currency		
- currency against currency	60,000	160,118
- purchases against lire	1,731,201	1,255,597
- sales against lire	1,045,844	1,940,954
Derivative contracts without exchange of capital		
b) other instruments		
- purchases	5,060,591	57,188,014
- sales	6,436,583	55,812,022
Total	14,334,219	116,356,705

With regards to the above transactions the Bank has adopted a structure based on specialised desks, which are authorised to operate on the market with reference to certain derivatives products on an exclusive basis. This organization is based essentially on considerations of operating efficiency (reduction of transaction costs), better management of market and counterparty risks, and the allocation of specialised human resources. The portfolios managed by these desks are made up of various types of derivatives and, on occasion, securities. They operate as a separate profit centre within established net risk limits.

These units act as counterparties for desks, also with accounting autonomy, that are not authorized to operate on the market. These transactions are known as “internal deals” and take place at derivative market prices. Non specialized desks initiate such internal deals generally for hedging purposes.

As regards the accounting relevance of internal deals and the extent they reflect on income, it should be said that

- internal deals in derivatives held by specialized desks are marked to market.
- internal deals in derivatives held by non specialized desks are treated for accounting purposes in the same way as the assets/liabilities being hedged (they are marked at market if they are hedging dealing securities, while they are valued at cost if they are hedging investment securities or deposits).

Marking to market internal deals made to hedge assets or liabilities valued at cost gives rise to an unrealized net gain of 601 billion lire. In line with what was said in connection with derivative transactions carried out on the market for the Bank's own account, this value, in accordance with the Bank's accounting policies, has not been booked to the financial statements given their purpose of hedging interest rate or exchange rate risks in connection with funding and lending operations. These contracts have in fact been recorded in the same way as the operations being hedged. If the assets and liabilities were valued in the same way, a loss would emerge that would offset the gain mentioned above.

See part C, section 3 on profits and losses on financial transactions for the results of the valuation of derivative contracts.

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

<i>Notional amounts</i>	<i>in millions of lire</i>			
	Interest rate related	Exchange rate related	Stockmarket index price	Other
OTC trading contracts				
- Forward (a)	9,953,085	2,353,903	-	-
- Swaps (b)	218,238,738	5,969,163	2,388,718	-
- Options purchased	23,589,947	2,007,329	4,069,196	-
- Options sold	25,206,848	1,749,044	2,463,304	-
Exchange traded contracts				
- Futures purchased	17,680,342	-	299,450	-
- Futures sold	11,442,388	-	10,000	-
- Options purchased	1,724,247	-	272,770	-
- Options sold	636,859	-	205,144	-
Total trading contracts	308,472,454	12,079,439	9,708,582	-
Total non-trading contracts	41,734,678	85,186,473	6,447,577	400,000
Total contracts	350,207,132	97,265,912	16,156,159	400,000

(a) Including FRAs and forward currency purchase/sale transactions.

(b) Mainly comprising IRS and CIRS contracts, basis swaps and domestic currency swap transactions.

<i>Notional amounts of OTC transactions, related market values and add on</i>	<i>in millions of lire</i>			
	Interest rate related	Exchange rate related	Stockmarket index price	Other
Notional amounts	318,723,298	97,265,910	15,368,795	400,000
Market value of OTC trading contracts				
- positive	11,330,327	364,657	8,727	-
- negative	10,495,829	355,015	55,778	-
Add on	1,276,308	280,593	107,693	-
Market value of OTC non-trading contracts				
- positive	962,171	1,469,862	286,927	12
- negative	1,611,587	1,535,227	279,121	12
Add on	169,724	1,237,760	417,125	48,000

Market values of hedging and dealing derivatives contracts arranged with third parties have been calculated using the criteria established by the Bank of Italy to determine the credit risk of off-balance sheet items for solvency ratio purposes. The market values identified in the table above derive from applying such criteria. In particular, such market values include the result deriving from the spot rate revaluation of the principal amount of cross-currency interest rate swaps to be exchanged at maturity.

*Residual maturity of notional amounts underlying OTC derivative contracts**in millions of lire*

	Up to 12 months	Between 1 and 5 years	Beyond 5 years
Interest rate related	123,395,850	138,960,908	56,566,740
Exchange rate related	80,829,747	14,380,060	2,056,103
Stockmarket index related	9,079,269	5,052,276	1,237,050
Other contracts	-	200,000	-

*Credit quality of OTC derivative contracts, by counterparty**in millions of lire*

	Positive market value	Add on	Credit risk equivalent (a)
Governments and central banks	22,328	13,080	35,408
Banks	11,412,392	2,628,361	14,040,753
Other operators	2,987,963	895,762	3,883,725
Total	14,422,683	3,537,203	17,959,886

(a) The credit risk equivalent reported in this table includes transactions with an original life not exceeding 14 days. The existence of Master Netting Agreements allows a reduction in the equivalent credit risk of 3,929,564 million lire for banks and of 1,621,834 million lire for other operators.

The above transactions are backed by secured guarantees totalling 301,232 million lire. No losses were incurred during the year on loans linked to derivatives and there are no outstanding derivative contracts matured, but not settled.

Other information relating to guarantees

The classification of guarantees given by category of counterparty is provided in part B, section 11 of these notes, while forward transactions related to dealing on behalf of third parties are described in part B, section 12.

Section 11 Concentration and distribution of assets and liabilities

Significant exposures

Major lines of credit that exceed 15% of the Bank's equity and defined by the Bank of Italy as "significant exposures", are as follows:

(table 11.1 B.I.)

	31/12/98
a) Amount in millions of lire	21,389,519
b) Number	4

These positions comprise total assets at risk (loans, shares, bonds, etc.) outstanding in relation to customers and groups of related customers (including banks).

Distribution of loans to customers, by category of borrower

Loans to customers are distributed as follows:

(table 11.2 B.I.)

	31/12/98	31/12/97 pro forma	Change %
a) Governments	8,935,714	8,774,702	+1.8
b) Other public entities	7,746,654	9,593,438	-19.3
c) Non-financial businesses	72,228,441	73,320,960	-1.5
d) Financial institutions	21,011,371	26,060,884	-19.4
e) Family businesses	5,054,530	9,807,179	-48.5
f) Others	19,060,175	18,092,107	+5.4
Total	134,036,885	145,649,270	-8.0

Distribution of loans to resident non-financial and family businesses

The distribution of loans to non-financial and family businesses resident in Italy is detailed below, by industry:

(table 11.3 B.I.)

	31/12/98	31/12/97 pro forma	Change %
a) Sales and distribution services	11,104,108	9,036,357	+22.9
b) Construction and public works	8,828,530	9,308,419	-5.2
c) Wholesale and retail trade	8,334,693	8,235,090	+1.2
e) Energy	6,758,155	7,720,193	-12.5
d) Electrical equipment	3,116,924	4,033,109	-22.7
f) Other sectors	32,516,994	37,978,817	-14.4
Total	70,659,404	76,311,985	-7.4

Distribution of guarantees given, by category of counterparty

Guarantees given by the Bank are classified by category as follows:

(table 11.4 B.I.)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
a) Governments	282	85	+231.8
b) Other public entities	236,438	283,756	-16.7
c) Banks	10,732,615	14,456,389	-25.8
d) Non-financial businesses	15,965,960	15,768,713	+1.3
e) Financial institutions	5,000,182	5,678,369	-11.9
f) Family businesses	160,567	401,227	-60.0
g) Others	448,092	1,151,515	-61.1
Total	32,544,136	37,740,054	-13.8

Geographical distribution of assets and liabilities

The geographical distribution of the Bank's assets and liabilities is detailed below, by reference to the countries of residence of the counterparties concerned:

(table 11.5 B.I.)

in millions of lire

	31/12/98				31/12/97 pro-forma			
	Italy	Other EU countries	Other countries	Total	Italy	Other EU countries	Other countries	Total
1. Assets								
1.1 due from banks	13,500,574	11,789,378	3,599,424	28,889,376	24,359,309	18,073,281	9,961,290	52,393,880
1.2 loans to customers	119,926,823	8,021,243	6,088,819	134,036,885	126,654,949	10,208,424	8,785,897	145,649,270
1.3 securities	26,028,330	2,369,542	2,135,245	30,533,117	27,642,557	2,474,041	4,319,354	34,435,952
Total	159,455,727	22,180,163	11,823,488	193,459,378	178,656,815	30,755,746	23,066,541	232,479,102
2. Liabilities								
2.1 due to banks	4,162,266	26,098,713	17,489,570	47,750,549	15,310,318	44,107,000	13,298,744	72,716,062
2.2 due to customers	61,833,347	4,198,848	5,222,465	71,254,660	61,688,977	5,720,278	8,730,882	76,140,137
2.3 securities issued	55,998,458	1,157,896	3,100,146	60,256,500	65,084,584	2,329,448	1,293,820	68,707,852
2.4 other accounts	839,278	1,941,316	-	2,780,594	1,165,368	2,207,523	-	3,372,891
Total	122,833,349	33,396,773	25,812,181	182,042,303	143,249,247	54,364,249	23,323,446	220,936,942
3. Guarantees and commitments	25,404,755	16,374,529	16,978,865	58,758,149	33,554,774	25,535,355	19,208,395	78,298,524

Maturities of assets and liabilities

The residual maturities of assets and liabilities are detailed in the following table:

(table 11.6 B.I.)

in millions of lire

	Specified duration							Unspecified duration	Total duration
	On demand	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years		Beyond 5 years			
				Fixed rate	Indexed rate	Fixed rate	Indexed rate		
I. Assets									
I.1 Treasury bonds eligible for refinancing	48,855	1,574,224	2,495,010	2,301,966	1,046,669	893,922	309,655	-	8,670,301
I.2 due from banks	5,379,803	18,611,115	1,776,957	802,285	678,855	148,444	439,262	1,052,655	28,889,376
I.3 loans to customers	22,719,936	27,600,547	13,838,518	16,480,896	23,760,738	10,166,414	14,043,277	5,426,559	134,036,885
I.4 bonds and other debt securities	67,900	1,547,120	9,871,835	3,165,869	1,394,852	1,812,583	2,764,446	-	20,624,605
I.5 off-balance sheet transactions	5,403,881	117,228,709	113,781,896	73,515,658	14,625,271	32,662,607	1,648,666	-	358,866,688
Total assets	33,620,375	166,561,715	141,764,216	96,266,674	41,506,385	45,683,970	19,205,306	6,479,214	551,087,855
2. Liabilities									
2.1 due to banks	5,202,934	19,277,592	7,929,222	4,169,044	6,020,564	1,551,055	3,600,138	-	47,750,549
2.2 due to customers	49,700,389	19,543,606	1,731,203	179,200	49,111	51,151	-	-	71,254,660
2.3 securities issued:									
- bonds	1,166,068	451,117	3,814,306	8,277,581	14,602,178	7,411,663	5,446,688	-	41,169,601
- certificates of deposit	106,961	7,037,095	7,451,131	3,615,738	252,200	3,000	-	-	18,466,125
- other securities	620,774	-	-	-	-	-	-	-	620,774
2.4 subordinated liabilities	-	135,991	175,260	454,765	1,022,256	701,826	156,218	-	2,646,316
2.5 off-balance sheet transactions	5,407,278	115,907,667	113,193,794	72,193,496	16,558,006	33,255,360	1,742,247	-	358,257,848
Total liabilities	62,204,404	162,353,068	134,294,916	88,889,824	38,504,315	42,974,055	10,945,291	-	540,165,873

Assets and liabilities denominated in foreign currencies

The Bank's assets and liabilities denominated in foreign currencies are detailed below:

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
a) Assets			
1. due from banks	9,118,992	22,753,959	-59.9
2. loans to customers	19,607,115	24,597,708	-20.3
3. securities	7,460,015	10,829,302	-31.1
4. equity investments	2,545,406	2,134,636	19.2
5. other accounts	158,880	117,828	34.8
Total assets	38,890,408	60,433,433	-35.6
b) Liabilities			
1. due to banks	29,998,767	44,359,195	-32.4
2. due to customers	9,832,931	14,735,517	-33.3
3. securities issued	5,286,250	3,443,421	53.5
4. other accounts	988,839	1,257,529	-21.4
Total liabilities	46,106,787	63,795,662	-27.7

The Bank's assets and liabilities denominated in foreign currencies participating in the Euro are detailed below

	<i>in millions of lire</i>
	31/12/98
a) Assets	
1. due from banks	4,375,349
2. loans to customers	7,767,740
3. securities	4,233,185
4. equity investments	1,843,142
5. other accounts	99,011
Total assets	18,318,427
b) Liabilities	
1. due to banks	10,392,207
2. due to customers	2,784,310
3. securities issued	1,449,210
4. other accounts	143,457
Total liabilities	14,769,184

The principal spot exchange rates, as of December 31, 1998, used to translate the Bank's foreign currency assets and liabilities are indicated below on a comparative basis with December 31, 1997 exchange rates:

	31/12/98	31/12/97	Change %
US dollar	1,653.100	1,759.190	-6.0
German mark	989.999	981.690	+0.8
French franc	295.182	293.440	+0.6
Swiss franc	1,208.410	1,209.900	-0.1
Pound sterling	2,763.160	2,913.040	-5.1
Japanese yen	14.375	13.576	+5.9
Spanish peseta	11.637	11.598	+0.3
Ecu/Euro	1,936.270	1,940.390	-0.2

Section 12 Administration and dealing on behalf of third parties

Pursuant to Legislative Decree 415/96, the Bank is authorized to carry out the following stockbroking activities:

- (a) negotiation of government or government-backed securities, as well as securities that are not listed or traded "over-the-counter";
- (b) placement and distribution of securities;
- (c) asset management involving transactions in securities;
- (d) acceptance of instructions to buy or sell securities;
- (e) consultancy in relation to securities;
- (f) soliciting the savings of the general public by activities away from the Bank's registered or administrative offices;
- (g) custody and administration of securities.

Dealing in securities

Purchases and sales of securities on behalf of third parties during the year exclusively relate to futures contracts and options on futures, as summarized below:

(table 12.1 B.I.)

	31/12/98	31/12/97 pro forma	Change %
<i>in millions of lire</i>			
a) Purchases			
1. settled	20,547,267	5,218,000	+293.8
2. not settled	-	23,000	n.s.
Total purchases	20,547,267	5,241,000	+292.0
b) Sales			
1. settled	19,241,131	4,426,000	+334.7
2. not settled	-	21,400	n.s.
Total sales	19,241,131	4,447,400	+332.6

Portfolio management

The total market value of portfolios managed on behalf of customers is detailed below:

(table 12.2 B.I.)

	31/12/98	31/12/97 pro forma	Change %
<i>in millions of lire</i>			
Asset management	54,227	4,305,911	-98.7
1. securities issued by the Bank that prepares the financial statements	300	n.s.	n.s.
2. other securities	53,927	n.s.	n.s.

The reduction of more than 90% in the value of assets managed directly by the Bank on behalf of customers is largely due to the centralization of asset management activities with Sanpaolo Asset Management Sim SpA.

Custody and administration of securities

The nominal value of securities held in custody and administration, including those received as guarantees, is detailed below:

(table 12.3 B.I.)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
a) Third-party securities held on deposit (excluding portfolio management)	288,967,576	277,560,572	+4.1
1. securities issued by the Bank that prepares the financial statements	40,892,895	n.s.	n.s.
2. other securities	248,074,681	n.s.	n.s.
b) Third-party securities deposited with third parties	186,114,490	171,489,723	+8.5
c) Portfolio securities deposited with third parties (a)	17,518,446	20,664,633	-15.2

(a) Excluding securities deposited with third parties already included in table 10.3 B.I - Assets lodged to guarantee the Bank's liabilities.

Collection of receivables on behalf of third parties

The Bank has received instructions to collect the receivables of third parties as part of its portfolio transactions. The nominal value of such receivables is 15,814,349 million lire.

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

(table 12.4 B.I.)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
Debit adjustments			
1. current accounts	1,378,471	1,818,838	-24.2
2. central portfolio	151,908	686,779	-77.9
3. cash	-	-	-
4. other accounts	-	-	-
Credit adjustments			
1. current accounts	151,908	686,779	-77.9
2. transferors of notes and documents	1,378,471	1,818,838	-24.2
3. other accounts	-	-	-

Other transactions*Fund for applied research*

Sanpaolo IMI continues to perform the role of co-ordinator for the Fund for Applied Research (originally carried out by the former IMI SpA) on behalf of the Ministry for Universities and Scientific and Technological Research; the Fund represents the most significant and consolidated incentive for research activities within the Italian economy. Activities carried out comprise the technical and economic evaluation and control of the realization stage of research and industrial growth projects and training programs for researchers, as well as the monitoring of research companies formed in participation with the government.

In 1998, 418 requests corresponding to investments of 1,715 billion lire were received, 427 preliminary inquiries were carried out and 277 contracts drawn up for an overall total of assisted loans amounting to 750 billion lire. Supervision of the progress of projects has resulted in 864 disbursements totalling 570 billion lire drawn from the Fund for Applied Research. In addition, financing under Law 346/1988 amounting to 248 billion lire has been made with Sanpaolo IMI funds, taking advantage of interest grants provided by the government for major research projects in accordance with the above-mentioned law.

Management activities carried out on behalf of the Treasury were recompensed with commission totalling 14 billion lire.

Early in 1999, following the signing of a covenant under Law 488/1992, Sanpaolo IMI was authorized to perform the activity of evaluation and control of research and development projects in depressed areas within Italy on behalf of the Ministry.

Guarantee Fund for small and medium-sized undertakings in Southern Italy (Law 341/95)

By the Convention dated December 21, 1995 between the Italian Treasury and the Bank, as approved and activated by Decree of the Director-General of the Treasury dated January 5, 1996, the Bank has been granted the concession to this Fund established under Law 341/95.

