

# Annual Report 1997

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**SANPAOLO**  
ISTITUTO BANCARIO SAN PAOLO DI TORINO SPA



**Istituto Bancario San Paolo di Torino**  
**Annual Report 1997**

**SNPAOLO**

**Incorporated as a Società per Azioni**  
**Registered Office: Piazza San Carlo 156, Turin, Italy**  
**Turin Company Register No. 4382/91**

**Parent Bank of the San Paolo Banking Group**  
**Member of the Interbank Deposit Guarantee Fund**



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## Board of Directors

<b>Gianni Zandano</b> (*)	Chairman
<b>Emilio Ottolenghi</b> (*)	Deputy Chairman
<b>Luigi Maranzana</b> (*)	Managing Director (CEO)
<b>Emilio Botin</b>	Director
<b>Tommaso Capitanio</b>	Director
<b>Marco Desiderato</b>	Director
<b>Mario Ercolani</b>	Director
<b>Renato Tullio Ferrarí</b> (*)	Director
<b>Cesare Ferrero</b>	Director
<b>Gabriele Galateri di Genola e Suniglia</b> (*)	Director
<b>Gian Franco Gambigliani Zoccoli</b>	Director
<b>Divo Gronchi</b> (*)	Director
<b>Juan Rodriguez Inciarte</b> (*)	Director
<b>Rainer Masera</b> (*)	Director
<b>Iti Mihalich</b> (*)	Director
<b>Michele Moretti</b>	Director
<b>Enrico Scerni</b>	Director
<b>Sergio Siglienti</b>	Director
<b>Francesco Vasino</b>	Director

(\*) Members of the Executive Committee

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## Board of Statutory Auditors

<b>Lamberto Jona Celesia</b>	Chairman
<b>Alessandro Rayneri</b>	Auditor
<b>Pier Giorgio Scotta</b>	Auditor
<b>Giacomo Verme</b>	Auditor
<b>Francesco Vesce</b>	Auditor

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## General Management

<b>Luigi Maranzana</b>	General Manager and Chief Executive
<b>Piero Gavazzi</b>	Deputy General Manager and Chief Business Officer
<b>Amadio Lazzarini</b>	Deputy General Manager and Chief Operations Officer
<b>Bruno Picca</b>	Deputy General Manager and Chief Financial Officer

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## Independent Auditors

Arthur Andersen SpA



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## AGENDA OF SHAREHOLDERS' MEETING

TURIN

Extraordinary meeting: 1st calling - April 28, 1998;

2nd calling - April 29, 1998; - 3rd calling - April 30, 1998

Ordinary meeting: 1st calling - April 28, 1998; 2nd calling - April 30, 1998

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1. Amendments to Art. 22.2 of the Articles of Association; transfer of the Statutory Reserve to the Extraordinary Reserve.
  2. Charging of substitute tax under Decree 467/97 to the reserve created pursuant to Art. 7.3 of Law 218/90.
  3. Financial statements as of 31 December 1997; related reports of the Board of Directors and Board of Statutory Auditors; associated resolutions on matters including distribution of reserves.
  4. Appointment of Independent Auditors pursuant to Art. 2 of Presidential Decree 136/75 and in connection with interim financial statements, for the three years 1998-2000.
  5. Fixing of the number of directors, appointment of the Board of Directors, appointment of the Chairman of the Board, fixing of the related remuneration.
  6. Appointment of the Board of Statutory Auditors and its Chairman; fixing of the related remuneration.
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## LETTER FROM THE CHAIRMAN



Shareholders, 1997 was a year of radical change for the Italian banks. The “petrified forest” (a metaphorical epithet applied in the past to the Italian banking system) has finally come to life, and indeed has been in a state of constant, radical change for some time. The speed and scope of this process may be surprising at first sight. But it is clearer when you consider the urgent need to prepare for the imminent realization of European economic and monetary union on the part of a system emerging from decades of underdevelopment.



GIANNI ZANDANO

At system level, the priorities are obvious: privatization and concentration are the key mechanisms, whose conjunction implies requirements beyond the quest for mere economies of scale: business rationalization, and repositioning to focus on strategic activities, where it is also vital that we achieve significant savings based on higher revenues.

In micro-economic terms, during 1997 the process of aligning Italy's interest rates with those elsewhere in Europe resulted in major shifts in the composition of banking revenues. Pressure on interest margins has grown and the contribution from financial transactions has declined, while commission revenues on services have expanded.



LUIGI MARAZANA

Against this background of structural change, San Paolo has set the pace, developing bold strategies to meet the novel challenges posed by this evolving scene.

The year's major developments included successful completion of the Bank's privatization. A fundamentally changed shareholder base is characterized by a core group of substantial, long-term investors, together with a clear market orientation in the form of Italian and non-Italian private and institutional investors who together account for over 52% of the share capital.

Ongoing implementation of the 1996-98 three-year plan has brought further progress in enhancing the Bank's various business streams and in rationalizing its asset base. The former process has led to adoption of the highest standards in savings management and other services, considerably boosting the contribution of commissions to total revenues. Asset-base rationalization has involved incurring exceptional costs associated with the divestment of equity interests and other assets; this year's results have consequently suffered, while we can confidently say that those of later years will benefit.

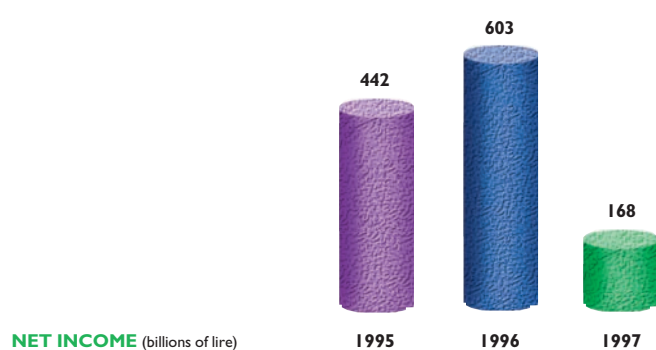
In the wake of privatization, the bank has reorganized its operating and management structures, breaking new ground in the context of the Italian

banking industry. Changes at the top include the induction of skilled managers from other domestic banking and financial groups.

Very recently, San Paolo has taken the lead in initiating a process of concentration whose first important phase is to merge with the IMI Group. Later stages will include any further initiatives seen as necessary to consolidate the Bank's position within the system and the European market.

Regrettably, the year's progress in terms of necessary change was not matched by satisfactory financial results. These were heavily affected by substantial writedowns against the lending portfolio.

At 168 billion lire, Group net income compares with 603 billion in 1996 and falls well short of expectations. Nonetheless, in terms of its prospects (business volumes, profitability and financial strenght), the Bank is better placed now to face the competitive challenges of the future than at any time in its history. Confirmation of this apparent paradox is afforded by the performance of the shares, which have reached price levels inconceivable just a year ago; these share prices discount future profits of a quite different order from those of 1997.



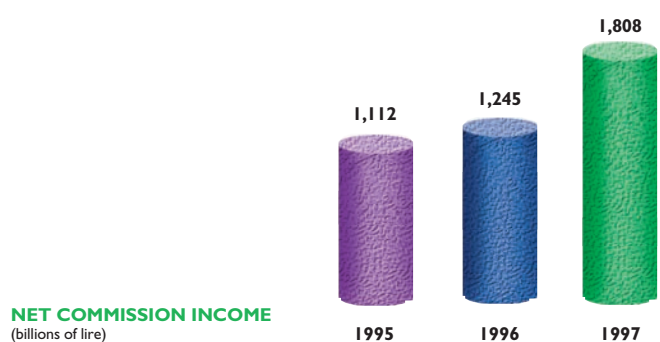
The year's result does scant justice to the Bank's earning potential, due to adverse influences which certainly merit detailed appraisal but which the management team see as representing no more than a temporary setback.

## Group results

The downwards drift of interest rates during 1997 was accompanied by a narrowing of the spread between rates paid to depositors and those charged to lenders. Growth of the loans portfolio was modest, reflecting settlements by certain substantial borrowers. The combined

effect of these factors was a 10.9% reduction in net income. A deterioration to this extent, in a type of business which still represents a primary revenue source for any bank, inevitably affects its financial results; in the case of the San Paolo Group, the impact amounted to over 500 billion lire in lost revenues. By contrast, commission income rose by over 550 billion lire (or 45.2%), reflecting exceptional results in the savings management and other financial services areas.

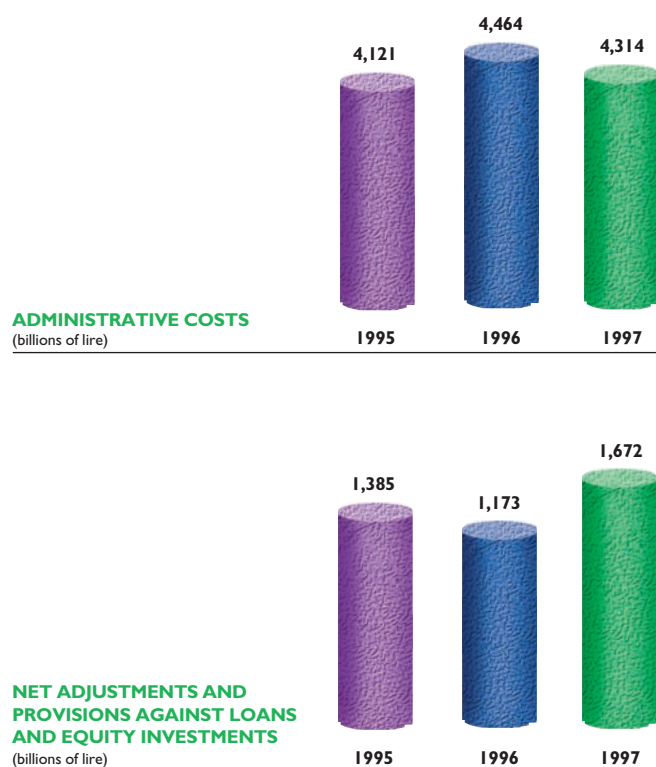
Combined, the changes in the revenues of the two most stable business streams were thus favorable. Services now contribute substantially to Group results: commissions account for over 28% of net interest and other banking income, compared with 18% just 12 months ago. More significantly, their ratio to administrative costs has risen to 42% (barely 28% in 1996). These statistics are highly significant also in relation to our future prospects, given San Paolo's ambitious targets for further expansion of commission-earning activities over the next few years.



While erosion of the interest margin was more than offset by the rise in commission income, the result at the level of net interest and other banking income declined nevertheless, by 7.5%, reflecting a 57% drop in gains on financial transactions compared with the exceptional outcome of the same activities during 1996. Among the various factors which led to the latter fall, some were related to the downward trend in interest rates, while others were more fundamental and less cyclical in nature – by-products of the ongoing integration of Europe's monetary and other financial markets. Certain business areas have been lost to the Italian banks in the present conditions of extensive competition within increasingly efficient markets, while the profitability of others has shrunk to vanishing point; this trend is still gathering momentum.

1997 was an important year also from the viewpoint of cost control. In a significant trend reversal, administrative expenses declined by 3.4%. The early-retirement scheme stands out among the contributory factors, together with the divestment of Banco San Paolo in Spain and other rationalization measures at Group level. Including those in other net operating costs, the total savings amounted to 4.8%. However, this was not

enough to counterbalance the decline in revenues, and operating income decreased by 13.5% (to 1,870 billion lire).

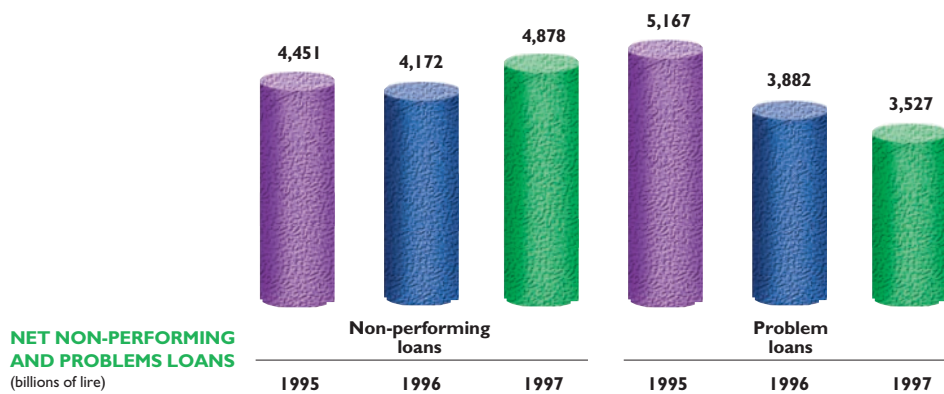


Profits were also severely affected by writedowns against loans and equity investments, which cut operating income by almost 90%. These adjustments totalled nearly 1,700 billion lire, and largely reflected further deterioration of conditions in the real estate sector, in which San Paolo has a long-standing tradition of leadership (by virtue of a market share estimated at some 20%).

The Italian real estate market appears to have touched bottom: an upturn is expected soon, in response to the decline in interest rates and to recently-introduced tax incentives. Regrettably, signs of improvement during 1997 were restricted to the residential sector; conditions deteriorated again in the remaining sectors, deepening the financial problems on the real-estate companies.

The adverse trend inevitably affected San Paolo's results, in the form of writedowns against loans and equity investments. Against this gloomy background, the Group has introduced asset valuation criteria which correspond more closely to those of its international competitors. Effects included an increase in loans classified as non-performing; overall, this category increased by 15.2% before writedowns while, conversely, the level of problem loans improved by 9.5%.





The impact of the writedowns against loans and equity investments was cushioned by the level of net extraordinary income. The surplus over extraordinary expense arose from gains on the divestment of certain interests and on foreign-exchange transactions, and deferral of taxation (286 billion lire) following application of international accounting standards to the treatment of the year's substantial loan writedowns (whose deductibility for tax purposes is spread over a number of years).

**T**he three-year plan 1996-98 is presently being re-launched in a revised form, as the vehicle for the Group's business strategy covering the three years ending in 2000. Many of the previous version's objectives – in some cases following substantial progress during 1997 – remain in place.