The purpose of Law 341/95 is to promote rationalization of the financial situation of small and medium-sized enterprises in Southern Italy, as defined by EU parameters. This involves measures of various types, from interest-relief grants on financing designed to convert short-term bank borrowing into long-term loans, to the granting of supplementary guarantees on participating loans, for the purchase of equity investments and for the debt consolidation described above.

As of December 31, 1998, 4,096 requests with a total value of 2,919 billion lire had been received, all in relation to the consolidation of short-term debt. In addition, 3,640 requests for loans amounting to 2,558 billion lire have been processed, of which 3,378 have been approved. In light of the operations processed to date, the overall amount committed by the Fund totals 1,346 billion lire, including 1,127 billion lire relating to guarantees given and 219 billion lire for grants to be disbursed.

Management activities carried out on behalf of the Treasury were recompensed with commission totalling 2.3 billion lire.

Third-party portion of syndicated loans

The third-party portion of syndicated loans arranged by the Group, totaled 2,703,868 million lire at year end (1,865,045 million lire in 1997).

Part C - Statement of income

Section 1 Interest

Interest income and expense and similar revenues and charges, detailed below, are reported in captions 10 and 20 of the statement of income:

Distribution of subordinated assets (table 5.4 B.I)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
Interest income and similar revenues (caption 10)	14,409,205	17,973,686	-19,8
Interest expense and similar charges (caption 20)	10,399,232	13,809,121	-24,7

Interest income and similar revenues (caption 10)

Analysis of caption 10 "Interest income and similar revenues" (table 1.1 B.I)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
a) On amounts due from banks including: - deposits with central banks	2,042,831 187,647	3,048,460 238,948	-33.0 -21.5
b) On loans to customers including: - loans using public funds	10,295,059 343	12,013,348 507	-14.3 -32.3
c) On debt securities	2,062,309	2,901,498	-28.9
d) Other interest income	9,006	10,380	-13.2
e) Net differential on hedging transactions			
Total	14,409,205	17,973,686	-19.8

Detail of caption 10 "Interest income and similar revenues" (table 1.3 B.I)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
a) On assets denominated in foreign currency including: assets denominated in Euro-participating currencies	2,068,581 808,556	2,386,813	-13.3

Default interest amounting to 386,477 million lire has been prudently eliminated from the statement of income, since collection is considered unlikely.

Interest income includes 1,113,275 million lire relating to repurchase agreements.

Interest expense and similar charges (caption 20)

Analysis of caption 20 "Interest expense and similar charges" (table 1.2 B.I)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
a) On amounts due to banks	3,451,882	4,156,675	-17.0
b) On amounts due to customers	2,382,858	3,280,795	-27.4
c) On securities issued	4,071,068	5,762,950	-29.4
including:			
- certificates of deposit	1,370,362	2,294,530	-40.3
d) On public funds administered	0		.
e) On subordinated liabilities	200,530	268,337	-25.3
f) Net differential on hedging transactions	292,894	340,364	-13.9
Total	10,399,232	13,809,121	-24.7

Detail of caption 20 "Interest expense and similar charges" (table 1.4 B.I)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
a) On liabilities denominated in foreign currency	2,827,098	3,012,931	-6.2
including: liabilities denominated in Euro-participating currencies	793,962		

Interest expense includes 1,203 million lire relating to issue discounts on bonds and certificates of deposit. The caption also includes charges of 1,340,989 million lire relating to repurchase agreements.

Other information relating to interest

Information concerning the interest arising on transactions with Group companies is reported in part C, section 7 of these notes.

Section 2 Commission

Commission income and expense, detailed below, is reported in captions 40 and 50 of the statement of income:

	31/12/98	31/12/97 pro forma	Change %
Commission income (caption 40)	2,431,818	1,816,129	+33.9
Commission expense (caption 50)	192,129	276,625	-30.5

Commission income (caption 40)

Analysis of caption 40 "Commission income" (table 2.1 B.I)

	31/12/98	31/12/97 pro forma	Change %
a) Guarantees given	87,170	75,442	+15.5
b) Collection and payment services	299,551	229,945	+30.3
c) Management, dealing and consultancy services			
1. dealing in securities	16,254	15,837	+2.6
2. dealing in currency	55,485	53,383	+3.9
3. portfolio management	56,955	43,952	+29.6
4. custody and administration of securities	33,852	31,963	+5.9
5. placement of securities (a)	968,899	675,040	+43.5
6. consultancy services	-	3,779	n.s.
7. "door-to-door" sales of securities, financial products and services	-	-	-
8. acceptance of instructions	159,872	87,585	+82.5
d) Tax collection services	-	-	-
e) Other services	753,780	599,203	+25.8
Total	2,431,818	1,816,129	+33.9

(a) Commission received for the placement of securities also includes that relating to the placement of mutual funds and insurance products amounting, respectively, to 833,768 million lire and 67,306 million lire as of December 31, 1998, and 370,050 million lire and 48,771 million lire as of December 31, 1997.

Subcaption "e) Other services" comprises, in particular:

	31/12/98	31/12/97 pro forma	Change %
Loans granted	263,808	208,704	+26.4
Deposits and current account overdrafts	222,031	163,909	+35.5
Current accounts	117,573	118,962	-1.2
Banking functions in relation to mutual funds deposited	76,236	38,091	+100.1
Loan-arrangement activities	5,604	5,961	-6.0
Other services - Italy	54,663	49,625	+10.2
Other services - foreign branches	13,865	13,951	-0.6
Total	753,780	599,203	+25.8

Commission expense (caption 50)

Analysis of caption 50 "Commission expense" (table 2.2 B.I)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
a) Collection and payment services	97,941	94,015	+4.2
b) Management and dealing services			
1. dealing in securities	6,667	17,725	-62.4
2. dealing in currency	1,265	4,755	-73.4
3. portfolio management	-	-	-
4. custody and administration of securities	10,465	8,380	+24.9
5. placement of securities	1,289	87,235	-
6. "door-to-door" sales of securities, financial products and services	-	-	-
c) Other services	74,502	64,515	+15.5
Total	192,129	276,625	-30.5

Subcaption "c) Other services" comprises, in particular:

	31/12/98	31/12/97 pro forma	Change %
Intermediation on financing transactions	16,232	22,373	-27.4
Loans obtained	25,500	7,027	+262.9
Guarantees received	3,208	3,767	-14.8
Loan-arrangement activities	2,618	1,862	+40.6
Other services - Italy	18,986	21,677	-12.4
Other services - foreign branches	7,958	7,809	+1.9
Total	74,502	64,515	+15.5

Other information relating to commission

Information concerning commission arising on transactions with Group companies is reported in part C, section 7 of these notes, together with information on commission earned in relation to securities, since this is required to determine the variable element of the payment to the National Guarantee Fund.

Section 3 Profits (losses) on financial transactions

Profits and losses on financial transactions, detailed below, are reported in caption 60 of the statement of income:

	31/12/98	31/12/97 pro forma	Change %
Profits (losses) on financial transactions (caption 60)	293,406	252,893	+16.0

in millions of lire

Profits (losses) on financial transactions (caption 60)

Analysis of caption 60 "Profits (losses) on financial transactions" (table 3.1 B.I)

in millions of lire

	Security transactions	Currency transactions	Other transactions	Total
A1. Revaluations	24,611 (a)		17,192 (d)	41,803
A2. Writedowns	-33,761 (b)		-86,216 (d)	-119,977
B. Other profits and losses	340,079	105,453 (c)	-73,952 (e)	371,580
Total	330,929	105,453	-142,976	293,406
<i>of which:</i>				
1. on government securities	180,781			
2. on other debt securities	-71,095			
3. on equities	573,250			
4. on security derivatives	-352,010			

a) Including 24,598 million lire of writebacks on quoted and unquoted securities, not connected with derivatives contracts and 13 million lire of writebacks on security transactions to be settled

b) Including: 33,614 million lire of writedowns on quoted and unquoted securities not connected with derivatives contracts and 147 million lire of writedowns on security transactions to be settled.

c) Balance of profits and losses on dealing in foreign currency for 114,036 million lire and losses on dealing in derivatives contracts for 8,583 million lire.

d) Balance of the valuations of securities and underlying derivatives contracts.

e) Balance of profits and losses on dealing in derivatives, other than those on securities and foreign currency (IRS, CIRS, FRA and IRO).

Section 4 Administrative costs



Administrative costs, detailed below, are reported in caption 80 of the statement of income:

	<i>in millions of lire</i>		
	31/12/98	31/12/97 pro forma	Change %
Personnel costs (caption 80.a)	2,490,078	2,670,452	-6.8
Other administrative costs (caption 80.b)	1,414,257	1,535,144	-7.9
Total	3,904,335	4,205,596	-7.2

Personnel costs (caption 80.a)

	<i>in millions of lire</i>		
	31/12/98	31/12/97 pro forma	Change %
Wages and salaries	1,782,657	1,792,511	-1.0
Social security charges	585,062	735,392	-19.4
Termination indemnities			
– provision for termination indemnities	74,914	93,995	-20.3
– indemnities accrued and paid during the year	2,871	7,381	-61.1
– provisions for supplementary pension fund	43,134	39,652	+8.8
Pensions and similar commitments	1,440	1,521	-5.3
Total	2,490,078	2,670,452	-6.8

Average number of employees by category (table 4.1 B.I)

	31/12/98	31/12/97	Var. %
a) Executives	215	226	-4.9
b) Managers	3,541	3,630	-2.5
c) Other employees	17,148	17,596	-2.5
Total	20,904	21,452	-2.6

Other administrative costs (caption 80b)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
Rental of premises	124,203	122,150	+1.7
Maintenance of operating assets	71,809	78,030	-8.0
Software maintenance and upgrades	86,163	66,671	+29.2
Postage and telegraph charges	54,741	51,776	+5.7
Consultancy services	107,895	61,995	+74.0
Data transmission charges	47,623	41,798	+13.9
Public utilities	48,633	51,633	-5.8
Advertising and entertainment	38,931	41,612	-6.4
Telephone	49,373	37,898	+30.3
Security services	45,575	37,455	+21.7
Equipment leasing charges	35,715	34,752	+2.8
Insurance premiums - banks and customers	29,531	32,842	-10.1
Legal and judiciary expenses	36,353	28,090	+29.4
Cleaning of premises	34,173	27,462	+24.4
Office supplies	27,913	26,981	+3.5
External data processing	44,182	22,918	+92.8
Maintenance of properties owned by the Bank	28,141	27,305	+3.1
Transport and counting of valuables	21,034	19,553	+7.6
Databank access charges	23,086	18,811	+22.7
Courier and transport services	16,890	14,197	+19.0
Investigation/commercial information costs	17,596	16,071	+9.5
Maintenance of leasehold premises	12,026	12,294	-2.2
Contributions and membership fees to trades unions and business associations	9,125	6,548	+39.4
Contribution to the Interbank Deposit Guarantee Fund	12,488	73,723	-83.1
Other expenses for personnel training, travel and assignments	65,972	74,490	-11.4
Other expenses	41,500	48,794	-14.9
	1,130,671	1,075,849	
Non-recoverable VAT on operating expenses (a)		124,000	
Total	1,130,671	1,199,849	-5.8
Indirect duties and taxes			
- stamp duties	205,609	203,277	+1.1
- non-recoverable VAT on purchases (a)	9	157,813	-100.0
- taxes on stock exchange contracts	11,735	22,368	-47.5
- local property taxes	20,122	19,982	+0.7
- substitute tax (Pres. Decree 601/73)	27,008	23,916	+12.9
- other	19,103	31,939	-40.2
Total	283,586	459,295	-15.4
Non-recoverable VAT on operating expenses (a)		-124,000	
Total	283,586	335,295	-15.4
Total other administrative costs	1,414,257	1,535,144	-7.9

(a) As discussed in the accounting policies, as from January 1, 1998 the captions relating to administration costs include VAT following the Bank's application of the tax treatment as per art. 36 (b) of Pres. Decree 633/72; up until December 31, 1997 this taxation was charged to a separate caption.

Consultancy services include fees paid to the Independent Auditors for the audit of annual and half-year reports, as detailed below:

	31/12/98	31/12/97 pro forma	Change %
Financial statements of the Bank	852	1,115	-23.6
Consolidated financial statements of the Group	122	87	+40.2
Financial statements of foreign branches	824	917	-10.1
Half-year report of the Bank	383	613	-37.5
Half-year report on the Group	69	79	-12.7
Half-year financial statements of foreign branches	182	320	-43.1
Total	2,432	3,131	-22.3

Section 5 Adjustments, writebacks and provisions



Adjustments, writebacks and provisions are detailed below:

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
Adjustments to intangible and tangible fixed assets (caption 90)	346,060	401,665	-13.8
Provisions for risks and charges (caption 100)	147,594	92,240	+60.0
Adjustments to loans and provisions for guarantees and commitments (caption 120)	2,295,219	1,908,125	+20.3
Writebacks of adjustments to loans and provisions for guarantees and commitments (caption 130)	430,880	652,726	-34.0
Provisions to the reserve for possible loan losses (caption 140)	-	174,800	n.s.
Adjustments to financial fixed assets (caption 150)	175,578	350,261	-49.9
Writebacks of adjustments to financial fixed assets (caption 160)	-	7,142	n.s.

The increase in adjustments to loans is wholly attributable to “open positions” of writedowns as a result of actualization and to new general adjustments covering generic risk in loan portfolio (together equal to 970,517 million lire), using the credit risk reserve of IMI. Net of this effect, adjustments to loans and provisions for guarantees and commitments would have fallen by more than 30%.

Adjustments to intangible and tangible fixed assets (caption 90)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
Adjustments to intangible fixed assets			
- amortization of start-up and capital increase expenses	5	263	-98.1
- amortization of goodwill	-	460	n.s.
- amortization of merger differences representing the goodwill of merged banks	70,772	70,772	-
- amortization of software costs	35,855	34,054	+5.3
- amortization of other deferred charges	36,846	32,715	+12.6
Adjustments to tangible fixed assets			
- depreciation of property	104,651	108,633	-3.7
- permanent writedowns of property	-	45,463	n.s.
- depreciation of furniture and installations	97,931	109,305	-10.4
Total	346,060	401,665	-13.8

Individual assets have been written down with reference to their remaining useful lives using, in most cases, the maximum fiscally-allowed rates, including the provision of accelerated depreciation.

Provisions for risks and charges (caption 100)

Provisions for risks and charges, 147,594 million lire, recorded during the year, include 116,130 million lire designed to increase the coverage of expected losses from legal action and, in particular, from repayments claimed in bankruptcy proceedings, as well as likely charges arising from the Bank's

commitment to the Interbank Deposit Guarantee Fund and on guarantees given in connection with the disposal of equity investments. The caption also includes 12,000 million lire designed to cover long-service bonuses to the Bank's employees, 10,596 million lire to integrate the provisions established to balance the technical deficit of the Bank's employee pension fund, 8,000 million lire to cover other potential pension charges and 868 million lire of potential costs connected with the reorganization of the New York office.

Adjustments to loans and provisions for guarantees and commitments (caption 120)

Analysis of caption 120 "Adjustments to loans and provisions for guarantees and commitments" (table 5.1 B.I) in millions of lire

	31/12/98	31/12/97 pro forma	Change %
a) Adjustments to loans	2,270,830	1,907,038	-31.8
of which:			
- general adjustments for country risk	170,637	82,033	+108.0
- other general adjustments	207,976	200,850	+3.5
b) Provisions for guarantees and commitments	24,389	1,087	n.s.
of which:			
- general provisions for country risk	75	170	-55.9
- other general provisions	24,314	-	n.s.
Total	2,295,219	1,908,125	+20.3

In addition to the above adjustments, default interest of 386,477 million lire due during the year has been reversed from interest income.

Writebacks of adjustments to loans and provisions for guarantees and commitments (caption 130)

	31/12/98	31/12/97 pro forma	Change %
Revaluation of loans previously written down	167,186	260,735	-35.9
Revaluation of loans previously written off	19,396	130,000	-85.1
Revaluation of provisions for guarantees and commitments	372	681	-45.4
Collection of default interest previously written down	101,221	104,578	-3.2
Collection of loans previously written off	96,851	89,470	+8.2
Collection of loan principal previously written down	45,854	67,262	-31.8
Total	430,880	652,726	-34.0

Adjustments to financial fixed assets (caption 150)

Adjustments to investment securities

Adjustments to investment securities, 50,506 million lire, reflect the writedown of certain unsecured securities issued by residents of countries at risk. In particular, these adjustments relate to securities issued by counterparties resident in Russia, Brazil, Albania, Croatia and Macedonia, which have been written down by applying the percentages established by the Italian Banking Association.

Adjustments to equity investments

Adjustments to equity investments relate to the writedown of holdings in the following companies to take account of permanent losses in value:

	31/12/98	31/12/97 pro forma	Change %
Apokè Six Srl	31,330	110,640	-71.7
Banco del Desarrollo	21,493	-	n.s.
Gedeam I.G.Inc.SA	17,902	41,000	-56.3
Inter Europa Bank Rt	17,289	-	n.s.
Bnc Assicurazioni SpA	9,875	-	n.s.
Eurotunnel	6,447	-	n.s.
Rimoldi Necchi Srl	6,154	-	n.s.
Abete Sviluppo SpA	5,000	-	n.s.
Apokè Two Srl in liquidation	-	60,291	n.s.
Sanpaolo Immobiliare SpA	-	39,223	n.s.
Sotim Srl	-	24,590	n.s.
Galileo Holding SpA	450	21,314	-97.9
Prospettive 2001 SpA	-	8,459	n.s.
Other	9,132	30,721	-70.3
Total	125,072	336,238	-62.8

In detail:

- the writedown of Apokè Six is the result of waiving loans made to cover the subsidiary's operating losses; this adjustment has been offset against the loan adjustments made previously;
- the writedown of the investment in Banco del Desarrollo (through adjustment of the carrying value to the company's net equity) and in Inter Europa Bank (through the adjustment of carrying value to the consolidated net equity) were effected in view of the worsened conditions of the local financial markets;
- the writedown of Gedeam was effected to adjust the carrying value in line with the consolidated net equity following a prudent valuation of the company's earning prospects;
- the writedown of BNC Assicurazioni is due to the company's poor results;
- The writedown of Eurotunnel, which is quoted on the London Stock Exchange and on the Paris Bourse, is to bring the carrying value into line with the average market price for the last six months;
- the writedowns of Rimoldi Necchi and Abete Sviluppo are to bring their carrying values into line with the companies' prospects.