### **Progress on the three-year business plan**

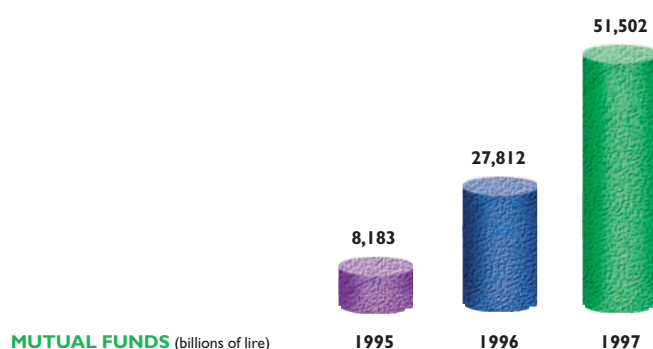
Businesses accorded the highest priority under the Plan during 1997 included savings management, a market in which San Paolo has led at national level since the end of 1996. The Group has consolidated its pole position in this rapidly-expanding sector, in the face of increasingly fierce competition. San Paolo has enlarged its market share in mutual funds (to 12.6% by February 1998), while the increase in life insurance business has been dramatic. During the year, Sanpaolo Fondi virtually doubled the funds it manages (from 24,000 to 48,000 billion lire), while San Paolo Vita's premium receipts totalled 1,355 billion, against 373 billion in 1996. Overall, funds entrusted to the Group's savings management services rose from 43,000 to 67,000 billion lire during the year. The resulting commissions exceeded 540 billion lire, or 30% of total commission revenues, compared with 18% in the previous year.

### **Portfolio management**

The outlook in this market for 1998 and beyond seems highly promising, as reflected in San Paolo's ambitious targets for growth in the sector this

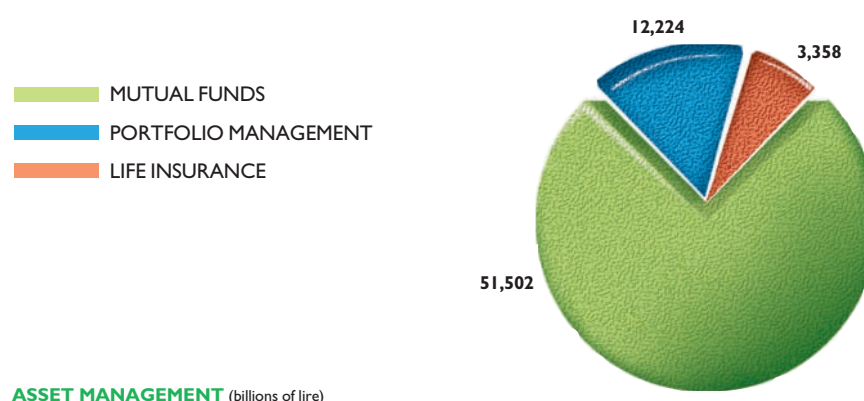
year: 25,000 billion lire in new mutual funds and 2,200 billion in life premiums. Performance in early 1998 has been more than encouraging: 11,000 billion lire flowed into the mutual funds during January and February, exceeding expectations. At this rate, the targets will probably have to be raised, together with the forecasts for the associated commission revenues.

The success of the Group's savings management services acquires special significance when compared with the performance of other personal-customer business. In the direct deposits sector, San Paolo maintained its market share, while recording a shift in favor of short-term business; there was no adverse effect on administered deposits, which actually rose from 97,000 to 107,000 billion lire.



San Paolo also demonstrated its superior performance in the field of placings, in each of the year's more substantial operations of this type: its market shares in connection with ENI3, Telecom and Aeroporti di Roma amounted to 14.6%, 12.3% and 26.4% respectively. It secured still larger shares in a number of smaller but nonetheless highly successful operations, including those relating to ERG, Bipop and Itierre Holding.

To summarize, during 1997, San Paolo succeeded in underscoring its position as a point of reference for the personal customer in the fields of savings and other relevant financial services. This orientation will continue to figure prominently in the Bank's future growth plans.



The second area of activity under the Plan is that aimed at downsizing the Bank's fixed asset base. The intensive measures implemented during 1997 addressed the problem at all levels, and involved divestment of non-strategic equity interests and non-performing loans, as well as property sales.

Of the end-1995 total of 450 billion lire in real estate not used in the business and identified in the three-year plan as suitable for disposal, some 100 billion remains (after sales and amounts written off). These remaining properties are scheduled for disposal by the end of 1998.

As regards equity investments, important deals in the first half of the year (affecting Immobiliare Colonna and BNC Assicurazioni among others) were followed by the divestment of the Group's Spanish banking concern, Banco Sanpaolo SA (on grounds of inadequate profitability) and an agreement for the disposal of the Sotim-Valtur Group.

Among measures to deal with non-performing loans was finalization of a second operation involving the sale of mortgage loans in this category; the transaction related to some 1,400 accounts with face values totalling 420 billion lire.

Overall, assets totalling around 2,000 billion lire at carrying value have been disposed of to date under the current three-year plan. The proceeds have largely been reinvested in equity interests of strategic relevance (including banking-industry holdings in France and Eire) or operating areas with exceptional growth prospects (portfolio management, life insurance, consumer credit and others).

The third area addressed by the Plan is that of cost control. Substantial results were achieved under this heading during 1997: as I mentioned earlier in reporting San Paolo's results, administrative costs were cut by 3.4%. The corresponding reduction allowing for depreciation and amortization but excluding other operating income amounted to 4.8%.

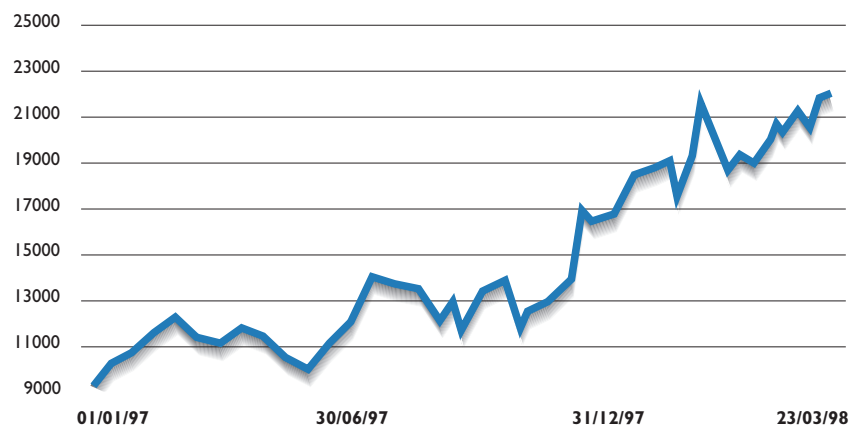
The results of close attention to personnel management, combined with the Group rationalization program, included withdrawal from the Spanish market and cuts in the workforce totalling in excess of 1,100 (to 22,614 persons by the end of the year). In parallel, considerable efforts were dedicated to training, notably in portfolio management and other strategic areas.

Implementation of manpower policies was hampered by various constraints, including the inflexibility that is still a feature of the relevant contractual processes. However, the recent agreement with the trades unions

reached by the Italian Bankers Association (ABI) creates the potential for significant innovations in the field of personnel management; these will be primarily concerned with optimizing the Group's use of its human resources and, secondarily, with reducing expenditure.

### ***Raising efficiency and productivity***

Increased levels of efficiency and productivity, the fourth and final objective of the Plan, were brought closer last summer with completion of a fundamental stage involving the design of a revised operational and management structure. As disclosed in the interim report, the building blocks of San Paolo's new organization are Business Units, each specializing in a particular segment of the customer base and responsible for its own commercial policies, profitability and capital budget. Another key feature of the revised structure is the creation of three new senior posts: the Chief Business Officer, Chief Financial Officer and Chief Operations Officer are respectively responsible for commercial activity, cash- and asset-management and operating productivity. The recruitment of Mr. Piero Gavazzi and Mr. Amadio Lazzarini from other finance-sector groups, as Chief Business Officer and Chief Operations Officer, has strengthened the senior management team.