Section 6 Other statement of income captions

Statement of income captions 30, 70, 110, 180, 190, 220 and 240, not discussed above, comprise:

	31/12/98	31/12/97 pro forma	Change %
Dividends and other revenues (caption 30)	839,389	694,181	+20.9
Other operating income (caption 70)	356,169	370,384	-3.8
Other operating expenses (caption 110)	14,913	15,857	-6.0
Extraordinary income (caption 180)	1,162,424	516,048	+125.3
Extraordinary charges (caption 190)	87,027	209,633	-58.5
Income taxes for the year (caption 220)	925,570	319,500	n.s.
Provision to reserve (art. 7.3, Law 218/90) (caption 240)	172,520	52,636	+227.8

in millions of lire

Dividends and other revenues (caption 30)

	31/12/98	31/12/97 pro forma	Change %
Shares, quotas and other equities			
- dividends	59,788	62,317	-4.1
- tax credits	32,697	32,184	+1.6
Equity investments			
- dividends			
- IMI International SA	172,047	153,996	+11.7
- Banca Fideuram SpA	74,060	40,403	+83.3
- IMI Bank (Lux) SA	64,212	-	n.s.
- Sanpaolo Bank Ireland Plc	57,770	127,033	-54.5
- Banque Sanpaolo SA	50,193	-	n.s.
- BIM IMI SpA	37,500	28,269	+32.7
- Turis AG	24,275	15,342	+58.2
- Crediop SpA	24,006	42,931	-44.1
- Intersim SpA	18,600	4,080	+355.9
- Sanpaolo Invest Sim SpA	12,000	1,600	n.s.
- Sanpaolo Leasint SpA	8,854	-	n.s.
- Sanpaolo Fondi SpA	8,609	3,253	+164.6
- Ruedg Bank AG	8,580	1,127	+661.3
- INA SpA	8,400	7,800	+7.7
- Telecom Italia SpA	7,505	-	n.s.
- Sanpaolo Bank SA	6,794	6,555	+3.6
- Esatri SpA	5,467	1,421	+284.7
- I.B.S.T SpA	4,489	11,108	-59.6
- IMI Fideuram Asset Management Sim SpA	4,144	6,160	-32.7
- Bnc Assicurazioni SpA	-	8,000	n.s.
- Spf Promotio Sim SpA	-	5,085	n.s.
- Mediaset SpA	-	4,820	n.s.
- other	17,258	32,064	-46.2
- tax credits	132,143	98,633	+34.0
Total	839,389	694,181	+20.9

in millions of lire

Other operating income (caption 70)

(table 6.1 B.I.)

	in millions of lire		
	31/12/98	31/12/97 pro forma	Change %
Expenses recovered from customers			
- stamp duties	197,575	195,854	+0.9
- other taxes	32,184	45,009	-28.5
- legal costs	20,248	18,218	+11.1
- other recoveries	6,312	7,565	-16.6
Reimbursement of services rendered to third parties	48,434	50,592	-4.3
Property rental income	23,328	26,231	-11.1
Income from merchant banking activities	17,898	6,759	+164.8
Other income	10,190	20,156	-49.4
Total	356,169	370,384	-3.8

Other operating expenses (caption 110)

(table 6.2 B.I.)

	in millions of lire		
	31/12/98	31/12/97 pro forma	Change %
Finance leasing charges	11,963	15,235	-21.5%
Losses from merchant banking activities	2,950	622	374.3%
Total	14,913	15,857	-6.0

Extraordinary income (caption 180)

(table 6.3 B.I.)

	in millions of lire		
	31/12/98	31/12/97 pro forma	Change %
Out-of-period income			
- use of IMI's reserve for possible loan losses (caption 90)	970,517	-	n.s.
- income taxes paid in advance relating to prior years	106,000	86,000	+23.3
- use of tax reserve and deferred taxation relating to prior years	-	5,000	n.s.
- collection of default interest previously considered recoverable	1,291	10,683	-87.9
- other out-of-period income	45,713	60,258	-24.1
Gains on:			
- translation into foreign currency of endowment funds of foreign branches	-	117,192	n.s.
- translation into foreign currency of foreign equity investments	45	33,356	-99.9
- disposal of financial fixed assets - equity investments	23,114	195,127	-88.2
- disposal of financial fixed assets - investment securities	-	5,940	n.s.
- disposal of tangible fixed assets	15,744	2,492	+531.8
Total	1,162,424	516,048	+125.3

Extraordinary expense (voce 190)

(tabella 6.4 B.I.)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
Settlements relating to legal disputes	-	25,292	n.s.
Severance bonus incentive for voluntary redundancy	43,323	20,146	+115.0
Extraordinary contribution to the Interbank Guarantee Fund	-	11,200	n.s.
Other out-of-period expenses	19,703	18,661	+5.6
Amounts not collectible	1,148	259	+343.2
Taxes relating to prior years	429	1,064	-59.7
Losses on:			
- translation into foreign currency of foreign equity investments	-	73,844	n.s.
- disposal of financial fixed assets	19,028	40,104	-52.6
- translation into foreign currency of endowment funds of foreign branches	-	14,846	n.s.
- disposal of tangible fixed assets	3,396	4,217	-19.5
Total	87,027	209,633	-58.5

(*) Costs incurred for the settlement of legal disputes concluded during 1998, 8,030 million lire, were covered using the specific reserve for risks and charges.

Income taxes for the year (caption 220)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
Income taxes for the year	1,442,425	433,500	+232.7
Adjustment of deferred taxation and of charges regarding possible fiscal disputes	-	-60,714	n.s.
Substitute taxation (art. 9, Legislative Decree 358/97)	-	99,808	n.s.
Local taxes applicable to foreign branches	19,236	46,906	-59.0
Total provision for taxation	1,461,661	519,500	+181.4
Prepaid taxes annulled during the year	111,000	-	n.s.
Prepaid taxes for the year	-647,091	-200,000	n.s.
Total	925,570	319,500	+189.7

In accordance with the Bank's accounting policies, a provision has been made for the deferred tax on the timing differences between the book value and tax value of the Bank's assets and liabilities. Prepaid taxes came to a total of 928 billion lire.

New prepaid taxes booked to the statement of income during the year amount to 753 billion lire. Of this figure, 647 billion refer to 1998 and these have been booked as a reduction to income taxes. 106 billion lire refer to previous years, and they have been booked to extraordinary income. During 1998, 111 billion lire of prepaid taxes have also been annulled, leading to an increase in the tax charge for the year.

In calculating prepaid taxes, the main timing differences giving rise to deferred tax liabilities refer to accrued gains on buildings (40 billion lire). The

main timing differences giving rise to deferred tax assets refer to value adjustments on loans that will be deductible for tax purposes in future years (more than 739 billion lire), provisions deductible in future years (130 billion lire) and writedowns of buildings and equity investments that will be deductible over the next few years (85 billion lire).

The calculation of income taxes for the year takes into account the provision made during the year to the reserve under art. 7.3 of Law 218/90.

**Provision to reserve (art. 7.3,
Law 218/90) (caption 240)**

The provision to the special reserve established under to art. 7.3 of Law 218/90, 172,520 million lire, represents the residual amount deriving from the mergers of Banca Nazionale delle Comunicazioni and Crediop.

Section 7 Other information regarding the statement of income

Other information provided below regarding the statement of income covers the geographical distribution of the Bank's revenues, the information required for the calculation of the payment to the National Guarantee Fund and transactions with San Paolo Banking Group companies and with other investments that are not part of the Group.

Geographical distribution of revenues

The geographical distribution of the Bank's revenues, based on the location of branches, is as follows:

(table 7.1 B.I.)

in millions of lire

	31/12/98				31/12/97 pro forma			
	Italy	Other EU countries	Other countries	Total	Italy	Other EU countries	Other countries	Total
Interest income and similar revenues	11,055,415	2,038,112	1,315,678	14,409,205	14,258,248	2,378,761	1,336,677	17,973,686
Dividends and other revenues	754,043	85,346	0	839,389	605,943	88,207	32	694,182
Commission income	2,384,629	27,427	19,762	2,431,818	1,765,565	32,922	17,642	1,816,129
Profits (losses) on financial transactions	309,533	967	-17,094	293,406	232,124	13,837	6,932	252,893
Other operating income	354,961	1,094	114	356,169	369,247	1,025	112	370,384
Total revenues	14,858,581	2,152,946	1,318,460	18,329,987	17,231,127	2,514,752	1,361,395	21,107,274

Information regarding the calculation of the payment to the National Guarantee Fund

The information required for the calculation of the payment to the National Guarantee Fund for stockbroking companies, pursuant to article 15 of Law 1/1991, is provided below:

(table 7.2 B.I.)

in millions of lire

	31/12/98	31/12/97 pro forma	Change %
Commission earned:			
- dealing in securities on behalf of third parties	3,380	529	+538.9
- placement and distribution of securities, with or without prior subscriptions or commitments to purchase, or underwriting of issues	102,386	227,673	-55.0
- asset management via security transactions, with or without trust status	40,563	33,799	+20.0
- acceptance of instructions to buy or sell securities	162,479	94,441	+72.0
- consultancy in relation to securities	-	-	-
- soliciting the savings of the general public	-	-	-
Dealing volumes:			
- dealing in securities on own account			
- shares	2,632,809	3,631,940	-27.5
- bonds	59,875,047	51,680,900	+15.9
- government securities	261,695,619	121,266,335	+115.8
Average monthly balance of assets managed:			
asset management via security transactions, with or without trust status	996,388	9,340,576	-89.3

Income and expenses arising from transactions with Group companies and investments in non-Group companies

Income and expenses arising from transactions with companies in the San Paolo Banking Group, as defined in article 4 of Decree 87/92, are detailed below, together with those relating to investments in non-Group companies:

in millions of lire

	31/12/98		
	Group companies	Non-Group companies	Total
Income			
- interest income and similar revenues	430,108	223,656	653,764
- dividends and other revenues	681,796	65,108	746,904
- commission income	971,703	307	972,010
- other operating income	47,967	1,492	49,459
Total	2,131,574	290,563	2,422,137
Expenses			
- interest expense and similar charges	1,067,173	253,144	1,320,317
- commission expense	8,354	1,461	9,815
- other operating expenses	34,261	2,075	36,336
Total	1,109,788	256,680	1,366,468

Assets and liabilities outstanding at year-end in relation to Group companies and investments in non-Group companies are indicated in part B, section 3 of these notes.

Part D - Other information

Section 1 Directors and statutory auditors

Remuneration

The annual remuneration of the Directors and the Statutory Auditors of the Bank is reported below:

(table I.1 B.I.)

	in millions of lire		
	31/12/98	31/12/97 pro forma	Change %
Directors	4,534	4,095	+10.7
Statutory Auditors	1,046	1,202	-13.0

Remuneration paid to Directors, Statutory Auditors and General Managers (pursuant to article 32 of Consob resolution no. 11520 of 1/7/98)

In compliance with article 32 of Consob resolution no. 11520 of 1/7/98, we provide below the detail of the remuneration pertaining to 1998 paid to Directors, Statutory Auditors and General Managers.

Considering the resignations that took place after the merger with IMI, the following tables provide separate details of remuneration paid to San Paolo and IMI's Directors, Statutory Auditors and General Managers.

Directors, statutory auditors and general managers in office

Subject Name and surname	Position		Remuneration (in millions of lire)			
	Position held	Term of office	Remuneration	Benefits in kind	Bonuses and other incentives	Other emoluments (2)
ARCUTI Luigi	Chairman (1)	1998 / 2000 (a)	412			
	Chairman IMI (1)	1/1 - 30/4/98	100			
	Director IMI (1)	1/5 - 1/11/98	126			53
ALBANI CASTELBARCO						
VISCONTI Carlo	Director	1998 / 2000 (a)	61			
BOTIN Emilio	Director	1998 / 2000	77			
FABRIZI Pier Luigi	Director (1)	1998 / 2000 (a)	99			
FONTANA Giuseppe	Director	1998 / 2000 (a)	65			
	Director IMI	1/1 - 1/11/98	88			76
GALATERI DI GENOLA Gabriele	Director (1)	1998 / 2000	129			
INCIARTE Juan Rodriguez	Director (1)	1998 / 2000	131			
GRONCHI Divo	Director	1998 / 2000	183 (3)			
MARANZANA Luigi	Managing Director (1)	1998 / 2000	330		230	(4)
	General Manager		847	5	170	
MARRONE Virgilio	Director	1998 / 2000 (a)	67 (5)			
MASERA Rainer Stefano	Director	1/1 - 15/6/98	(6)			
	Managing Director (1)	16/6/98 - 2000	251		230	
	General Manager		436	17		
	General Manager IMI		288		360	(7)

continues:

Subject		Position		Remuneration (in millions of lire)			
Name and surname	Position held	Term of office	Remuneration	Benefits in kind	Bonuses and other incentives	Other emoluments (2)	
MASINI Mario	Director	1998 / 2000 (c)	43				
MIHALICH Iti	Director (1)	1998 / 2000	129				
OTTOLENGHI Emilio	Director	1998 / 2000 (b)	107				
PREDA Stefano	Director IMI (1)	1/1 - 1/11/98	136			99	
	Director (1)	1998 / 2000 (c)	57				
SALZA Enrico	Director IMI	1/1 - 1/11/98	83			41	
	Director (1)	1998 / 2000 (a)	95				
VERMEIREN Remi François	Director	1998 / 2000 (a)	60				
JONA CELESIA Lamberto	Chairman of Statutory Auditors	1998	133			238	
BENEDETTI Aureliano	Statutory Auditors	1998 (a)	65				
	Statutory Auditors IMI	1/1 - 1/11/98	101			42	
MIGLIETTA Angelo	Statutory Auditors	1998 (a)	67				
	Statutory Auditors IMI	1/1 - 1/11/98	111				
PAOLILLO Mario	Statutory Auditors	1998 (a)	64				
	Statutory Auditors IMI	1/1 - 1/11/98	136			130	
RAGAZZONI Ruggero	Statutory Auditors	1998 (a)	61				

(1) Members of the Executive Committee

(2) Remuneration received from subsidiary companies

(3) Paid to Monte dei Paschi di Siena SpA

(4) 8 million lire paid to San Paolo IMI SpA

(5) Paid to IFI SpA

(6) 54 million lire paid to IMI SpA

(7) 51 million lire paid to IMI SpA

(a) In office since 1/5/98

(b) Resigned as of 30/4/98, in office since 1/8/98

(c) In office since 1/8/98

Directors, statutory auditors and general managers of San Paolo no longer in office

Subject		Position		Remuneration (in millions of lire)			
Name and surname	Position held	Term of office	Remuneration	Benefits in kind	Bonuses and other incentives	Other emoluments (2)	
ZANDANO Gianni	Chairman (1)	1/1 - 1/5/98	90			140	
CAPITANIO Tommaso	Director	1/1 - 30/4/98	29			18	
DESIDERATO Marco	Director	1/1 - 30/4/98	28			180	
ERCOLANI Mario	Director	1/1 - 30/4/98	27				
FERRARI Renato Tullio	Director	1/1 - 30/4/98	39			74	
FERRERO Cesare	Director	1/1 - 30/4/98	26				
GAMBIGLIANI ZOCCOLI Gianfranco	Director	1/1 - 30/4/98	26			60	
MORETTI Michele	Director	1/1 - 30/4/98	26			112	
SCERNI Enrico	Director	1/1 - 30/4/98	28			125	
SIGLIENTI Sergio	Director	1/1 - 30/4/98	26				
VASINO Francesco	Director	1/1 - 30/4/98	29			229	
RAYNERI Alessandro	Statutory Auditors	1/1 - 30/4/98	31			20	
SCOTTA Pier Giorgio	Statutory Auditors	1/1 - 30/4/98	30			156	
VERME Giacomo	Statutory Auditors	1/1 - 30/4/98	31			13	
VESCE Francesco	Statutory Auditors	1/1 - 30/4/98	32			118	

(1) Members of the Executive Committee

(2) Remuneration received from subsidiary companies

Directors, statutory auditors and general managers of IMI no longer in office

Subject	Position		Remuneration (in millions of lire)			
Name and surname	Position held	Term of office	Remuneration	Benefits in kind	Bonuses and other incentives	Other emoluments (2)
MOLINARI Sandro	Chairman (1)	1/5 - 1/11/98	150			
	Director (1)	1/1 - 30/04/98	166			49
ERCOLANI Mario	Director	1/1 - 1/11/98	136			105
FASSATI Ariberto	Director	1/1 - 1/11/98	87			
FOLONARI Ambrogio	Director	1/1 - 1/11/98	52			
GROTTANELLI DE' SANTI Giovanni	Director (1)	1/1 - 1/11/98	184			49
IOZZO Alfonso	Director	1/1 - 1/11/98	86 (3)			
MORBIDELLI Giuseppe	Director	1/1 - 1/11/98	56			
PENNAROLA Vincenzo	Director	1/1 - 30/4/98	30			
SACCHI MORSIANI Gian Guido	Director	1/1 - 1/11/98	87			
VERLOOP Emst	Director	1/1 - 30/4/98	28			
ZANDANO Gianni	Director (1)	1/1 - 1/11/98	132			48
ZINN Eberhard	Director	1/1 - 1/11/98	81			
CALEFFI Franco	Statutory Auditors	1/1 - 1/11/98	92			6
CAPITANIO Tommaso	Statutory Auditors	1/1 - 1/11/98	93			

(1) Members of the Executive Committee

(2) Remuneration received from subsidiary companies

(3) Paid to NHS Nuova Holding San Paolo SpA

Stock option plan

In implementation of the resolution passed by the shareholders' meeting of San Paolo held on July 31, 1998, on February 9, 1999 the Bank's Board of Directors launched a stock option plan for Managing Directors - General Managers and other officers who hold key positions within the Group.

The plan's guidelines can be summarized as follows:

- *Beneficiaries:* the plan concerns both the two Managing Directors - General Managers, the Deputy General Managers and other officers covering top management positions in San Paolo IMI Group companies, for a total of 50 employees.
- *Duration of plan:* the plan will run for a three-year period from January 1, 1999.
- *Number of stock options to be assigned to officers:* the number of stock options is fixed according to the table below:

Managerial level	Number of officers	Number of options allocated per head at beginning of plan (thousands)
1) Managing Directors	2	370
2) Deputy General Managers	6	180-270
3) Division/Department Heads/Other management positions	42	60-180

The total number of stock options available for allocation has been fixed at 7,000,000, of which 370,000 will go to each Managing Director - General Managers. In relation to the other executive positions, the number of options to be allocated will be established later.

- *Exercise of stock subscription options:* the options are expected to be exercisable gradually, within the limit of one third of the options per year. The options must be exercised exclusively in the periods of the year specifically identified for this purpose and will become invalid, if unexercised, within 25 calendar days from the third stockmarket day subsequent to the date on which the Board approves the accounts for the year ended December 31, 2002, or in any case by March 31, 2003.
- *Subscription price of stock:* the subscription price has been fixed at 24,735 lire, equal to the volume-weighted average of prices quoted for the stock during the three months prior to the beginning of the plan.
- *Capital increase and effect on shareholders' equity:* the allocation of 7,000,000 options to subscribe stock has resulted in an authorized increase of 42,000,000,000 lire in the capital of Sanpaolo IMI. The capital will also be altered following the effective future subscription of stock by officers; on this occasion a share premium will be subscribed for the difference between the subscription price of 24,735 lire and the par value of 6,000 lire. In the event that all 7,000,000 shares are subscribed, Sanpaolo IMI's equity will increase by around 173 billion lire, of which 42 billion lire as share capital and approximately 131 billion lire as additional paid-in capital thanks to the share premium.
- *Restrictions:* the exercise of options is subject to restrictions and cancellations, laid out in detail in the implementation rules of the plan, essentially linked to the transferability of rights and the organizational role of the beneficiaries.

Loans and guarantees given

Loans and guarantees given (table 1.2 B.I)

	31/12/98	31/12/97 pro forma	Change %
Directors	203,561	534,944	-61.9
Statutory Auditors	2,553	739	+245.5

The amounts indicated above include loans granted to and guarantees given by the Group to the Directors and Statutory Auditors, 164 million lire, and to companies and banks identified pursuant to article 136 of the Consolidated Banking Act, 205,950 million lire, including the drawdown against credit lines granted to the latter.

Section 2

Parent company

2.1 Name Istituto Bancario San Paolo di Torino Istituto Mobiliare Italiano SpA

2.2 Registered offices Piazza San Carlo, 156,
10121 Turin, Italy

Secondary head office
Viale dell'Arte, 25
00144 Rome, Italy

Registered banking group No. 1025/6

Attachments

Statement of changes in shareholders' equity

in millions of lire

	Capital	Additional paid-in capital	Legal reserve	Statutory reserve	Extra-ordinary reserve	Reserve for purchase of own shares	Reserve (art. 13.6, Dec. 124/93)	Reserve (art. 7.3, L. 218/90)	Merger surplus	Reserve ex Law 169/83	Reserve Law 213/98	Reserve for general banking risks	Net income for the year	Total
Shareholders' equity as of January 1, 1998	8,159,929	275,000	205,960	65,924	27,418	200,000	978	657,027	-	-	-	-	-	9,592,236
Allocation of the statutory reserve to the extraordinary reserve				65,924	65,924									-
Distribution of dividends to shareholders by withdrawal from the extraordinary reserve					- 89,759									- 89,759
Changes in shareholder's equity due to the merger:														
- Merger surplus ex IMI SpA									4,307,056					4,307,056
- Increase in capital for merger surplus of IMI SpA	253,181								- 253,181					-
- Cancellation of investment in merging company by merged company									- 417,179					- 417,179
- Re-establishment of reserve for general banking risks									- 650,000			650,000		-
- Establishment of reserve pursuant to Law 213/98											79,099			79,099
- Transfer of deferred taxes pertaining to the reserve for general banking risks and to the reserve ex Law 169/83									- 292,087					- 292,087
- Re-establishment of reserve ex Law 169/83									- 139,424	139,424				-
Cancellation of reserve for purchase of own shares					200,000	- 200,000								-
Dividends (1992) from merged banks, as prescribed by art. 22, Arts. of Association					159									159
Use of reserve (art. 7.3, Law 218/90) to pay capital tax (Law 461/92)								- 81,697						- 81,697
Increase in the legal reserve due to transfer from:			1,476,662											1,476,662
- Additional paid-in capital		- 275,000												- 275,000
- Reserve (art. 7.3, L. 218/90)								- 575,330						- 575,330
- Extraordinary reserve					- 203,742									- 203,742
- Merger surplus									- 422,590					- 422,590
Provision to reserve (art. 7.3, Law 218/90)								172,520						172,520
Net income for 1998													1,263,114	1,263,114
Shareholders' equity as of December 31, 1998	8,413,110	-	1,682,622	-	-	-	978	172,520	2,132,595	139,424	79,099	650,000	1,263,114	14,533,462

Statement of cash flows (a)

in billions of lire

APPLICATION OF FUNDS

Use of funds generated by operations		1,604
Dividends paid	1,440	
Use of reserve (art. 7.3, Law 218/90) to cover payment of capital tax (Decree 461/92)	82	
Use of reserves for termination indemnities and pensions	67	
Use of provisions for risks and charges	15	
Increase in funds applied		305
Cash and deposits with central banks	25	
Equity investments	194	
Intangible fixed assets	86	
Increase in funds applied		41,388
Cash and deposits with central banks	24,965	
Loans to customers	13,367	
Other liabilities	2,494	
Subordinated liabilities	562	

Total		43,297
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(a) Statement of cash flows was prepared using the pro forma reclassified balance sheet and the reclassified statement of income as of December 31, 1997

SOURCES OF FUNDS

Funds generated by operations		3,073
Net income for the year	1,435	
Provision for termination indemnities	75	
Net adjustments to loans and provisions for guarantees and commitments	894	
Provisions for risks and charges	148	
Adjustments to tangible fixed assets	203	
Adjustments to intangible fixed assets	143	
Adjustments to financial fixed assets	175	
Increase in funds taken		-
Decrease in funds applied		40,224
Due from banks	23,505	
Due to customers	9,670	
Securities issued	972	
Dealing securities	2,881	
Tangible fixed assets	28	
Other assets	3,168	
Total		43,297

List of properties owned by the Bank

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
ACQUI TERME Piazza Italia 10	2,105	1,644,690,494	3,937,480,282	5,582,170,776	2,085,231,961	3,496,938,815
AGNADELLO Piazza della Chiesa 5/15	199	111,217,463	350,528,688	461,746,151	137,621,571	324,124,580
ALASSIO Via Don Bosco 2	1,031	381,482,327	5,352,113,384	5,733,595,711	1,816,774,017	3,916,821,694
ALBA Piazza Savona 1	1,168	849,987,174	3,390,073,404	4,240,060,578	1,538,290,857	2,701,769,721
ALBA Via Cuneo 9 ang. Vic. San Biagio	54	8,000,000	70,939,527	78,939,527	31,137,184	47,802,343
ALBENGA Fil. I Via Genova 86	70	73,662,856	275,195,158	348,858,014	69,155,629	279,702,385
ALBENGA Via Valle d'Aosta 6	1,400	5,532,930,190	-	5,532,930,190	1,153,502,387	4,379,427,803
ALBESE Via Vittorio Veneto 6/a	262	53,307,746	665,273,667	718,581,413	185,774,462	532,806,951
ALBINO Via Mazzini 182	982	2,180,000,000	950,800,000	3,130,800,000	599,766,588	2,531,033,412
ALESSANDRIA Fil. I Corso Roma 17/19	7,053	2,498,314,546	12,976,645,372	15,474,959,918	4,008,915,457	11,466,044,461
ALESSANDRIA P.zza Garibaldi 57-58 / Via Savona	5,670	9,041,530,434	8,343,087,082	17,384,617,516	5,652,013,876	11,732,603,640
ALMENNO SAN BARTOLOMEO Via Martiri della Libertà	456	743,284,341	610,689,973	1,353,974,314	701,524,173	652,450,141
ALPIGNANO Via Mazzini 5	1,366	2,029,615,192	2,022,756,743	4,052,371,935	2,074,002,588	1,978,369,347
ANCONA Via Montebello 49/63	2,270	3,295,773,536	3,920,474,774	7,216,248,310	2,746,359,558	4,469,888,752
ANTEGNATE Via Muoni 13	356	11,881,055	481,937,921	493,818,976	152,361,959	341,457,017
ANTEY ST. ANDRE' Via Grandi Mulini 40	94	59,701,700	175,099,446	234,801,146	87,639,913	147,161,233
AOSTA Fil. I Corso Battaglione D'Aosta 65	771	529,301,411	1,832,670,693	2,361,972,104	781,574,085	1,580,398,019
AOSTA Sede Piazza Chanoux 38 / Via del Collegio 2	2,738	2,865,924,326	9,966,393,214	12,832,317,540	3,689,806,339	9,142,511,201
APPIANO GENTILE Via Volta 14	278	205,008,113	581,928,090	786,936,203	206,886,355	580,049,848
ARCONATE Piazza Libertà 1	660	113,401,906	1,351,145,446	1,464,547,352	384,565,713	1,079,981,639
ARCONATE Via Roma 2	114	26,634,527	109,331,473	135,966,000	-	135,966,000
ARENA PO Via Roma 10	360	437,325,000	209,728,688	647,053,688	209,278,954	437,774,734
AREZZO Via Mecenate 2	1,840	540,587,500	-	540,587,500	-	540,587,500
ARREGNO Via Lungotelo di Destra 6	118	40,021,213	189,404,674	229,425,887	72,084,935	157,340,952
ARONA Corso Repubblica 1	1,021	883,688,375	3,026,310,007	3,909,998,382	1,431,533,828	2,478,464,554
ARQUATA SCRIVIA Via Libarna 21 I	490	287,558,658	777,414,821	1,064,973,479	362,219,413	702,754,066
ARZANO Via Rimini 6	488	1,084,885,128	680,315,200	1,765,200,328	823,667,879	941,532,449
ASTI Via C. Battisti 3 / C.Dante 6	1,712	2,968,765,771	5,439,176,370	8,407,942,141	2,660,897,825	5,747,044,316
AVELLINO Via Guarini 40 / Via De Conciliis 14	1,034	2,998,216,053	664,717,743	3,662,933,796	879,584,068	2,783,349,728
AVIGLIANA Fil. Corso Torino 158	1,439	1,913,992,671	3,552,989,312	5,466,981,983	2,634,628,818	2,832,353,165
AZZANELLO Via A. Valcarengi 10	187	658,816	234,030,455	234,689,271	58,252,429	176,436,842
BARDONECCHIA Via Medail 53	508	303,895,827	1,601,003,841	1,904,899,668	717,810,108	1,187,089,560
BARI C.so Vittorio Emanuele 60	4,024	1,949,495,650	13,585,035,397	15,534,531,047	3,342,788,065	12,191,742,982
BARI Fil. I Via Amendola 168/5	1,647	199,135,961	-	199,135,961	11,948,158	187,187,803
BARI Sede Via A. Gimma ang. Via A.da Bari	2,866	4,607,916,800	15,401,887,714	20,009,804,514	8,219,373,158	11,790,431,356
BARI Via De Rossi 51-53	509	334,189,639	886,833,505	1,221,023,144	448,701,744	772,321,400
BELGIOIOSO Via XX Settembre 30	220	730,000,000	-	730,000,000	65,395,755	664,604,245
BELLAGIO Lungo Lario Manzoni 32/34	608	200,978,513	1,915,198,146	2,116,176,659	543,575,638	1,572,601,021
BERGAMO CENTRO SERVIZI Via dei Caniana 2	15,038	27,956,592,279	41,910,872,518	69,867,464,797	39,963,488,741	29,903,976,056
BERGAMO Fil. I Via XX Settembre 83	1,712	1,394,668,915	10,287,214,564	11,681,883,479	5,762,339,983	5,919,543,496
BERGAMO Fil. 13 Sede Via XX Settembre 57	3,113	851,955,923	15,347,652,886	16,199,608,809	5,518,999,887	10,680,608,922
BERGAMO Fil. 4 Via S. Bernardino 72/d	772	111,187,291	2,425,939,574	2,537,126,865	762,570,324	1,774,556,541
BERGAMO Fil. 5 Via Suardi 85/87	1,060	899,021,994	2,387,497,378	3,286,519,372	1,039,648,756	2,246,870,616
BERGAMO Fil. 6 Via Statuto 18	339	89,505,575	1,027,573,260	1,117,078,835	292,603,589	824,475,246
BERGAMO Sede Via Camozzi 27/ Piazza Cavour 9	8,166	18,147,629,545	27,689,760,818	45,837,390,363	11,986,277,207	33,851,113,156
BERGAMO Via Stendhal 5/Via Campagnola	6,645	230,000,000	-	230,000,000	20,700,000	209,300,000
BIELLA - land (Occhieppo e Camburzano)		1,201,000	-	1,201,000	-	1,201,000

(*) L. 19/12/73 n. 823; L. 2/12/75 n. 576; L. 19/03/83 n. 72; L. 30/07/90 n. 218; L. 29/12/90 n. 408; L. 30/12/91 n. 413; others.

follows

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
BIELLA Fil. I Via Cottolengo	475	843,545,888	107,704,518	951,250,406	243,383,553	707,866,853
BIELLA Via G. Marconi 9	2,443	516,362,509	5,822,063,894	6,338,426,403	1,414,301,581	4,924,124,822
BISTAGNO Corso Italia 46	386	62,511,163	566,861,696	629,372,859	210,580,993	418,791,866
BOLLATE Via Vittorio Veneto 2	801	590,078,952	2,127,027,017	2,717,105,969	689,487,958	2,027,618,011
BOLOGNA Via Borgolocchi I	1,284	1,923,108,540	4,664,421,672	6,587,530,212	2,481,198,638	4,106,331,574
BOLOGNA Via dei Mille 4	2,844	6,480,900,065	16,305,602,083	22,786,502,148	8,969,828,793	13,816,673,355
BOLOGNA Via delle Lame 109	4,846	25,809,619,224	-	25,809,619,224	4,721,215,633	21,088,403,591
BOLOGNA Via Rizzoli 20	1,122	773,516,684	7,564,483,316	8,338,000,000	1,650,195,168	6,687,807,832
BONATE SOTTO Via V. Veneto 57/b	846	125,320,494	1,262,730,036	1,388,050,530	256,656,599	1,131,393,936
BORDIGHERA Corso Italia 32	832	2,907,312,500	580,732,131	3,488,044,631	1,006,151,510	2,481,893,121
BORGHETTO LODIGIANO Piazza Dalla Chiesa 1/a	594	5,650,843	903,731,658	909,382,501	121,866,172	787,516,329
BORGHETTO S.S. Via IV Novembre 8	580	195,351,610	2,299,502,846	2,494,854,456	701,334,359	1,793,520,097
BORGO SAN DALMAZZO C.so Barale 22	1,643	1,906,164,000	1,521,127,133	3,427,291,133	936,282,332	2,491,008,801
BORGO SAN GIACOMO Via Ferrari 5	572	1,200,000	745,752,196	746,952,196	128,353,518	618,598,678
BORGOFRANCO D'IVREA Via Aosta 28	314	209,275,801	609,440,071	818,715,872	258,709,530	560,006,342
BORGONE DI SUSA Via A. Abegg 5 bis	565	189,337,201	846,173,549	1,035,510,750	385,628,441	649,882,309
BORGOSIESIA Viale Carlo Fasso' 2	2,435	2,177,111,486	5,087,542,807	7,264,654,293	2,891,068,485	4,373,585,808
BOSCOMARENGO Via Roma 6 bis	479	518,802,230	219,102,780	737,905,010	280,615,189	457,289,821
BOSCOREALE Via S.Ten.Cirillo 12/ Via S.Felice 2	627	895,279,600	612,941,332	1,508,220,932	612,167,651	896,053,281
BOSISIO PARINI Piazza Parini 12	462	800,156,000	301,627,656	1,101,783,656	333,739,575	768,044,081
BRA Via Principi di Piemonte 32	1,143	470,387,566	3,251,535,348	3,721,922,914	1,033,954,844	2,687,968,070
BRANDIZZO Via Torino 196	612	359,822,210	1,197,216,745	1,557,038,955	498,520,308	1,058,518,647
BREMBIO Via Garibaldi 10	289	500,000	391,448,710	391,948,710	82,210,790	309,737,920
BRESCIA Pza Garibaldi 5 /Via Tartaglia	2,647	9,839,647,590	-	9,839,647,590	2,048,257,586	7,791,390,004
BRESCIA Fil. I Sede Via Gramsci 26	3,531	1,226,946,300	18,597,637,757	19,824,584,057	5,987,802,379	13,836,781,678
BRIGA NOVARESE Via Borgomanero 19/21	729	324,754,414	1,185,792,534	1,510,546,948	594,684,554	915,862,394
BRONI Piazza Garibaldi 7 ang. Via Cavour	827	1,079,996,635	2,843,890,745	3,923,887,380	1,213,667,708	2,710,219,672
BURAGO DI MOLGORA Via Enrico Toti 2/3	756	675,315,694	1,119,884,405	1,795,200,099	552,101,758	1,243,098,341
BUSTO ARSIZIO Fil. 2 Via Gavinana 8	526	693,754,571	613,226,955	1,306,981,526	408,190,403	898,791,123
BUSTO ARSIZIO Fil. 3 Via Torino 48	645	376,030,610	928,127,546	1,304,158,156	298,809,213	1,005,348,943
BUSTO ARSIZIO Fil. 4 Sacconago - P.za Chiesa V.	577	130,698,873	1,114,778,510	1,245,477,383	312,359,492	933,117,891
BUSTO ARSIZIO Fil. 5 Borsano - Via Novara 1	245	1,000,000	633,882,462	634,882,462	147,091,742	487,790,720
BUSTO ARSIZIO Piazza Manzoni/ Via Matteotti	1,329	4,633,793,319	-	4,633,793,319	416,987,599	4,216,805,720
BUSTO ARSIZIO Sede Via Milano 14	4,925	197,544,338	13,670,756,499	13,868,300,837	3,872,357,543	9,995,943,294
BUSTO GAROLFO Piazza Lombardia 3	358	248,732,547	538,149,066	786,881,613	209,515,685	577,365,928
CABIATE Via A. Grandi 6	379	179,038,698	670,222,402	849,261,100	233,878,968	615,382,132
CAGLIARI Piazza Deffenu 4	4,403	8,591,477,204	13,545,213,437	22,136,690,641	7,328,664,453	14,808,026,188
CAGLIARI Via Paoli 31/33	743	1,275,652,892	724,347,108	2,000,000,000	420,000,000	1,580,000,000
CAGLIARI Via Paoli 33	10	11,206,052	1,793,948	13,000,000	2,730,000	10,270,000
CAIRO MONTENOTTE Piazza della Vittoria 24	712	251,410,066	1,698,025,125	1,949,435,191	520,434,885	1,429,000,306
CALOSSO Via R. Margherita 24/26	271	93,652,823	211,807,720	305,460,543	121,864,943	183,595,600
CALUSCO D'ADDA Via Marconi 36-38	1,008	688,447,679	1,523,717,509	2,212,165,188	498,844,193	1,713,320,995
CALUSO Via San Clemente 1	437	226,034,813	727,195,772	953,230,585	297,703,562	655,527,023
CALVATONE Via Umberto I 83	230	14,507,930	372,660,970	387,168,900	118,160,933	269,007,967
CAMPOMORONE Via A. Gavino 110/d	655	323,623,853	1,718,231,869	2,041,855,722	709,862,838	1,331,992,884
CANDELO Via Mazzini ang. Via Moglia 1	607	354,832,325	607,196,941	962,029,266	188,812,703	773,216,563
CANELLI P.za A. d' Aosta 20/Via M. d'Azeglio 2	957	656,647,864	901,319,493	1,557,967,357	421,504,026	1,136,463,331
CANICATTI' Via Carlo Alberto 4/12	870	459,851,608	721,310,189	1,181,161,797	496,136,507	685,025,290
CANICATTI' Via Regina Margherita 2	1,000	229,485,290	2,087,599,597	2,317,084,887	863,420,541	1,453,664,346
CANTOIRA Via Roma 21	82	82,758,575	79,298,184	162,056,759	86,590,075	75,466,684