**SHARE PRICE PERFORMANCE**

### **Alternative strategies for growth**

The period from mid-1970s through the early 1990s was one of rapid growth for San Paolo, involving expansion into all the primary banking and financial market sector, and leading to its transformation from a regional bank into Italy's largest banking group. Through a combination of organic growth and business acquisitions, San Paolo has become the country's first example of a universal bank. Recently however, the validity of the universal banking model has been drastically undermined as international competition has intensified and innovation in technology and the finance

sector has accelerated. The preferred model has become that of a “multi-specialist” intermediary, operating targeted but flexible business streams; this approach is more likely to achieve market leadership by being more adaptable to changing conditions.

Against this background, San Paolo’s revised strategic positioning is based on a more selective approach to types of business, as well as a sharper customer-segment focus. The transition from universal bank to multi-specialist operator is reflected in the Group’s process for selecting areas of business on the basis of their potential for growth. The areas prioritized have been those addressing the personal-customer segment, where San Paolo’s distribution capacity confers a significant competitive advantage and enables the Group to consolidate its leadership in portfolio management, other investment services and retail-customer credit. San Paolo’s coverage of the segment is complete in terms of products and services, all of which can be sourced within the Group.

The Bank is also well placed to make optimal use of its traditional links with the business community, derived from a customer segment comprising some 500,000 firms of various sizes. Necessary measures will include adding increasingly specialized skills to our existing capacity in terms of distribution and origination. A high degree of selectivity is a pre-requisite for success in this business sector; which typically provides slimmer margins while calling for a relatively high level of investment; the required focus is on services with substantial added value, rather than financing plain and simple.

I am fully confident that the Group has all the skills and resources it needs to implement its business strategy. As well as being an important development in its own right, the reorganization based on business units was also a significant first step towards building the new reference model.

A strategic approach of this nature must nonetheless also take account of the major implications of both European economic integration and the ongoing process of concentration within the Italian banking industry. San Paolo has carefully weighed the opportunities afforded by amalgamation with other Italian banking organizations for accelerating the achievement of our strategic goals.

From studies conducted together with our advisor Goldman Sachs, the proposal which has emerged as most consistent with the Group’s strategic objectives is that of a merger with the IMI Group. Given the complementary character of the respective groups’ operations, the timescale for integration should be short. More important than considerations of size alone, the resulting organization would be very substantial and in a position to enjoy enhanced strategic and market positioning in a number of key sectors –

notably portfolio management, investment banking and other corporate-finance services. The core business, however, would remain that of retail banking and similar activities.

The necessary process of detailed study and evaluation is now underway, in parallel with the development of a business plan which leaves scope for participation by other players in the banking industry. A detailed document will be circulated to the market and to shareholders following assent from the two groups' respective boards.

Shareholders,

I began this letter by emphasizing how quickly and radically the Italian banking system is changing. San Paolo has assumed the dominant role in this process: in less than 12 months from its privatization, the Bank has become the prime mover in an ambitious merger proposal, confident of its ability to face the competitive challenges which will mark the banking scene in Italy and Europe over the next few years. We have chosen the market with our eyes open, and it is to the market that we look for our future prosperity.

The Chairman



## Group structure (March 23, 1998)

### ISTITUTO BANCARIO SAN PAOLO DI TORINO

#### BANKING & FINANCE

Crediop (60%)

Banque Sanpaolo - France (100%)

Sanpaolo Bank - Luxembourg (100%)

Sanpaolo Ireland - Ireland (100%)

Sanpaolo Bank - Austria  
(100% via Sanpaolo Bank Luxembourg)

Crediop Overseas Bank - Cayman Islands  
(100% via Crediop)

Sanpaolo Immobiliare (100%)

Finconsumo (50%)

Inter Europa Bank - Hungary (30.1%)

Banco del Desarrollo - Chile (16.7%)

BIAT - Tunisia (8.4%)

#### ASSET MANAGEMENT

Sanpaolo Fondi - Gestioni Mobiliari (96%)  
Sanpaolo Asset Management SIM (100%)  
Sanpaolo Fiduciaria (100%)

#### INSURANCE

Sanpaolo Vita (100%)  
BNC Assicurazioni (30%)

#### SALES NETWORK & STOCKBROKING

Sanpaolo Invest SIM (100%)  
Intersim (100%)

#### LEASING

Sanpaolo Leasint (100%)

#### TAX COLLECTION

Sanpaolo Riscossioni Genova (100%)  
Sanpaolo Riscossioni Prato (100%)  
Esatri (31,5%)

## Principal financial and operating information

	1997	1996	1995 (a)	Change % 1997/96
<b>CONSOLIDATED STATEMENT OF INCOME</b>				
<i>billions of lire</i>				
<b>Net interest income</b>	4,148	4,653	4,860	-10.9
Net commissions	1,808	1,245	1,112	+45.2
Profits on financial transactions	431	1,009	401	-57.3
<b>Net interest and other banking income</b>	6,387	6,907	6,373	-7.5
Administrative costs, depreciation and amortization	-4,859	-5,049	-4,607	-3.8
Other operating income, net	342	303	207	+12.9
<b>Operating income</b>	1,870	2,161	1,973	-13.5
Net adjustments of loan and equity investments and other provisions	-1,467	-1,085	-1,364	+35.2
Income (losses) from investments carried at equity	-205	-88	21	+133.0
Extraordinary income (expense)	470	-19	46	n.s.
Income taxes	-420	-369	-225	+13.8
(Income) loss attributable to minority interests	-69	3	-4	n.s.
Other adjustments	-11	—	-5	n.s.
<b>Group share of net income</b>	168	603	442	-72.1
<b>CONSOLIDATED BALANCE SHEET</b>				
<i>billions of lire</i>				
Total assets	256,718	262,218	254,528	-2.1
Loan to customers	131,621	132,514	136,178	-0.7
including:				
• non-performing loans	4,878	4,172	4,451	+16.9
• problem loans	3,526	3,882	5,167	-9.2
Securities	37,598	39,682	37,338	-5.3
Equity investments	896	1,270	1,343	-29.4
Due to customers and securities issued	156,679	155,980	157,954	+0.4
Due to banks, net	6,114	1,501	1,798	+307.3
Subordinated liabilities	3,528	3,578	3,354	-1.4
Consolidated shareholders' equity	9,761	9,878	9,678	-1.2
<b>FINANCIAL ASSETS OF CUSTOMERS</b>				
<i>billions of lire</i>				
Total customer assets	334,578	298,788	281,367	+12.0
• Direct deposits (due to customers, securities issued, subordinated liabilities)	160,207	159,558	161,308	+0.4
• Indirect deposits	174,371	139,230	120,059	+25.2
• Asset administration	107,287	96,630	100,869	+11.0
• Asset management	67,084	42,600	19,190	+57.5
• Mutual funds	51,502	27,812	8,183	+85.2
• Portfolio management	12,224	13,072	9,752	-6.5
• Life assurance	3,358	1,716	1,255	+95.7