(*) L. 19/12/73 n. 823; L. 2/12/75 n. 576; L. 19/03/83 n. 72; L. 30/07/90 n. 218; L. 29/12/90 n. 408; L. 30/12/91 n. 413; others.

follows

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
CANTU' Piazza degli Alpini 1	1,075	137,877,648	2,731,294,963	2,869,172,611	726,618,646	2,142,553,965
CAPACCIO Contrada Linora	201	66,000,000	220,000,000	286,000,000	-	286,000,000
CAPRIOLO Via IV Novembre 90	785	305,675,619	1,347,624,335	1,653,299,954	366,841,830	1,286,458,124
CARAGLIO P.za Garibaldi 10,ang. Via Roma	351	990,000,000	-	990,000,000	177,035,294	812,964,706
CARAMAGNA Via Luigi Ormato 37	627	2,216,541,580	332,524,738	2,549,066,318	529,087,070	2,019,979,248
CARESANA Corso Italia 32	232	14,146,912	241,280,384	255,427,296	69,255,042	186,172,254
CARIGNANO - terreni		13,395,902	10,004,098	23,400,000	-	23,400,000
CARIGNANO Via Umberto I 118	609	341,022,993	1,258,129,600	1,599,152,593	645,981,700	953,170,893
CARMAGNOLA Piazza Martiri della Liberta' 31	856	433,132,650	1,822,235,498	2,255,368,148	845,870,972	1,409,497,176
CARRU' Piazza Generale Perotti 11	368	78,286,610	729,834,626	808,121,236	289,953,916	518,167,320
CASALE MONFERRATO Via Magnocavallo 23	2,983	2,509,913,712	5,637,207,154	8,147,120,866	2,832,509,886	5,314,610,980
CASALMAGGIORE Via Cairoli 7	2,004	86,802,709	3,335,710,987	3,422,513,696	637,632,987	2,784,880,709
CASALPUSTERLENGO Via Garibaldi 22	477	197,928,404	941,681,525	1,139,609,929	360,353,709	779,256,220
CASAZZA Via della Pieve, 1	1,212	1,998,000,000	621,880,000	2,619,880,000	512,439,718	2,107,440,282
CASELLE LANDI Via IV Novembre 10	254	6,500,000	278,826,361	285,326,361	64,478,465	220,847,896
CASELLE TORINESE Via Cuorgne' 86 bis	719	412,455,250	1,295,500,876	1,707,956,126	532,971,447	1,174,984,679
CASNIGO Piazza Caduti 7	435	97,254,730	590,978,855	688,233,585	165,598,086	522,635,499
CASOREZZO Piazza S. Giorgio 9	403	19,232,380	713,587,810	732,820,190	184,135,178	548,685,012
CASSINA DE' PECCHI Via Trento 2 ang. Via Venezia	1,283	1,352,868,965	3,839,768,667	5,192,637,632	2,065,105,359	3,127,532,273
CASTAGNOLE MONFERRATO Piazza Statuto 1/b	184	22,949,800	207,180,397	230,130,197	77,679,931	152,450,266
CASTEL GOFFREDO Piazza Gonzaga 3	590	1,000,000,000	706,500,000	1,706,500,000	527,938,824	1,178,561,176
CASTELLAMONTE Piazza Martiri della Liberta' 2	515	168,726,694	849,535,748	1,018,262,442	317,045,630	701,216,812
CASTELLANZA Via Matteotti 16/b	932	383,410,339	1,606,174,311	1,989,584,650	565,310,873	1,424,273,777
CASTELLEONE Via Cappi 4	915	2,164,000,000	501,327,894	2,665,327,894	788,354,461	1,876,973,433
CASTELNUOVO BOCCA D'ADDA Via Umberto I 1	447	2,003,000	555,583,620	557,586,620	88,393,485	469,193,135
CASTELNUOVO SCRIVIA Via Nino Bixio 15	910	568,044,190	1,024,036,189	1,592,080,379	625,214,800	966,865,579
CASTELVETRANO Piazza Matteotti 9/10	270	924,758,886	770,285,801	1,695,044,687	805,180,757	889,863,930
CASTIGLIONE D'ADDA Via della Chiesa 1	617	11,500,000	786,893,315	798,393,315	95,734,630	702,658,685
CASTROFILIPPO Corso Umberto 42	408	46,512,289	408,801,769	455,314,058	178,965,586	276,348,472
CATANIA C.so Sicilia 43	2,532	700,381,590	7,470,515,943	8,170,897,533	1,572,941,025	6,597,956,509
CATANIA Corso Italia 91	2,250	5,909,515,340	4,946,128,293	10,855,643,633	1,983,599,949	8,872,043,684
CAVA MANARA Via Garibaldi 19	499	326,101,094	500,591,857	826,692,951	272,098,458	554,594,493
CAVENAGO D'ADDA Via G. Conti 6-4	378	480,000	459,242,882	459,722,882	75,964,922	383,757,960
CENTALLO Via Bonifanti 3/5/7	250	503,682,400	59,736,592	563,418,992	137,074,686	426,344,306
CERAMI Via Roma 88/90/92	110	136,832,589	222,639,938	359,472,527	167,626,531	191,845,996
CERCOLA Via D. Riccardi 127	1,188	2,134,357,917	569,761,876	2,704,119,793	910,991,640	1,793,128,153
CERMENATE Via G. da Cermenate / Via Matteotti 45	494	907,598,100	248,629,843	1,156,227,943	206,809,205	949,418,738
CERNOBBIO Via Dell' Orto 3	487	16,569,554	1,269,235,595	1,285,805,149	336,512,589	949,292,560
CERNUSCO SUL NAVIGLIO Piazza Ghezzi 5	959	1,903,745,387	2,658,752,401	4,562,497,788	1,863,183,405	2,699,314,383
CERRO MAGGIORE Via S. Bartolomeo 8	176	28,200,000	390,105,549	418,305,549	101,333,572	316,971,977
CESANA TORINESE Via Roma 14	471	153,277,910	694,183,105	847,461,015	285,142,496	562,318,519
CEVA Via Moretti 7	472	388,188,655	887,492,118	1,275,680,773	564,852,431	710,828,342
CHIARI Via delle Battaglie 3/e	798	2,578,000,000	276,680,000	2,854,680,000	582,686,306	2,271,993,694
CHIAVARI Corso Dante Alighieri 73	812	715,220,661	3,076,666,053	3,791,886,714	1,013,997,062	2,777,889,652
CHIERI Piazza Cavour 1	1,109	327,085,619	2,566,382,246	2,893,467,865	966,768,784	1,926,699,081
CHIERI Piazza Cavour 8	4,100	9,660,243,931	3,758,844,913	13,419,088,844	3,508,558,850	9,910,529,994
CHIGNOLO PO' Via Garibaldi 143	247	25,220,513	340,129,330	365,349,843	91,714,698	273,635,145
CHIVASSO Piazza A. Carletti 1/c	1,151	459,644,020	3,193,908,769	3,653,552,789	1,065,015,456	2,588,537,333

(*) L. 19/12/73 n. 823; L. 2/12/75 n. 576; L. 19/03/83 n. 72; L. 30/07/90 n. 218; L. 29/12/90 n. 408; L. 30/12/91 n. 413; others.

follows

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
CIGLIANO Corso Umberto I 46	689	200,646,919	932,050,739	1,132,697,658	384,175,010	748,522,648
CILAVEGNA Piazza Garibaldi 5	359	84,514,810	490,730,498	575,245,308	195,591,449	379,653,859
CIRIE' Via San Ciriaco 25	1,898	2,331,752,526	3,968,023,069	6,299,775,595	1,428,928,758	4,870,846,837
CODOGNO Via Alberici 28	1,037	692,104,411	2,863,456,662	3,555,561,073	719,909,235	2,835,651,838
COGNE Via Grappein	212	371,471,569	311,232,302	682,703,871	275,479,547	407,224,324
COLLEGNO Via Manzoni I	1,974	2,559,330,353	3,180,345,229	5,739,675,582	2,533,237,689	3,206,437,893
COMO Fil. 2 Via Milano 178	422	210,635,524	1,113,979,791	1,324,615,315	386,082,311	938,533,004
COMO Fil. 4 Albate / Via Canturina 186	340	720,720,895	325,447,375	1,046,168,270	293,801,612	752,366,658
COMO Fil. 5 Via Bellinzona 349	213	44,488,736	616,722,783	661,211,519	226,542,182	434,669,337
COMO Piazza Cavour 15	5,021	786,076,223	28,147,140,688	28,933,216,911	6,705,773,118	22,227,443,793
CORNAREDO Piazza Libertà 54	1,059	310,958,040	2,643,819,608	2,954,777,648	843,326,887	2,111,450,761
CORNAREDO Via Milano 95	522	484,218,296	897,117,830	1,381,336,126	260,461,212	1,120,874,914
CORSICO Fil. I Via Dante ang. via Monti 31	845	4,520,477,000	-	4,520,477,000	807,102,946	3,713,374,054
CORSICO Via Caboto 37/41	2,250	4,485,390,589	6,242,962,412	10,728,353,001	4,276,029,522	6,452,323,479
COSSATO Via del Mercato 40	350	993,576,726	270,679,837	1,264,256,563	344,412,031	919,844,532
COSTIGLIOLE D'ASTI Piazza Umberto I 21	636	436,394,532	823,902,748	1,260,297,280	558,289,009	702,008,271
COURMAYEUR Cond. Soleil Fraz. Villair	144	20,612,630	1,076,169,723	1,096,782,353	409,685,823	687,096,530
COURMAYEUR Via M. Bianco 29/P.za Brocherelle 3	685	440,964,090	4,478,892,761	4,919,856,851	1,266,988,898	3,652,867,953
CREMA Fil. I Via De Gasperi 62	1,500	282,252,560	-	282,252,560	58,774,945	223,477,615
CREMA Piazza Duomo 1/Via dei Racchetti I	1,006	284,673,119	2,574,100,793	2,858,773,912	796,180,744	2,062,593,168
CREMONA Fil. I C.so Garibaldi 232/ Via Montello	2,322	2,309,108,621	4,715,537,669	7,024,646,290	2,907,546,610	4,117,099,680
CREMONA Sede Piazza Cavour 1/Via Gramsci	3,881	770,368,572	10,326,712,793	11,097,081,365	3,406,639,411	7,690,441,954
CREMONA Via dei Tigli 3	204	125,254,050	121,290,760	246,544,810	122,690,187	123,854,623
CRESCENTINO Corso Roma 55/57	808	210,905,826	1,229,944,832	1,440,850,658	452,212,945	988,637,713
CUNEO Corso Giolitti ang. P.za Europa	2,370	2,551,895,319	8,826,059,120	11,377,954,439	4,116,108,916	7,261,845,523
CUORGNE' Via Ivrea 7	857	307,973,460	1,474,763,972	1,782,737,432	531,509,357	1,251,228,075
DAIRAGO Via XXV Aprile 52/c	383	100,956,136	794,999,023	895,955,159	244,353,877	651,601,282
DALMINE Via Betelli 11	1,601	1,479,201,209	2,791,749,470	4,270,950,679	837,365,754	3,433,584,925
DELIA Corso Umberto I 89/91	240	251,824,552	148,062,128	399,886,680	164,151,628	235,735,052
DOGLIANI Piazza Carlo Alberto 30/Via 31 Luglio 21	846	851,591,612	1,103,646,859	1,955,238,471	901,880,296	1,053,358,175
DOMODOSSOLA Piazza Matteotti 16/Via Gramsci	1,012	2,232,995,644	881,705,380	3,114,701,024	642,785,856	2,471,915,168
DONNAS Via Roma 36	1,280	598,396,368	2,096,984,556	2,695,380,924	1,114,406,220	1,580,974,704
DOSOLO Via XXIII Aprile 6/8/10	199	19,948,105	298,420,786	318,368,891	75,169,614	243,199,277
ENDINE GAIANO Via Tonale 49	296	575,000	368,077,903	368,652,903	91,359,487	277,293,416
ENNA Piazza VI Dicembre 6	1,388	3,925,290,500	181,203,557	4,106,494,057	1,137,536,828	2,968,957,229
ERBA Corso XXV Aprile 64	1,549	1,235,322,922	3,830,056,591	5,065,379,513	1,457,251,445	3,608,128,068
ESTE Via Matteotti 49/51	650	2,635,897,630	-	2,635,897,630	534,768,494	2,101,129,136
FAGNANO OLONA Piazza XX Settembre 5	639	129,555,881	1,087,112,693	1,216,668,574	332,304,514	884,364,060
FALOPPIO Via Roma 4	150	323,996,000	-	323,996,000	47,261,049	276,734,951
FERRERA ERBOGNONE Corso della Repubblica 27	327	300,528,659	293,648,493	594,177,152	228,348,493	365,828,659
FINALE LIGURE Via Concezione 34/35	370	740,917,900	1,881,430,089	2,622,347,989	981,442,204	1,640,905,785
FINO MORNASCO Via Garibaldi 135	743	124,278,113	1,679,012,007	1,803,290,120	521,706,967	1,281,583,153
FIORANO AL SERIO Via Roma 11/B	777	243,437,640	1,347,858,325	1,591,295,965	315,056,888	1,276,239,077
FLORENCE Piazza della Repubblica 4	1,470	264,865,080	9,108,256,186	9,373,121,266	2,566,512,278	6,806,608,988
FLORENCE Piazza Savonarola 22	1,366	1,080,265,077	8,004,569,756	9,084,834,833	3,044,806,375	6,040,028,458
FLORENCE Via de' Conti 3 ang. Via dell'Alloro	705	876,808,923	3,260,652,648	4,137,461,571	1,204,715,437	2,932,746,134
FLORENCE Via Ficino 16	256	491,427,620	530,000,000	1,021,427,620	-	1,021,427,620
FOGGIA Piazza Puglia/via Bari 62	2,191	5,662,354,795	4,546,914,517	10,209,269,312	5,118,077,144	5,091,192,168

(*) L. 19/12/73 n. 823; L. 2/12/75 n. 576; L. 19/03/83 n. 72; L. 30/07/90 n. 218; L. 29/12/90 n. 408; L. 30/12/91 n. 413; others.

follows

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
FONTANELLA Piazza Matteotti 18/via Lazzari 2	747	1,241,447,497	591,729,095	1,833,176,592	492,757,282	1,340,419,310
FORNO CANAVESE Via Truchetti 7	498	95,788,948	680,940,489	776,729,437	277,080,609	499,648,828
FOSSANO Via Roma 81/Via Cavour 1	1,905	703,652,518	3,887,426,968	4,591,079,486	1,331,850,269	3,259,229,217
FRESONARA Via Boscomarengo 5	226	275,439,972	128,376,471	403,816,443	139,416,588	264,399,855
GALLARATE Corso Sempione 9	2,431	5,112,670,800	1,219,713,106	6,332,383,906	1,517,080,552	4,815,303,354
GALLIATE Via L.da Vinci 21 ang. Via Volta	1,003	711,637,854	1,983,983,464	2,695,621,318	1,143,248,126	1,552,373,192
GAMBARA Piazza IV Novembre 5	269	1,000,000	389,895,222	390,895,222	93,720,296	297,174,926
GAMBOLO* Corso Umberto 14	488	493,213,905	667,898,153	1,161,112,058	279,782,804	881,329,254
GARLASCO Corso Cavour 172	597	202,750,758	1,251,157,474	1,453,908,232	298,016,462	1,155,891,770
GATTINARA Piazza Italia 10/C.so Cavour 1	554	205,582,262	841,281,834	1,046,864,096	387,803,532	659,060,564
GENOA Piazza Matteotti 2	665	3,344,171,366	-	3,344,171,366	526,257,586	2,817,913,780
GENOA Fil. 1 Via A. Cantore 44 / Via Pedemonte	3,265	2,962,294,596	7,917,244,752	10,879,539,348	3,987,225,856	6,892,313,492
GENOA Fil. 2 ex V.G.B.Magnaghi 1 / V.Cecchi 60	630	1,145,538,522	3,362,400,863	4,507,939,385	1,555,496,366	2,952,443,019
GENOA Fil. 4 Viale Causa 2 / Via Albaro 38	875	432,258,049	3,389,110,434	3,821,368,483	1,138,399,663	2,682,968,820
GENOA Fil. 5 Via F. Cavallotti 46r/48/13/4	583	759,580,998	1,582,225,589	2,341,806,587	834,889,581	1,506,917,006
GENOA Fil. 6 Via Cairoli 6	1,757	1,351,708,324	4,224,024,239	5,575,732,563	1,927,266,659	3,648,465,904
GENOA Fil. 7 Via Sestri 225/r / Via d'Andrade	1,096	664,753,464	2,882,478,860	3,547,232,324	1,354,370,263	2,192,862,061
GENOA Fil. 8 Via C. Camozzini 11/r / Via Cialdini	585	783,616,375	1,245,017,760	2,028,634,135	922,857,428	1,105,776,707
GENOA Fil.10 Via Rossini 8 - Rivarolo	1,011	1,980,005,907	1,149,385,639	3,129,391,546	1,010,238,887	2,119,152,659
GENOA Sede Via Fieschi 4	5,614	8,007,306,391	33,410,140,815	41,417,447,206	12,538,815,380	28,878,631,826
GENOA Via Dante ang. Via Fieschi	1,065	2,808,783,602	1,191,216,398	4,000,000,000	549,641,800	3,450,358,200
GENOA Via Gran Madre di Dio	142	138,467,200	509,461,696	647,928,896	242,090,398	405,838,498
GENOA Via XX Settembre ang. V.Frugoni	240	243,685,000	1,105,966,835	1,349,651,835	590,141,390	759,510,445
GIAVENO Piazza San Lorenzo 15	545	370,079,510	972,387,035	1,342,466,545	605,398,766	737,067,779
GORLE Via Don Mazza 1/B	600	488,943,223	1,022,427,688	1,511,370,911	452,758,950	1,058,611,961
GRASSOBBIO Via Roma 5/7	444	184,815,431	659,889,031	844,704,462	234,099,586	610,604,876
GRESSONEY ST. JEAN Strada Eyematten	255	28,739,096	477,705,211	506,444,307	150,418,316	356,025,991
GROMO Piazza Marconi 2	202	3,310,000	316,783,614	320,093,614	69,217,789	250,875,825
GRONTARDO Piazza Roma 11	400	252,700	453,960,786	454,213,486	61,772,045	392,441,441
GROPELLO CAIROLI Via Liberta' 108	585	741,982,086	756,108,096	1,498,090,182	484,985,710	1,013,104,472
GRUGLIASCO Viale Gramsci 108	99	8,431,300	343,526,492	351,957,792	51,280,962	300,676,830
GRUGLIASCO Viale Gramsci 78/80	1,170	1,408,575,601	2,814,881,507	4,223,457,108	1,580,227,145	2,643,229,963
IMPERIA Via Cascione 11 / Piazza Marconi 2	1,800	3,205,400,633	4,488,871,457	7,694,272,090	2,094,331,282	5,599,940,808
INCISA SCAPACCINO Via della Repubblica 3	393	56,594,580	405,945,982	462,540,562	180,943,353	281,597,209
INVERIGO Via Generale Cantore 52	268	13,400,000	507,895,841	521,295,841	151,340,491	369,955,350
IVREA Piazza Balla 7	4,510	9,479,611,189	6,213,700,874	15,693,312,063	3,727,629,461	11,965,682,602
IVREA Via Palestro 22	1,104	10,650,025	3,347,180,792	3,357,830,817	1,143,228,024	2,214,602,793
IVREA Vicolo Baratono 3	30	25,000,000	18,250,000	43,250,000	19,984,117	23,265,883
LA SPEZIA Viale Italia 162	1,364	3,147,727,252	4,702,755,008	7,850,482,260	3,486,917,294	4,363,564,966
LAIGUEGLIA Via Roma 102	567	393,950,708	1,626,109,433	2,020,060,141	385,165,619	1,634,894,522
LAINATE Via Meda 1/A	761	449,049,313	1,317,069,772	1,766,119,085	427,226,073	1,338,893,012
LANDRIANO Via Rocca 6	292	161,433,348	572,953,327	734,386,675	250,649,547	483,737,128
LANZO INTELVI Piazza Novi 8	180	18,268,990	276,707,331	294,976,321	86,223,544	208,752,777
LANZO TORINESE Via Roma 6/a	638	136,078,327	1,226,145,186	1,362,223,513	413,605,559	948,617,954
LECCE Piazza Mazzini / Via N.Sauro	2,352	3,542,170,205	7,640,103,750	11,182,273,955	4,343,402,443	6,838,871,512
LECCO Corso Martiri della Libertà	3,282	7,299,300,000	4,544,689,724	11,843,989,724	4,013,395,479	7,830,594,245
LEGNAGO Via Fiume 10	763	1,911,149,051	203,519,894	2,114,668,944	431,702,655	1,682,966,289
LEGNANO Corso Italia 32	3,033	2,130,517,794	10,055,910,680	12,186,428,474	3,021,107,938	9,165,320,536

(*) L. 19/12/73 n. 823; L. 2/12/75 n. 576; L. 19/03/83 n. 72; L. 30/07/90 n. 218; L. 29/12/90 n. 408; L. 30/12/91 n. 413; others.

follows

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
LEGNANO Fil. 1 Via Venegoni 51	477	388,634,064	830,413,222	1,219,047,286	400,252,333	818,794,953
LEGNANO Fil. 2 Via Monte Rosa / Via Battisti	586	445,162,000	773,800,924	1,218,962,924	359,738,451	859,224,473
LEGNANO Via Fomace (terreno)		1,165,500	16,834,500	18,000,000	-	18,000,000
LEGNANO Via Padre Secchi (terreno)		1,050,000	19,950,000	21,000,000	-	21,000,000
LENNO Via Statale Regina 91	246	78,459,394	658,814,537	737,273,931	160,097,635	577,176,296
LEONFORTE Corso Umberto 201/b	260	295,408,000	178,248,880	473,656,880	242,156,259	231,500,621
LIMBIATE Via dei Mille 136	179	150,679,239	288,014,264	438,693,503	146,625,185	292,068,318
LIVORNO FERRARIS Via L. Giordano 72	435	208,202,800	751,667,307	959,870,107	269,912,598	689,957,509
LOANO Fil. 1 Via Aurelia 356	197	82,241,625	888,737,899	970,979,524	314,685,649	656,293,875
LOANO Fil. Corso Europa 1	839	512,507,228	3,848,358,996	4,360,866,224	1,244,715,282	3,116,150,942
LOANO Piazza V. Veneto 4/via Roma 52	237	28,988,417	963,312,863	992,301,280	502,070,317	490,230,963
LOCATE TRIULZI Via Giardino 2	678	1,024,475,943	1,021,004,104	2,045,480,047	640,366,850	1,405,113,197
LOCATE VARESINO Via C. Battisti 38	480	778,447,210	421,695,356	1,200,142,566	302,522,620	897,619,946
LODI Sede Piazza Mercato 13/via Stropponi 2	3,237	1,085,899,346	6,270,464,514	7,356,363,860	1,666,284,537	5,690,079,323
LODI Via Madre Cabrini 10-12	156	185,798	174,814,202	175,000,000	-	175,000,000
LOMAZZO Piazza Stazione 2	639	15,081,491	1,319,784,196	1,334,865,687	341,951,139	992,914,548
LOMELLO Via Roma 6-8	241	57,218	356,287,058	356,344,276	76,044,413	280,299,863
LUCCA Piazza San Martino 10	1,361	4,066,382,005	2,680,881,135	6,747,263,140	1,412,564,838	5,334,698,302
LURATE CACCIVIO Via Unione 2	794	119,979,851	1,185,797,216	1,305,777,067	348,779,780	956,997,287
MAGENTA Via Volta / Via Cavallari	759	1,520,816,960	322,432,057	1,843,249,017	380,850,895	1,462,398,122
MALEO Piazza XXV Aprile 6-8	417	4,095,306	460,010,534	464,105,840	52,924,187	411,181,653
MANDELLO DEL LARIO Piazza L. Manara 5	394	846,399,840	587,707,703	1,434,107,543	501,744,107	932,363,436
MANTOVA Via Frattini 7	2,232	6,822,754,446	2,433,948,821	9,256,703,267	1,784,429,651	7,472,273,616
MANTOVA Via Isabella d'Este 10	120	220,000,000	-	220,000,000	19,800,000	200,200,000
MAPELLO Via Bravi 3	556	205,941,121	808,938,221	1,014,879,342	264,987,216	749,892,126
MARANO Case Giaruso 32	426	123,750,000	387,250,000	511,000,000	-	511,000,000
MARANO Via Merolla 9/11	741	818,249,580	1,528,639,237	2,346,888,817	823,012,932	1,523,875,885
MARIANO COMENSE Piazza Roma 47	266	1,060,748,995	89,883,332	1,150,632,327	251,129,040	899,503,287
MASLIANICO Via XX Settembre 59	95	70,736,517	99,136,770	169,873,287	45,279,817	124,593,470
MEDE Via Cavour 18	763	2,283,933,802	1,072,209,854	3,356,143,656	851,552,976	2,504,590,680
MEDIGLIA Frazione Triginto/Piazza Pertini 6	733	1,170,000,000	320,400,000	1,490,400,000	363,742,118	1,126,657,882
MELEGNANO Piazza Garibaldi 1	1,545	3,608,406,963	2,136,138,346	5,744,545,309	1,782,688,762	3,961,856,547
MELZO Via Magenta 2/8	1,440	1,646,960,449	2,947,332,599	4,594,293,048	1,436,299,565	3,157,993,483
MENAGGIO Via IV Novembre 38/40	1,021	63,892,611	1,664,740,301	1,728,632,912	435,486,760	1,293,146,152
MENFI Via della Vittoria 254	310	487,944,065	436,641,863	924,585,928	434,290,565	490,295,365
MERATE Viale Lombardia 2	1,248	895,728,291	1,909,968,346	2,805,696,637	905,600,460	1,900,096,177
MESERO Via San Bernardo 8	291	82,087,289	478,376,887	560,464,176	156,537,932	403,926,244
MESTRE Corso del Popolo, 58	190	59,150,000	130,850,000	190,000,000	39,900,000	150,100,000
MESTRE Via Cappuccina, 11	502	187,074,518	1,112,925,482	1,300,000,000	273,000,000	1,027,000,000
MILAN C.so Matteotti, 4/6	9,830	94,007,347,013	47,796,808,061	141,804,155,074	30,177,013,894	111,627,141,180
MILAN Fil. 1 Via della Torre 40	42	67,198,800	174,200,300	241,399,100	113,641,073	127,758,027
MILAN Fil. 1 Viale Monza 118	1,000	560,524,644	5,891,436,957	6,451,961,601	1,489,069,398	4,962,892,203
MILAN Fil. 15 Via Domodossola 9/11	779	1,387,742,883	1,364,570,429	2,752,313,312	783,449,792	1,968,863,520
MILAN Fil. 16 Via Carducci 4	1,084	4,185,151,100	4,706,842,460	8,891,993,560	2,772,225,631	6,119,767,929
MILAN Fil. 19 Via Imbonati 35	660	2,548,280,754	219,167,668	2,767,448,422	523,213,563	2,244,234,859
MILAN Fil. 2 Via Moroni 9	1,101	2,096,418,505	5,270,673,121	7,367,091,626	2,540,254,386	4,826,837,240
MILAN Fil. 21 Via Ettore Ponti 30	574	997,992,480	777,147,749	1,775,140,229	467,587,218	1,307,553,011
MILAN Fil. 29 Viale Restelli 3	1,423	582,642,700	7,048,803,113	7,631,445,813	1,851,508,684	5,779,937,129
MILAN Fil. 3 Corso Sempione 67	911	321,881,681	5,067,140,082	5,389,021,763	1,981,341,257	3,407,680,506
MILAN Fil. 4 Viale Piceno 2 / Piazza Emilia	1,444	1,463,166,186	8,948,232,261	10,411,398,447	2,720,819,103	7,690,579,344
MILAN Fil. 5 Via Imbonati 64/a	1,447	748,840,053	6,743,662,127	7,492,502,180	1,986,360,227	5,506,141,953
MILAN Piazza S.Fedele 2	5,780	20,390,606,900	31,871,744,217	52,262,351,117	9,222,764,383	43,039,586,734
MILAN Sede Piazza Diaz 7	8,858	9,159,702,813	79,683,689,894	88,843,392,707	26,421,053,028	62,422,339,679

(*) L. 19/12/73 n. 823; L. 2/12/75 n. 576; L. 19/03/83 n. 72; L. 30/07/90 n. 218; L. 29/12/90 n. 408; L. 30/12/91 n. 413; others.

follows

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
MILAN Sede Corso di Porta Nuova I	10,071	38,386,282,197	63,534,870,931	101,921,153,128	36,165,127,089	65,756,026,039
MILAN Sede Via Broletto 9/1 I	4,980	1,834,824,505	65,187,699,250	67,022,523,755	15,578,346,517	51,444,177,238
MILAN Via Brera, 19	5,684	39,175,249,387	14,578,337,119	53,753,586,506	13,481,829,743	40,271,756,763
MILAN Via Hoepli 10	2,145	729,711,428	18,288,919,791	19,018,631,219	5,401,997,045	13,616,634,174
MILAN Via Larga 31	50	10,735,000	156,135,698	166,870,698	34,056,398	132,814,300
MOMBERCELLI Piazza Alfieri 2	291	65,126,862	293,958,995	359,085,857	144,065,433	215,020,424
MONCALIERI Centro Contabile Corso Savona 58	48,048	54,308,356,566	73,779,699,501	128,088,056,067	39,839,301,391	88,248,754,676
MONCALIERI Via San Martino 34	1,591	1,238,572,529	4,835,996,053	6,074,568,582	2,234,644,709	3,839,923,873
MONCALVO Piazza Carlo Alberto 5	353	465,765,188	516,937,256	982,702,444	539,774,741	442,927,703
MONDOVI' Corso Statuto 22 / Via S.Arnolfo	895	1,016,008,447	1,811,755,057	2,827,763,504	1,259,301,007	1,568,462,497
MONTAFIA Piazza C. Riccio 9/2	235	88,429,099	284,233,621	372,662,720	129,435,879	243,226,841
MONTALLEGRO Via della Vittoria 39	120	179,949,056	62,848,617	242,797,673	102,833,047	139,964,626
MONTEGROSSO D'ASTI Via XX Settembre 67	296	270,851,720	272,397,762	543,249,482	204,281,393	338,968,089
MONZA Via Cavallotti 6/8	6,285	7,406,572,663	20,725,516,208	28,132,088,871	7,070,932,615	21,061,156,256
MORTARA Corso Garibaldi 91	654	646,780,066	1,525,248,758	2,172,028,824	672,491,860	1,499,536,964
MORTARA Via Josti 26	1,158	1,137,620,957	3,073,208,254	4,210,829,211	1,184,031,069	3,026,798,142
MOTTA BALUFFI Via Matteotti 7	330	1,000,000	363,083,518	364,083,518	40,648,834	323,434,684
MOZZATE Via Varese 28	577	10,000,000	922,121,750	932,121,750	247,291,510	684,830,240
MOZZO Via Santa Lucia I	1,103	3,588,100,500	771,219,500	4,359,320,000	901,581,929	3,457,738,071
MUGNANO Via Verdi ang. Via IV Martiri 10	550	620,931,260	1,081,270,992	1,702,202,252	654,796,972	1,047,405,280
NAPLES Centro Direzionale 3/I	8,207	37,425,163,573	6,779,047,861	44,204,211,434	8,556,147,830	35,648,063,604
NAPLES Piazza Garibaldi, 127	836	900,995,030	2,099,004,970	3,000,000,000	630,000,000	2,370,000,000
NAPLES Via Riviera di Chiaia 131	2,804	5,276,085,082	20,611,269,303	25,887,354,385	7,473,016,248	18,414,338,137
NERVIANO S.I.LARIO MILANESE Via San Antonio I	318	150,188,227	535,578,643	685,766,870	176,719,632	509,047,238
NIBIONNO Via Parini 2	346	10,000,000	573,617,926	583,617,926	152,561,211	431,056,715
NICHELINO Via Cagliari 23	311	188,875,000	-	188,875,000	16,998,750	171,876,250
NICHELINO Via Torino 3	1,110	435,090,645	2,373,128,925	2,808,219,570	1,462,466,158	1,345,753,412
NIZZA MONFERRATO Via Pio Corsi 77	1,037	423,394,100	1,946,487,263	2,369,881,363	822,156,400	1,547,724,963
NOLE CANAVESE Via Torino 46	362	117,572,010	691,886,162	809,458,172	282,776,434	526,681,738
NOVARA Fil. Largo Cavour	1,870	740,762,394	7,076,521,803	7,817,284,197	2,503,042,383	5,314,241,814
NOVARA Via Marconi 2/T	452	234,288,314	164,485,849	398,774,163	77,360,910	321,413,253
NOVI LIGURE Corso Marengo 10/pza della Repubblica 4	1,770	2,424,866,264	4,333,679,701	6,758,545,965	2,269,205,425	4,489,340,540
NUS Via Risorgimento I	376	169,672,924	623,326,926	792,999,850	320,443,569	472,556,281
OCCHIEPPO SUP.RE Via Martiri della Liberta' 30	137	386,880,643	-	386,880,643	80,562,204	306,318,439
OGGIONO Via Cavour 3	652	1,107,719,917	394,854,803	1,502,574,720	459,295,019	1,043,279,701
OLGIATE COMASCO Via Roma 2	981	36,597,864	2,570,954,251	2,607,552,115	684,730,750	1,922,821,365
OLMO AL BREMBO Via Roma 45	279	3,445,000	358,614,775	362,059,775	88,937,536	273,122,239
OMEGNA Via Don A. Beltrami 2	2,149	3,299,075,633	1,212,057,891	4,511,133,524	1,579,514,866	2,931,618,658
ORBASSANO Via Roma 43 / Via San Rocco 10	686	319,632,750	1,930,533,656	2,250,166,406	860,087,993	1,390,078,413
ORZINUOVI Piazza V.Emanuele 55/Via Chierica 3/a	827	299,434,341	2,930,120,400	3,229,554,741	850,501,310	2,379,053,431
OSPEDALETTO LODIGIANO Via Balbi 53	346	2,500,000	487,028,522	489,528,522	94,154,298	395,374,224
OSSONA Via Patrioti 2 / Via Bosi	315	28,892,638	578,276,907	607,169,545	168,911,448	438,258,097
OSTIANO Via Garibaldi 27/Via Vighenzi 6	389	120,344,797	467,112,416	587,457,213	141,233,255	446,223,958
OTTIGLIO Via Mazza 18	380	133,162,660	404,762,120	537,924,780	205,131,463	332,793,317
OTTOBIANO Viale Garibaldi 9	416	43,373,991	411,004,668	454,378,659	102,704,098	351,674,561
OVADA Via Cairoli 22	1,532	1,161,358,764	3,692,856,348	4,854,215,112	1,866,894,351	2,987,320,761
PADERNO DUGNANO Via Gramsci 124	873	788,799,943	1,462,723,166	2,251,523,109	604,546,469	1,646,976,640
PADERNO DUGNANO Viale della Repubblica 28	765	1,199,239,932	1,013,863,564	2,213,103,496	632,330,034	1,580,773,462