	1997	1996	1995 (a)	Change % 1997/96
<b>PROFITABILITY RATIOS (%)</b>				
Net interest income / Net interest income and other banking income	64.94	67.37	76.26	
Total net costs / Net interest income and other banking income	70.72	68.71	69.04	
Operating income / Total assets (RoA)	0.73	0.82	0.78	
Net income / Shareholders' equity (RoE)	1.72	6.10	4.57	
<b>CREDIT QUALITY RATIOS (%)</b>				
Net non-performing loans / Total customer loans	3.71	3.15	3.27	
Net problem loans / Total customer loans	2.68	2.93	3.79	
Specific adjustments / Gross non-performing loans	40.93	41.79	41.24	
Specific adjustments / Gross problem loans	19.94	20.22	16.45	
<b>CAPITAL ADEQUACY RATIOS (%) (b)</b>				
Tier I capital / Total risk-weighted assets	7.9	8.0	7.1	
Total capital / Total risk-weighted assets	10.1	10.6	9.7	
<b>SHARES</b>				
Number of shares (thousands)	815,993	815,993	815,993	—
Share price (lire)				
• average	12,498	9,494	9,122	+31.6
• lowest	9,145	8,400	8,041	+8.9
• highest	17,626	10,549	10,197	+67.1
Earnings per share (lire)	206	739	542	-72.1
Dividend per ordinary share (lire)		280	240	
Dividend per average price per share (%)		2.9	2.6	
<b>ORGANIZATION</b>				
Employees (number)	22,614	23,733	24,123	-4.7
Domestic branches (number)	1,275	1,242	1,179	+2.7
Foreign branches and representative offices (number)	75	216	207	-65.3

(a) Pro-forma data determined on a consistent comparative basis with 1996 and 1997 information.

(b) Consolidated ratios for financial years 1995 and 1996 were calculated exclusively by Sanpaolo Bank Holding.

## Analysis of 1997 results

	Istituto Bancario San Paolo di Torino	Crediop	Banque Sanpaolo France	Sanpaolo Ireland	Other companies (a)	Total banks and finance companies
<b>STATEMENT OF INCOME</b> (billions of lire)						
<b>Net interest income</b>	3,614	327	148	52	46	4,187
Net commissions	1,485	-2	77	0	12	1,572
Profits on financial transactions	389	16	8	73	3	489
<b>Net interest and other banking income</b>	5,488	341	233	125	61	6,248
Administrative costs, depreciation, amortization and other costs (net)	-3,980	-74	-164	-1	-24	-4,243
<b>Operating income</b>	1,508	267	69	124	37	2,005
Net adjustments of loans and other provisions	-1,697	-129	-35	-2	-20	-1,883
Income (losses) from investments carried at equity	—	—	2	—	—	2
Extraordinary income (expense)	442	7	2	—	-17	434
Income taxes	-200	-78	—	-12	-5	-295
(Income) loss attributable to minority interests	—	—	—	—	—	—
<b>Group share of net income</b>	53	67	38	110	-5	263
<b>BALANCE SHEET</b> (billions of lire)						
Total assets	214,763	35,163	9,066	1,797	11,878	272,667
Loans to customers	99,502	27,620	4,523	959	430	133,034
• non-performing loans	4,399	1	223	—	215	4,838
• problem loans	3,405	1	106	—	1	3,513
Securities	34,003	1,078	1,424	478	256	37,239
Equity investments	3,395	210	20	—	16	3,641
Due to customers and securities issued	123,511	19,377	5,415	—	10,311	158,614
Due to banks, net	5,262	-7,490	32	-666	9,873	7,011
Subordinated liabilities	3,208	320	—	—	36	3,564
Shareholders' equity	9,592	968	844	863	254	12,521
<b>PROFITABILITY RATIOS</b> (%)						
Net interest income / Net interest income and other banking income	65.85	95.89	63.52	41.60	75.41	67.01
Total net costs / Net interest income and other banking income	72.52	21.70	70.39	0.80	39.34	67.91
Operating income / Total assets (RoA)	0.70	0.76	0.76	6.90	0.31	0.74
Net income / Shareholders' equity (RoE)	0.55	6.92	4.50	12.75	n.s.	2.10
<b>INDICI DI RISCHIO DEL CREDITO</b> (%)						
Net non-performing loans / Total customer loans	4.42	n.s.	4.93	—	50.00	3.64
Net problem loans / Total customer loans	3.42	n.s.	2.34	—	0.23	2.64
Specific adjustments / Gross non- performing loans	38.89	36.07	49.54	—	59.28	40.80
Specific adjustments / Gross problem loans	20.31	5.42	—	—	62.26	19.84
<b>ORGANIZATION</b>						
Employees (number)	20,472	218	1,116	5	76	21,887
Branches (number)	1,286	—	52	—	—	1,338

Asset management, sales network and stockbroking (b)	Leasing (c)	Other companies consolidated line-by-line (d)	Consolidation adjustments	Group Total
18	85	4	-146	4,148
199	-2	50	-11	1,808
12	—	—	-70	431
229	83	54	-227	6,387
-96	-48	-44	-86	-4,517
133	35	10	-313	1,870
-5	-24	-1	446	-1,467
—	—	—	-207	-205
-12	5	-1	33	459
-68	-9	-4	-44	-420
—	—	—	-69	-69
48	7	4	-154	168
603	2,538	258	-19,348	256,718
—	1,888	13	-3,314	131,621
—	40	—	—	4,878
—	13	—	—	3,526
178	179	2	—	37,598
2	—	—	-2,747	896
—	147	—	-2,082	156,679
134	-1,970	-133	1,072	6,114
—	—	—	-36	3,528
179	111	30	-3,080	9,761
7.86	102.41	7.41	n.s.	64.94
41.92	57.83	81.48	n.s.	70.72
22.06	1.38	3.88	n.s.	0.73
26.82	6.31	13.33	n.s.	1.72
—	2.12	—	n.s.	3.71
—	0.69	—	n.s.	2.68
—	53.75	—	n.s.	40.93
—	39.86	—	n.s.	19.94
286	131	310	—	22,614
—	—	—	—	1,338

## STATEMENT OF INCOME (billions of lire)

### Net interest income

Net commissions

Profits on financial transactions

### Net interest and other banking income

Administrative costs, depreciation, amortization and other costs (net)

### Operating income

Net adjustments of loans

and other provisions

Income (losses) from investments carried at equity

Extraordinary income (expense)

Income taxes

(Income) loss attributable to minority interests

### Group share of net income

## BALANCE SHEET (billions of lire)

Total assets

Loans to customers

• non-performing loans

• problem loans

Securities

Equity investments

Due to customers and securities issued

Due to banks, net

Subordinated liabilities

Shareholders' equity

## PROFITABILITY RATIOS (%)

Net interest income / Net interest income and other banking income

Total net costs / Net interest income and other banking income

Operating income / Total assets (RoA)

Net income / Shareholders' equity (RoE)

## INDICI DI RISCHIO DEL CREDITO (%)

Net non-performing loans / Total customer loans

Net problem loans / Total customer loans

Specific adjustments / Gross non-performing loans

Specific adjustments / Gross problem loans

## ORGANIZATION

Employees (number)

Branches (number)

(a) Crediop BV, Crediop Overseas, Sanpaolo Bank Austria, Sanpaolo Bank Luxembourg, Sanpaolo Immobiliare, Sanpaolo Ireland, Sanpaolo US Financial

(b) Intersim, SPF Promotio, Sanpaolo Asset Management, Sanpaolo Fiduciaria, Sanpaolo Fondi, Sanpaolo Gestion International, Sanpaolo Invest

(c) Sanpaolo Leasing GmbH, Sanpaolo Leasing

(d) C. Fin, Sanpaolo Riscossioni Genova, Sanpaolo Riscossioni Prato, Sanpaolo Vermoögensverwaltung, Sep, Spb Delta Towers, Spb Van Ness