(*) L. 19/12/73 n. 823; L. 2/12/75 n. 576; L. 19/03/83 n. 72; L. 30/07/90 n. 218; L. 29/12/90 n. 408; L. 30/12/91 n. 413; others.

follows

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
PADUA Via Cavallotti 4	1,524	1,459,217,945	6,171,442,691	7,630,660,636	2,944,714,028	4,685,946,608
PALERMO Via Dante 48/48a	386	923,353,701	1,443,668,050	2,367,021,751	1,116,266,178	1,250,755,573
PARE' Via San Fermo 5	253	89,143,577	568,527,299	657,670,876	189,960,559	467,710,317
PARMA Via Verdi, 6	345	77,082,072	1,422,917,928	1,500,000,000	315,000,000	1,185,000,000
PAULLO Via Mazzini 21/23	1,699	42,348,000	3,828,794,158	3,871,142,158	874,175,688	2,996,966,470
PAVIA Fil. 1 Piazza Dante Alighieri 1	5,406	6,996,888,376	9,312,301,007	16,309,189,383	3,405,004,595	12,904,184,788
PAVIA Fil. 2 Corso Garibaldi 52	526	145,041,300	1,611,223,978	1,756,265,278	453,704,170	1,302,561,108
PAVIA Sede Via Rismondo 2	3,127	9,285,110,670	898,656,907	10,183,767,577	1,817,391,378	8,366,376,199
PEJA Via Provinciale 3/3a	1,041	371,059,144	1,412,980,493	1,784,039,637	567,427,923	1,216,611,714
PEROSA ARGENTINA Via Roma 31/P.za Marconi 3	503	207,039,263	758,977,720	966,016,983	352,080,480	613,936,503
PERUGIA Via XX Settembre 72 / Via d. Corgna	2,582	4,304,758,867	4,243,720,290	8,548,479,157	3,635,104,034	4,913,375,123
PESCARA Corso V. Emanuele 68/76	1,502	5,274,971,380	3,526,906,038	8,801,877,418	2,093,881,255	6,707,996,163
PIADENA Via Libertà' 40-36	1,241	1,105,954,470	1,081,683,702	2,187,638,172	592,397,106	1,595,241,066
PIAZZATORRE Via Centro 8	123	37,815,000	160,027,229	197,842,229	38,860,939	158,981,290
PINEROLO Piazza L. Barbieri 39/41	1,235	780,655,936	3,816,769,910	4,597,425,846	1,389,890,714	3,207,535,132
PINO TORINESE Via Roma 76	156	683,046,300	128,316,016	811,362,316	204,204,672	607,157,644
PIOLTELLO Via Milano 40 / Via Roma	476	958,134,070	521,579,512	1,479,713,582	487,767,705	991,945,877
PIOSSASCO Via Torino 49	657	226,404,680	1,068,234,358	1,294,639,038	374,669,516	919,969,522
PIZZIGHETTONE Via Monte Grappa	901	1,835,897,300	191,641,160	2,027,538,460	359,042,172	1,668,496,288
POGGIOMARINO Via Manzoni 2 ang. Via V. Emanuele	329	530,324,334	392,222,731	922,547,065	361,006,827	561,540,238
POGLIANO MILANESE Via Mons. Paleari 74	435	60,280,614	898,780,099	959,060,713	237,410,276	721,650,437
POIRINO Via Indipendenza 19	647	225,651,689	1,095,408,608	1,321,060,297	519,976,806	801,083,491
PONT CANAVESE Via Craveri 6	217	234,011,025	366,681,979	600,693,004	155,014,703	445,678,301
PONTE NOSSA Via IV Novembre 16-18	289	142,325,008	472,760,176	615,085,184	160,129,177	454,956,007
PONTE S. PIETRO Via Garibaldi 5	635	454,811,744	1,007,578,442	1,462,390,186	418,515,130	1,043,875,056
PONTEVICO Via XX Settembre 25	973	1,254,254,295	1,642,188,007	2,896,442,302	1,303,878,908	1,592,563,394
PONTIROLO NUOVO Piazza Marconi 9	277	160,146,700	535,255,691	695,402,391	206,563,619	488,838,772
PORDENONE Via G. Marconi 30	60	50,000,000	-	50,000,000	10,411,764	39,588,236
PORLEZZA Piazza Matteotti 12	273	110,384,523	651,206,685	761,591,208	187,625,513	573,965,695
PRATO Viale Vittorio Veneto 7	2,680	3,381,185,113	6,981,550,466	10,362,735,579	4,255,632,360	6,107,103,219
PREGNANA MILANESE Via Roma 80	336	188,855,645	628,377,990	817,233,635	242,964,488	574,269,147
PRESEZZO Via Papa Giovanni XXIII 4-5/via Vittorio Veneto	246	456,777,446	357,510,697	814,288,143	431,263,897	383,024,246
RAPALLO Corso Matteotti 2/4/6 ang.Via Mameli	330	553,964,264	1,694,564,004	2,248,528,268	809,580,034	1,438,948,234
RAVENNA Via Arcivescovado 9	1,594	133,302,425	-	133,302,425	23,837,610	109,464,815
REGGIO CALABRIA Corso Garibaldi 173	625	216,644,994	1,783,355,006	2,000,000,000	420,000,000	1,580,000,000
RESCALDINA Via A. da Giussano 43	288	105,844,154	527,993,725	633,837,879	176,970,621	456,867,258
RESCALDINA Via B. Melzi 2	530	26,108,988	1,158,358,026	1,184,467,014	289,589,900	894,877,114
RIVA PRESSO CHIERI Via San Giovanni 2	523	122,986,025	834,651,870	957,637,895	291,749,945	665,887,950
RIVALTA Circolo Ricreativo Via Giaveno 55	2,044	3,469,335,710	1,172,337,289	4,641,672,999	1,234,209,641	3,407,463,358
RIVAROLO Piazza Chioratti 1 / Via S.Francesco	1,336	620,456,099	3,025,756,284	3,646,212,383	1,091,428,721	2,554,783,662
RIVOLI Piazza Martini della Libertà 8/Via Rombò 37	2,523	2,501,687,588	8,410,250,482	10,911,938,070	3,770,458,546	7,141,479,524
ROBBIO Via Roma 22	427	2,500,000	885,618,008	888,118,008	173,990,992	714,127,016
ROME Fil. 1 Eur Viale Asia 3	2,459	4,876,593,143	15,890,395,239	20,766,988,382	4,831,686,071	15,935,302,311
ROME Fil. 2 Tiburtina Via Tiburtina Km. 16,2 (Guidonia M.)	1,265	1,433,794,764	4,166,746,022	5,600,540,786	1,786,370,719	3,814,170,067
ROME Fil. 22 Via Parigi 11	1,624	1,933,729,251	8,244,807,142	10,178,536,393	3,023,826,013	7,154,710,380
ROME Fil. 3 Montesacro Via Conca d'Oro 382/388	3,733	4,386,544,129	11,277,781,403	15,664,325,532	5,797,911,378	9,866,414,154
ROME Fil. 6 Via Gregorio VII 127	1,270	1,759,167,605	8,458,165,173	10,217,332,778	2,035,326,597	8,182,006,181
ROME Guidonia Montecelio / Via Giusti	396	80,532,175	596,742,045	677,274,220	181,021,174	496,253,046

(*) L. 19/12/73 n. 823; L. 2/12/75 n. 576; L. 19/03/83 n. 72; L. 30/07/90 n. 218; L. 29/12/90 n. 408; L. 30/12/91 n. 413; others.

follows

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
ROME Sede Via della Stamperia 64	3,288	3,315,610,681	30,727,338,354	34,042,949,035	9,624,200,480	24,418,748,555
ROME Via Camesena 8	116	3,411,620	344,588,380	348,000,000	48,000,000	300,000,000
ROME Via Carducci 2	544	5,059,508,000	151,203,440	5,210,711,440	2,467,032,783	2,743,678,657
ROME Via Conca d'Oro, 90/94	130	7,163,220	292,836,780	300,000,000	63,000,000	237,000,000
ROME Via O.Amato 80 Acilia	2,336	6,591,268,758	-	6,591,268,758	934,445,953	5,656,822,805
ROME Via S. Nicola da Tolentino 1/5	2,295	4,869,661,463	19,535,758,894	24,405,420,357	14,137,582,967	10,267,837,390
ROME Viale dell'Arte 25	48,349	52,246,883,303	225,579,312,313	277,826,195,616	89,634,633,939	188,191,561,677
ROME Viale dell'Arte 68	6,949	8,431,461,781	36,500,673,300	44,932,135,081	6,946,046,534	37,986,088,547
ROVELLASCA Via Piave 1	581	10,752,011	1,237,259,170	1,248,011,181	303,142,922	944,868,259
ROVELLO PORRO Via Piave 22	450	343,113,162	851,240,231	1,194,353,393	375,806,615	818,546,778
S. BASSANO Via Roma 57	480	23,800,000	569,663,290	593,463,290	70,121,238	523,342,052
S. COLOMBANO AL LAMBRO Via Pasino Sforza 28	357	442,274,944	421,703,888	863,978,832	299,303,351	564,675,481
S. CRISTINA E BISSONE Via V. Veneto 142/140	304	86,607,978	323,316,021	409,923,999	115,623,114	294,300,885
S. DAMIANO D'ASTI Via Roma 20	317	433,413,807	438,834,099	872,247,906	385,066,443	487,181,463
S. DONATO MILANESE C.so Europa / Via Morandi	574	860,336,891	739,367,490	1,599,704,381	527,068,619	1,072,635,762
S. FEDELE INTELVI Via Provinciale 15	239	737,097	465,461,391	466,198,488	101,766,556	364,431,932
S. FERMO DELLA BATTAGLIA Via Montelatici 2	359	630,150,300	236,471,894	866,622,194	262,664,026	603,958,168
S. GIACOMO DI ROBURENT Via Sant'Anna 61	75	131,210,600	89,378,941	220,589,541	102,730,212	117,859,329
S. GIACOMO DI ROBURENT Via Serra 41	530	197,026,600	305,543,546	502,570,146	317,647,251	184,922,895
S. GIORGIO LOMELLINA Via Roma 1	266	974,315,611	-	974,315,611	94,326,263	879,989,348
S. GIORGIO SU LEGNANO Via Pasubio 2	772	33,608,998	403,391,002	437,000,000	64,940,000	372,060,000
S. GIOVANNI BIANCO Via Boselli 10/16	226	109,410	334,737,726	334,847,136	66,586,701	268,260,435
S. GIOVANNI LUPATOTO Via Madonnina 1/c	821	1,403,000,000	1,788,785,000	3,191,785,000	1,468,055,671	1,723,729,329
S. MARIA DELLA VERSA Via F. Crispi 1	359	31,753,350	395,823,285	427,576,635	104,379,949	323,196,686
S. MAURIZIO CANAVESE Via V. Emanuele 59	493	112,629,353	878,011,729	990,641,082	294,220,532	696,420,550
S. ROCCO AL PORTO Via D. Alighieri 5	1,134	2,108,389,000	494,617,680	2,603,006,680	643,130,616	1,959,876,064
SABBIONETA Piazza Ducale 3/via dell'Assunta 3	456	861,769,802	184,792,153	1,046,561,955	378,374,021	668,187,934
SAINT VINCENT Via E. Chanoux 88	728	180,490,730	1,819,472,206	1,999,962,936	596,803,472	1,403,159,464
SALE Via Roma 6	364	418,754,339	279,412,397	698,166,736	257,045,085	441,121,651
SALUZZO Corso Italia 44	892	742,604,212	2,221,858,208	2,964,462,420	1,083,771,813	1,880,690,607
SANNAZZARO DE' BURGONDI Piazza del Popolo 6	958	1,680,313,037	1,748,086,963	3,428,400,000	1,655,130,353	1,773,269,647
SANREMO Via Matteotti 169	2,140	2,573,932,407	8,002,091,086	10,576,023,493	4,083,203,406	6,492,820,087
SANT'ANGELO LODIGIANO Via Umberto I 46	615	279,966,169	1,300,768,106	1,580,734,275	422,177,682	1,158,556,593
SANTHIA' Corso Italia 75/87	697	263,932,198	1,031,380,584	1,295,312,782	431,743,672	863,569,110
SARONNO Piazza De Gasperi	80	96,000,000	-	96,000,000	8,640,000	87,360,000
SARONNO Piazza Volontari del Sangue 7	1,678	245,376,406	5,361,347,990	5,606,724,396	1,330,577,591	4,276,146,805
SARONNO Via Grieg 5	4,040	2,582,100,591	1,290,444,673	3,872,545,264	821,552,426	3,050,992,838
SARRE Strada Statale n.26	590	692,453,600	856,266,716	1,548,720,316	747,317,619	801,402,697
SAUZE D'OUX Piazza III Regg. Alpini 24	247	129,236,456	561,275,603	690,512,059	285,678,483	404,833,576
SAVIGLIANO Piazza del Popolo 60	1,118	848,980,447	2,099,149,037	2,948,129,484	950,691,265	1,997,438,219
SAVONA Via Paleocapa / Piazza Mameli 2	2,322	3,462,181,775	8,482,496,343	11,944,678,118	4,316,665,650	7,628,012,468
SECUGNAGO Via Roma 5	288	25,304,060	283,467,886	308,771,946	66,398,642	242,373,304
SENAGO Piazza F. Borromeo 2	539	625,966,720	625,151,988	1,251,118,708	332,930,448	918,188,260
SEREGNO Corso Matteotti / Via Sanzio	1,624	4,251,322,272	1,303,465,770	5,554,788,042	1,393,264,137	4,161,523,905
SESTO S. GIOVANNI Via F.lli Casiraghi 27	2,398	2,513,246,002	1,949,689,252	4,462,935,254	968,897,899	3,494,037,355
SESTRI LEVANTE Via Fasce 24	928	445,564,810	2,771,918,464	3,217,483,274	1,033,814,831	2,183,668,443
SESTRIERE Piazzale Agnelli 2	170	203,821,670	923,584,608	1,127,406,278	443,153,509	684,252,769
SETTIMO TORINESE Corso Italia 16	1,948	2,097,219,868	4,783,251,739	6,880,471,607	1,934,264,771	4,946,206,836
SETTIMO TORINESE Via Torino 118	155	57,643,750	202,708,692	260,352,442	45,106,846	215,245,596

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follows

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
SOLTO COLLINA Via S. Eurasia 1	267	114,927,916	326,326,662	441,254,578	141,127,480	300,127,098
SOMMARIVA BOSCO Via Cavour 13	428	76,371,861	729,192,151	805,564,012	245,111,205	560,452,807
SORESINA Via Matteotti 2	2,249	2,412,100	2,556,281,795	2,558,693,895	585,803,474	1,972,890,421
SOVERE Via Roma 26	508	389,642,808	686,096,118	1,075,738,926	278,951,127	796,787,799
SPINO D'ADDA Via M. della Liberazione 29	513	613,488,500	579,455,903	1,192,944,403	391,797,496	801,146,907
STRIANO Via Risorgimento ang. Via Roma 23	634	1,084,665,133	760,354,716	1,845,019,849	603,575,624	1,241,444,225
SUSA Via Mazzini ang. C.so Inghilterra 10	1,027	689,534,583	1,632,682,444	2,322,217,027	783,305,215	1,538,911,812
TAVERNERIO Via Provinciale per Lecco 16	266	186,056,778	707,097,773	893,154,551	223,597,507	669,557,044
TERMOLI Corso Nazionale 150/152	1,243	4,277,176,625	201,776,117	4,478,952,742	1,223,868,769	3,255,083,973
TERNO D'ISOLA Via Castegnate 1	821	1,230,000,000	477,649,404	1,707,649,404	482,553,327	1,225,096,077
TERZIGNO ex C.C. Vicolo Gionti 16	4,802	3,409,629,733	5,483,496,189	8,893,125,922	2,739,231,703	6,153,894,219
TERZIGNO Piazza V. Emanuele 17	808	803,090,128	1,215,584,275	2,018,674,403	850,508,757	1,168,165,646
TICINETO Via G. Matteotti 1	376	71,512,510	470,710,689	542,223,199	178,492,405	363,730,794
TURIN Corso Galileo Ferraris 36	3,465	15,670,902,625	-	15,670,902,625	2,422,973,639	13,247,928,986
TURIN Corso Massimo d'Azeglio 60	182	228,903,299	565,056,601	793,959,900	-	793,959,900
TURIN Corso San Maurizio 43/45/47		32,569,791	113,506,680	146,076,471	-	146,076,471
TURIN Corso V. Emanuele 158/160	103	25,726,993	253,225,007	278,952,000	108,952,000	170,000,000
TURIN ex Fil. 25 Via P. Gaidano 8	624	381,294,497	1,122,304,569	1,503,599,066	287,674,936	1,215,924,130
TURIN Fil. 1 Corso Re Umberto 51/53	1,121	473,684,472	5,532,307,411	6,005,991,883	1,655,663,455	4,350,328,428
TURIN Fil. 10 Corso Casale 64/64bis	1,477	813,353,208	5,532,030,282	6,345,383,490	1,708,741,274	4,636,642,216
TURIN Fil. 11 Via Tunisi 124	1,076	2,859,914,869	1,034,486,948	3,894,401,817	985,680,491	2,908,721,326
TURIN Fil. 12 SP.S.V. Via Stradella 12	385	300,816,448	529,769,278	830,585,726	355,503,298	475,082,428
TURIN Fil. 12 Via Stradella 34	2,633	2,530,879,889	7,484,193,576	10,015,073,465	3,787,221,636	6,227,851,829
TURIN Fil. 13 Corso San Maurizio 47	1,420	837,337,378	4,933,257,669	5,770,595,047	1,508,058,961	4,262,536,086
TURIN Fil. 14 Corso Svizzera 32	1,727	1,073,395,470	5,120,806,912	6,194,202,382	2,035,517,048	4,158,685,334
TURIN Fil. 15 Via XX Settembre 3	1,052	433,542,877	5,199,974,588	5,633,517,465	1,541,823,298	4,091,694,167
TURIN Fil. 16 Corso Orbassano 138	2,165	1,941,372,348	7,233,522,751	9,174,895,099	2,894,057,252	6,280,837,847
TURIN Fil. 17 Piazza Massaua 5	3,057	2,609,736,502	5,374,415,469	7,984,151,971	2,838,971,295	5,145,180,676
TURIN Fil. 18 Corso Bramante 84	1,206	1,843,895,784	1,257,583,511	3,101,479,295	1,898,012,667	1,203,466,628
TURIN Fil. 19 Via O.Vigliani 160/51/ Via P.di Cesnola	3,095	5,809,739,125	1,275,719,743	7,085,458,868	1,865,069,461	5,220,389,407
TURIN Fil. 2 Via Sant'Anselmo 18	1,197	302,393,372	4,359,235,458	4,661,628,830	1,238,603,359	3,423,025,471
TURIN Fil. 20 Via Cimarosa 85	3,269	4,267,560,550	5,212,582,931	9,480,143,481	2,145,586,588	7,334,556,893
TURIN Fil. 21 Via A. di Bermezzo 50	1,019	800,525,891	3,017,832,541	3,818,358,432	1,206,754,982	2,611,603,450
TURIN Fil. 22 Corso V. Emanuele 110	1,256	1,361,568,485	4,953,913,716	6,315,482,201	2,058,549,374	4,256,932,827
TURIN Fil. 23 Corso Unione Sovietica 409	2,824	2,171,970,200	7,778,333,471	9,950,303,671	3,699,219,005	6,251,084,666
TURIN Fil. 24 Corso Turati 18	2,157	392,767,582	4,768,403,023	5,161,170,605	1,380,424,572	3,780,746,033
TURIN Fil. 25 Via P. Gaidano 7	2,016	2,955,991,860	3,494,983,342	6,450,975,202	2,926,984,715	3,523,990,487
TURIN Fil. 26 Via Monginevro 228	1,296	1,098,994,196	2,813,183,947	3,912,178,143	1,389,827,912	2,522,350,231
TURIN Fil. 27 Piazza Rebaudengo 7/9	1,796	957,109,416	2,794,712,594	3,751,822,010	1,498,303,626	2,253,518,384
TURIN Fil. 3 Via Matteucci 2	1,354	1,180,984,295	3,853,275,997	5,034,260,292	1,423,299,174	3,610,961,118
TURIN Fil. 4 Corso Peschiera 151	2,021	1,832,514,415	5,751,208,311	7,583,722,726	2,569,614,625	5,014,108,101
TURIN Fil. 5 Piazza della Repubblica 7	3,001	902,947,769	7,599,979,179	8,502,926,948	2,350,369,639	6,152,557,309
TURIN Fil. 55 S.V. Via Gottardo 273	526	70,572,601	1,244,098,982	1,314,671,583	418,806,339	895,865,244
TURIN Fil. 6 Piazza Nizza 75	1,459	1,805,322,752	5,075,672,618	6,880,995,370	2,264,972,943	4,616,022,427
TURIN Fil. 7 Piazza Crispi 61 / Corso Vercelli	1,369	1,249,964,847	3,617,264,335	4,867,229,182	1,782,352,305	3,084,876,877
TURIN Fil. 8 Corso A. De Gasperi 14	1,512	1,737,940,428	4,613,666,757	6,351,607,185	2,139,902,123	4,211,705,062
TURIN Fil. 9 S.Vari Via Caluso 1	649	46,303,638	1,509,508,329	1,555,811,967	424,542,275	1,131,269,692
TURIN Fil. 9 Via Banchette ang. Corso Grosseto	1,890	3,506,317,478	4,087,828,069	7,594,145,547	3,598,020,871	3,996,124,676
TURIN Sede Piazza San Carlo 156/182	42,779	21,079,834,382	191,401,926,305	212,481,760,687	67,271,422,049	145,210,338,638
TURIN Sede Via Monte di Pietà 26	2,224	856,843,532	9,705,182,191	10,562,025,723	1,943,693,353	8,618,332,370
TURIN Sede Via Monte di Pietà 32	24,277	23,465,072,903	92,000,740,483	115,465,813,386	31,381,817,623	84,083,995,763
TURIN Sede Via Santa Teresa 3	1,871	695,219,200	8,598,241,990	9,293,461,190	2,322,051,109	6,971,410,081
TURIN Sp.S.V. 'A' Corso Peschiera 162	690	161,396,745	1,868,382,619	2,029,779,364	625,058,923	1,404,720,441
TURIN Sp.S.V. 'D' Corso Svizzera 48	324	540,000,000	802,376,471	1,342,376,471	682,647,765	659,728,706

(*) L. 19/12/73 n. 823; L. 2/12/75 n. 576; L. 19/03/83 n. 72; L. 30/07/90 n. 218; L. 29/12/90 n. 408; L. 30/12/91 n. 413; others.

follows

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
TURIN Sp.S.V. 'E' Corso Orbassano 134	729	177,548,258	2,647,228,005	2,824,776,263	720,981,249	2,103,795,014
TURIN Strada San Vito (Villa Abegg)	2,856	4,909,571,304	6,818,906,795	11,728,478,099	2,352,711,733	9,375,766,366
TURIN Via G. Bruno 200/202	241	38,901,155	460,692,963	499,594,118	199,746,232	299,847,886
TURIN Via Lugaro 15	32,610	15,949,138,485	98,896,030,390	114,845,168,875	36,518,169,052	78,326,999,823
TURIN Via Nizza 50	227	9,160,453	735,777,782	744,938,235	217,286,382	527,651,853
TURIN Via San Francesco d'Assisi 15	1,016	41,031,051	2,697,642,181	2,738,673,232	669,951,234	2,068,721,998
TURIN Via Valeggio 36	1,141	863,195,332	8,160,899,849	9,024,095,181	3,320,250,535	5,703,844,646
TORRE BOLDONE Via D.L.Palazzolo 11	374	71,737,850	924,294,286	996,032,136	274,647,757	721,384,379
TORTONA Piazza Duomo 9	2,642	1,154,455,191	7,585,200,489	8,739,655,680	3,218,350,940	5,521,304,740
TORTONA Piazza Mazzini 2	56	43,521,500	38,995,399	82,516,899	35,083,286	47,433,613
TRADATE Corso Bernacchi 85	816	595,548,250	1,673,251,755	2,268,800,005	773,489,833	1,495,310,172
TRADATE Corso Bernacchi 85/via don Zini 2	26	11,920,000	28,080,000	40,000,000	-	40,000,000
TRECCATE Via Gramsci 1	815	453,864,452	1,436,979,452	1,890,843,904	674,809,292	1,216,034,612
TRENTO Via Segantini Ang. Via Acconcio	930	4,389,499,080	1,181,649,397	5,571,148,477	1,400,784,910	4,170,363,567
TRESCORE CREMASCO Via Carioni 2	588	637,862,821	528,775,903	1,166,638,724	316,412,819	850,225,905
TREVIGLIO Piazza Cameroni 2	2,312	3,692,545,108	4,660,242,600	8,352,787,708	2,724,736,308	5,628,051,400
TREZZO SULL'ADDA Via Garibaldi / Via dei Mille 1	1,645	1,514,381,276	2,452,966,102	3,967,347,378	1,069,891,202	2,897,456,176
TRIESTE Piazza Oberdan, 3	670	132,000,000	2,068,000,000	2,200,000,000	462,000,000	1,738,000,000
TRIESTE Via Coroneo, 8	90	87,528,400	52,471,600	140,000,000	29,400,000	110,600,000
TRINO VERCELLESE Corso Cavour 61	840	629,257,954	1,117,653,081	1,746,911,035	789,161,466	957,749,569
TROFARELLO Via Torino 64	869	232,477,168	1,850,427,930	2,082,905,098	667,197,170	1,415,707,928
TURATE Via Marconi 7 / Via Candiani	547	880,300,000	677,292,609	1,557,592,609	469,216,002	1,088,376,607
UBOLDO Via Roma 27	351	58,683,386	896,214,796	954,898,182	258,603,274	696,294,908
VADO LIGURE Piazza Cavour 10	754	2,523,000,000	75,690,000	2,598,690,000	610,150,447	1,988,539,553
VAILATE Via S. Giani 15	190	164,664,338	584,981,199	749,645,537	159,266,563	590,378,974
VALBONDIONE Via S. Lorenzo 24	148	42,537,709	176,706,452	219,244,161	58,875,813	160,368,348
VALENZA Corso Garibaldi 11 / 113	1,724	4,228,593,244	4,897,219,394	9,125,812,638	2,930,556,282	6,195,256,356
VALFENERA Via A. d'Aosta 10	355	88,288,220	494,155,070	582,443,290	207,051,018	375,392,272
VALGUARNERA CAROPEPE Via Garibaldi 95	120	83,494,200	325,466,805	408,961,005	175,717,987	233,243,018
VALLE LOMELLINA Via Casserotto 1 / Via Roma 29	611	478,293,017	952,126,201	1,430,419,218	678,831,877	751,587,341
VALLEMOSSO Piazza Dante Alighieri 8	650	405,601,988	728,298,533	1,133,900,521	357,855,656	776,044,865
VANZAGHELLO Piazza S. Ambrogio 2	701	630,407,312	842,245,956	1,472,653,268	403,749,455	1,068,903,813
VARALLO SESIA Piazza Vittorio Emanuele	510	259,800,956	717,693,376	977,494,332	275,121,467	702,372,865
VARAZZE Piazza Patrone / Via Nazioni Unite	843	476,069,397	3,522,814,152	3,998,883,549	1,321,595,430	2,677,288,119
VARESE Fil. 1 Via Marcobi 8	915	114,023,200	2,760,401,020	2,874,424,220	970,425,333	1,903,998,887
VARESE Sede Via Milano 16	2,730	1,329,226,428	6,824,102,911	8,153,329,339	2,365,882,213	5,787,447,126
VARESE Via Sacro Monte (terreno)		3,385,000	3,615,000	7,000,000	-	7,000,000
VENARIA REALE Viale Buridani 6	1,760	325,327,800	-	325,327,800	9,759,834	315,567,966
VENICE Calle S.Trovaso 1057	606	293,887,866	4,843,201,981	5,137,089,847	1,913,908,553	3,223,181,294
VENICE Rio Terra' S. Leonardo, 1353	303	61,675,717	2,938,324,283	3,000,000,000	630,000,000	2,370,000,000
VENTIMIGLIA Corso Limone 9	130	351,502,750	215,868,204	567,370,954	297,133,669	270,237,285
VENTIMIGLIA Via Cavour 30A-B/108	1,486	1,328,195,489	7,103,900,778	8,432,096,267	2,828,934,116	5,603,162,151
VERCELLI Viale Garibaldi 12	4,449	3,223,700,032	8,251,935,835	11,475,635,867	3,986,182,558	7,489,453,309
VERCELLI Via Mercadante 3 ang. Via Paggi	280	18,161,039	291,365,797	309,526,836	70,628,896	238,897,940
VERDELLO Via Cavour 19	771	35,431,500	1,442,257,543	1,477,689,043	239,894,081	1,237,794,962
VERONA Corso Cavour, 25/27	593	206,371,208	2,393,628,792	2,600,000,000	546,000,000	2,054,000,000
VERONA Piazza Madonna di Campagna 18	1,269	3,631,547,462	881,739,640	4,513,287,102	785,670,164	3,727,616,938
VERONA Via Fratta, 14	274	974,729,883	225,270,117	1,200,000,000	252,000,000	948,000,000
VIADANA Piazza Manzoni 32	780	1,085,070,072	1,379,257,885	2,464,327,957	803,642,606	1,660,685,351
VICENZA Via Battaglione Framarin	4,441	7,283,961,602	8,976,445,069	16,260,406,671	7,861,508,413	8,398,898,258
VICO EQUENSE (Monte Faito)	49	44,062,500	210,278,493	254,340,993	67,526,272	186,814,721
VIGEVANO Via Decembrio 35 / Via Carducci 1	1,473	502,291,062	5,907,636,912	6,409,927,974	1,867,733,300	4,542,194,674

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follows

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
VIGNALE MONFERRATO Piazza del Popolo 5	170	8,777,575	152,129,364	160,906,939	30,788,436	130,118,503
VILLA CARCINA Via Glisenti 78	726	1,443,523,848	789,069,430	2,232,593,278	799,374,494	1,433,218,784
VILLA CORTESE Via Tosi 22/ Via Speroni	436	676,686,100	498,606,830	1,175,292,930	406,869,201	768,423,729
VILLAFRANCA D'ASTI Via Roma 34	398	77,205,518	619,306,207	696,511,725	255,507,417	441,004,308
VILLANTERIO Via IV Novembre 12/a	379	58,243,812	698,780,474	757,024,286	163,389,021	593,635,265
VILLAR PEROSA Via Nazionale 31/9	773	45,551,337	1,258,775,391	1,304,326,728	350,886,154	953,440,574
VILLAROSA SICILIA Piazza V. Emanuele 3	245	400,000,000	-	400,000,000	12,000,001	387,999,999
VILLASANTA Via Confalonieri / Via Camperio	265	941,042,886	46,014,936	987,057,822	174,862,105	812,195,717
VILLASTANZA DI PARABIAGO P.za Indipendenza 6	178	24,486,348	360,217,450	384,703,798	85,632,552	299,071,246
VIMERCATE Via Risorgimento 32/a	754	1,600,086,269	702,430,229	2,302,516,498	679,305,426	1,623,211,072
VOGHERA Piazza Duomo 10	2,264	4,196,473,703	7,464,939,948	11,661,413,651	4,864,415,409	6,796,998,242
ZANICA Via Roma 9/9a	712	183,711,027	1,156,576,553	1,340,287,580	330,013,854	1,010,273,726
TOTAL ITALIAN PROPERTIES	837,180	1,101,647,016,231	2,417,902,117,519	3,519,549,133,750	1,063,232,264,742	2,456,316,869,008
PARIS Avenue de Suffren	150	41,249,341	608,750,659	650,000,000	-	650,000,000
AMSTERDAM Herengracht 446	1,348	4,215,889,271	2,305,954,568	6,521,843,839	1,812,786,798	4,709,057,041
NEW YORK Town of Mamaroneck	613	749,590,872	800,475,852	1,550,066,724	455,997,121	1,094,069,603
TOTAL	839,291	1,106,653,745,715	2,421,617,298,598	3,528,271,044,313	1,065,501,048,661	2,462,769,995,652

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