## Group operating network

### **Italian network (December 31, 1997)**

1,275 Branches  
1,720 ATM-Bancomat  
18,381 PoS  
1,027 Financial service advisors

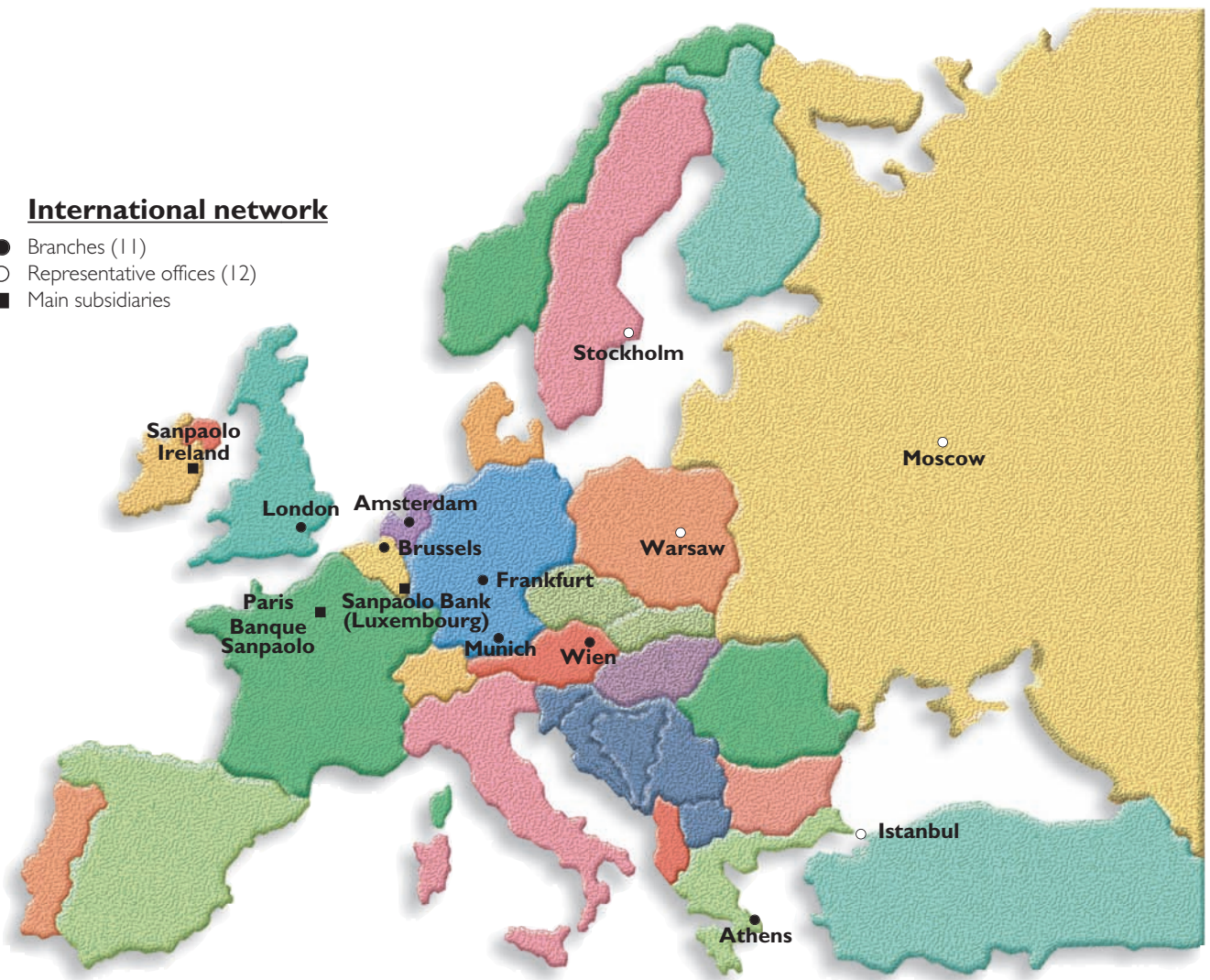


### ***Italian branches***

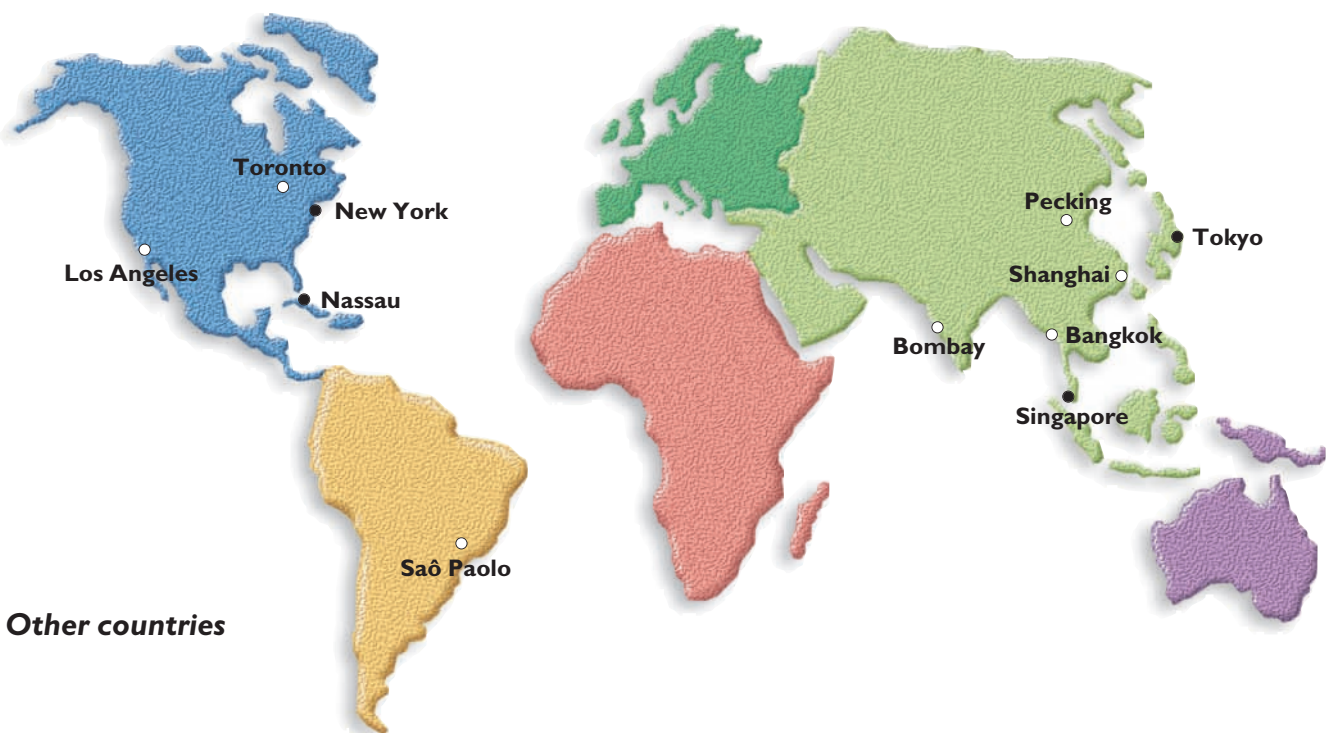


### International network

- Branches (11)
- Representative offices (12)
- Main subsidiaries



**Europe**



**Other countries**



# THE BANK'S FINANCIAL STATEMENTS AND REPORTS





## Reclassified statement of income

	1997 (L/bln)	1996 (L/bln)	Change (%)
Interest income and similar revenues	13,696	17,014	-19.5
Interest expense and similar charges	-10,271	-13,130	-21.8
Dividends	189	85	+122.4
NET INTEREST INCOME	3,614	3,969	-8.9
Net commissions	1,485	1,032	+43.9
Profits (losses) on financial transactions	389	979	-60.3
NET INTEREST AND OTHER BANKING INCOME	5,488	5,980	-8.2
Administrative costs	-3,919	-3,971	-1.3
Other operating expenses	-15	-17	-11.8
Other operating income	325	281	+15.7
Adjustments to tangible fixed assets	-240	-266	-9.8
Adjustments to intangible fixed assets	-131	-143	-8.4
OPERATING INCOME	1,508	1,864	-19.1
Provisions for risks and charges	-92	-40	+130.0
Adjustments to loans and provisions for guarantees and commitments	-1,890	-1,317	+43.5
Writebacks of adjustments to loans	609	559	+8.9
Adjustments to financial fixed assets	-331	-363	-8.8
Writebacks of adjustments to financial fixed assets	7	-	n.s.
Extraordinary income and expenses	442	74	+497.3
INCOME BEFORE INCOME TAXES	253	777	-67.4
Income taxes	-100	-260	-61.5
Substitute tax on merger differences	-100	-	n.s.
NET INCOME FOR THE YEAR	53	517	-89.7
Provisions to reserve (art. 7.3, Law 218/90)	-53	-225	-76.4
Distributable net income	-	292	n.s.



## Reclassified balance sheet

ASSETS	12/31/97 (L/bln)	12/31/96 (L/bln)	Change (%)
Cash and deposits with central banks and post offices	738	722	+2.2
Loans	148,580	153,715	-3.3
• due from banks	49,078	54,538	-10.0
• loans to customers	99,502	99,177	+0.3
Dealing securities	30,127	33,817	-10.9
Fixed assets	9,954	10,204	-2.5
• investment securities	3,876	3,473	+11.6
• equity investments	3,395	3,741	-9.2
• intangible fixed assets	407	457	-10.9
• tangible fixed assets	2,276	2,533	-10.1
Other assets	25,364	24,123	+5.1
Total assets	214,763	222,581	-3.5

LIABILITIES AND SHAREHOLDERS' EQUITY	12/31/97 (L/bln)	12/31/96 (L/bln)	Change (%)
Payables	170,422	179,686	-5.2
• due to banks	46,911	55,218	-15.0
• due to customers and securities issued	123,511	124,468	-0.8
Other liabilities	31,541	29,857	+5.6
Subordinated liabilities	3,208	3,178	+0.9
Shareholders' equity	9,592	9,860	-2.7
Total liabilities and shareholders' equity	214,763	222,581	-3.5

GUARANTEES AND COMMITMENTS	12/31/97 (L/bln)	12/31/96 (L/bln)	Change (%)
Guarantees given	23,700	22,263	+6.5
Commitments	34,815	34,101	+2.1



## Report on operations



## Economic background

### **The international economy**

**T**he international economy presented a mixed picture during 1997. While the USA experienced its sixth successive year of vigorous growth and Europe took its first uncertain steps toward recovery, Asia plunged into deep financial crisis.

The first speculative raids on Thailand's currency in the summer triggered a crisis which rapidly spread across South East Asia, exposing the vulnerability of its financial systems. According to the IMF, repercussions on the industrialized world will include erosion by around one percentage point in GDP growth during 1998.

### *The US economy*

The USA recorded another exceptional year in terms of economic expansion, accompanied by record low levels of employment and long-term interest rates.

Growth in GDP (3.8%) was largely driven by internal demand, notably for capital goods: investment was up by 10% on 1996. Inflation was pegged at 2.3%. Unemployment declined to 4.6%, reflecting the creation of more than two million new jobs.

The key factors underlying containment of price increases were rising productivity, the strength of the dollar, and easing import prices.

Given the combination of growth without inflationary pressure and the crisis in Asia (which depressed the cost of imports from the countries affected), the US was able to maintain its monetary policy during the second half of the year despite growing pressure on wage rates in conditions of full employment.

### *The Japanese economy*

GDP growth at barely 1% and an accelerating decline in the yen sum up the present state of the Japanese economy. The increasing problems of its financial/banking systems were compounded by severe repercussions of the Asian crisis; 40% of its exports are to the regions in deepest trouble.

In the absence of further massive government intervention to shore up the financial sector, the economy continued to suffer the effects of a harsh taxation regime combined with the severely restrictive lending policies of banks seeking to protect their asset bases from further erosion.

### *The EU economy*

In many European countries, the year was dominated by efforts to comply with the criteria established by the Maastricht treaty. Inevitable side-effects in the nations concerned included generally modest rates of economic growth, and an appreciable rise in unemployment levels.

According to estimates published by the European Commission, stringent national budgets have resulted in no less than 13 countries achieving a deficit to GDP ratio of less than 3% - one of the requirements for participation in monetary union (among these nations, the UK, Sweden and Denmark have indicated their unwillingness to participate in the first stage of EMU scheduled to start on January 1, 1999). At the same time, consistently strict fiscal policies have facilitated the process of interest rate convergence, a prerequisite for the introduction of the single currency.

### *The German economy*

At a more detailed level, significant features of the European economic scene included a healthy export performance by Germany (helped by the Deutschmark's weakness against the dollar) which more than counterbalanced the effects of sluggish internal demand; GDP growth amounted to 2.2%.

Consumer spending was muted in conditions marked by the persistent problems of the labor market (evidenced by a December unemployment rate of 11.6%) and slow growth in real-terms disposable income. Inflation averaged 1.8%: a number of increases in regulated prices and an upturn in export prices caused a temporary mid-year rise, the pressure easing towards the end of the year.

Investment activity was inhibited by influences which included a climate of uncertainty caused by the Asian crisis, in the second half of the year.

### *The French economy*

In France also, exports were a key contributor to GDP growth, which amounted to 2.4%. In contrast to Germany, however, internal demand picked up during the third quarter, a trend apparent in both investment and - as public confidence revived - in consumer demand.

Effective control of inflation was reflected in a record low in May of 0.9% and a final figure below the EU average, at 1.2%.

### *The UK economy*

The UK registered GDP growth of 3.5% during 1997, well ahead of continental Europe. The main driver was a healthy level of internal demand. The services sector continued to expand rapidly, drawing further away from a manufacturing sector affected by the strength of the pound. Against the mark, the pound appreciated by 12.9%, boosted by the widening interest rate differential.



Inflationary pressures accompanying healthy employment conditions (unemployment was down to a record 5% in December) prompted a number of rises in official interest rates; in total, the increase was from 6.25% in May to 7.25% at the end of the year.

#### *The Spanish economy*

Spain maintained the momentum of its economic recovery, with a 3% rise in the activity level. Both consumer spending and exports performed well, in the former case reflecting rising levels of income and wealth.

Inflation was contained nevertheless, at just 2%.

#### **The Italian economy**

**A**lthough still somewhat hesitant, the recovery of the Italian economy was livelier than in 1996. The rise in GDP of an estimated 1.7% followed a slight upturn in early spring which accelerated as the year progressed. The principal influence was growing consumer demand, in conditions of low inflation and falling interest rates; the upturn in spending was fueled by government incentives for scrapping aging automobiles. These latter measures boosted the fortunes of the automotive sector, without affecting demand for other consumer durables.

Export growth was well down however, while imports rose substantially. The factors underlying this trend were the upturn in demand for cars, the sluggish recovery among Italy's European trading partners, and the loss of price-competitiveness (dating from the previous year). The resulting erosion of the balance-of-payments trading surplus was cushioned to some extent by an improvement in invisibles.

#### *Inflation*

Revival did not compromise the continuing fight against inflation. Consumer prices rose by just 1.7%, despite pressures caused by the strengthening dollar, certain substantial pay settlements and increases in VAT rates (from October onwards). While low raw-material prices at international level undoubtedly helped, the key influence was structural change in the price-formation mechanism. Italian inflation moved into line with the rest of the EU; indeed, Bank of Italy figures indicate that the average rise in the standardized consumer-price index has been below the Maastricht convergence threshold since July.

#### *Public sector finances*

Notwithstanding the successes noted above, the star performer among the economic sectors was unquestionably public-sector finances. The ISTAT national statistical office reports a deficit-to-GDP ratio of 2.7%, while the process of reducing the national debt in relation to GDP also gathered momentum: a ratio of 121.6% compares with 124% for 1996.

#### *The financial markets*

The combination of consistently lower inflation and improved public-sector finances created the conditions for a progressive reduction of interest rates. The Official Discount Rate was cut three times, declining from 7.50% in October 1996 to 5.5% by December 1997.

Growing confidence in the fundamentals of the Italian economy was reflected in increasing interest in government securities, largely on the part of non-resident operators. On 10-year instruments, the differential against yields in Germany narrowed from 1.8 to 0.3 points.

The capital markets were particularly active. Among the year's notable performances, the Milan Stock Exchange put on 58% (the highest rise since 1986), largely on the strength of a series of privatization operations.

The sharp decline in rates on government securities prompted the Italian saving public to seek alternatives to this traditional form of investment. Sectors to benefit included mutual funds, whose net inflows shot up by 146% to 143,000 billion lire.

### *The banking industry*

One of the more striking changes in the banking scene since the previous year was acceleration of the rising trend in customer business: at industry level, deposit and lending levels grew by 2.4% and 5.4% respectively. Another interesting difference compared with earlier years was that the upturn was more marked among the larger banking groups.

With few exceptions, operating margins were down nevertheless, eroded by narrowing interest-rate spreads and the absence of the exceptional results from stockmarket dealings which were a feature of 1996; other factors included the industry's still highly inflexible cost structure.

The final figures for interest margins can be expected to reflect a deterioration in relation to total assets, as well as in absolute terms. The structural decline in the profitability of traditional banking business therefore shows no sign of leveling off.

The most significant - and novel - aspect of the year's results at industry level was the sharply higher level of commission-earning activities in the asset management, broking and consultancy fields. This change reflects basic shifts in the composition of savers' portfolios: from short term to long term; from government securities to equities; from domestic securities to foreign. In parallel, the popularity of portfolio-management services is growing, at the expense of passive administration business. The steep increase in commission revenues has counterbalanced both the contraction of interest margins and the fall in profits earned on the stockmarket. At the same time, a rise in operating costs - although modest - has affected industry profitability.

The various statistical indicators by which the banking system measures its performance are now typically at values differing significantly from the corresponding averages, symptomatic of an increasing competitive marketplace.

## The Bank's results

### Overview of performance

The Bank's net income amounted to 53 billion lire, compared with 517 billion lire in the previous year. Apart from the drop in gains on financial transactions, this sharp decline reflects substantial writedowns against loans and equity investments, designed to accelerate the process of raising the quality of the asset base.

The principal factor underlying the writedowns was a further deterioration in the overall quality of the lending portfolio, caused by a combination of adverse conditions in the real estate market and problems in implementing debt-rescheduling schemes (for companies and groups in the throes of rationalization).

A number of measures were introduced to aid effective monitoring of this adverse trend, including the commissioning of updated valuations (October 1997) of the properties securing mortgage loans and of those owned by certain Group companies. This led to adjustments of asset accounts to market value, and the adoption of stricter criteria for classifying construction loans and other at-risk types with a view to severely curtailing the scope for discretion in the categorization of loans at risk.

At operating level, the year's results in the key strategic business areas were satisfactory.

Services generated net commission income of 1,485 billion lire, up by around 44% and amply absorbing the expected loss in interest-bearing business, common to the banking system as a whole.

The gratifying results from services fully indicated San Paolo's commercial policies aimed at diversifying its revenue streams, with the twin objectives of reducing dependence on traditional banking activities and stabilizing the key revenue streams. The areas reporting the highest commission receipts were those of asset management and security placings/dealings; together, these accounted for nearly 50% of total commission revenues. Commissions on mutual funds, asset administration and insurance policies almost trebled, approaching 500 billion lire.

By contrast, gains on financial transactions plummeted by over 60% compared with the exceptional results in this category during 1996. The key factors were turbulence in the financial markets early in the year; and progressive restructuring of the securities portfolio towards shorter-dated securities, to reduce risk.

On the costs front, the results of containment measures previously introduced began to show through. A rising trend in administrative costs was reversed, these declining overall by 52 billion lire or 1.3%. The dominant contribution to the improvement was a 2.9% saving in personnel costs, derived from the early-retirement scheme introduced in 1996.

Other significant influences on operating income included exceptional writedowns amounting to 45 billion lire to align the carrying value of Bank properties with independently-assessed market values or agreed selling prices.

As mentioned earlier, the bottom line was greatly affected by provisions and writedowns against loans and investments; these amounted to 1,697 billion lire, over 530 billion lire above the already very high level in the previous year.

A significant factor tending in the opposite direction was net extraordinary income of 442 billion lire. The principal components were gains on sales of equity investments and the benefit of accounting-policy changes (described below), offset by contributions to the Interbank Deposit Guarantee Fund.

#### *Changes to accounting policies*

Certain changes to the Bank's accounting policies were introduced in 1997. These are described in detail in the explanatory notes and summarized below (in all other respects, the 1997 financial statements have been prepared on the same basis as those for the previous year):

- the dealing securities portfolio is valued on the basis of average cost on a daily basis, rather than LIFO in annual layers.
- the Bank's investments in foreign branches and foreign equity interests are translated using current, rather than historical, rates of exchange (except for certain interests denominated in non-convertible currencies).
- deferred taxation is determined by reference to International Accounting Standard (IAS) No. 12/96, which requires the booking of prepaid taxes arising from timing differences between the tax valuation of assets and liabilities and their book value.
- long-service bonuses to employees are now provided for (among the reserves for risks and charges).

The general effect of these changes on the 1997 result (described in detail in the explanatory notes) was a benefit, including tax effects, of 341 billion lire.

## Net interest income

Erosion of the interest margin is the most significant feature of the year's statement of income: net interest income was 8.9% lower than in 1996, down by 355 billion lire at 3,614 billion lire.

	1997 (L/bln)	1996 (L/bln)	Change (%)
Interest income and similar revenues	13,696	17,014	-19.5
Interest expense and similar charges	10,271	13,130	-21.8
Dividends received	189	85	+122.4
Net interest income	3,614	3,969	-8.9

### *Lira-based customer business*

Causes of the deterioration included the narrowing spread between rates charged to borrowers and paid to depositors, to an average of 3.66 points against 3.80 points in 1996. San Paolo's response to this trend, endemic to the Italian banking system, focused mainly on deposit-business volumes and rates. The benefits of this strategy included a significant shift towards demand deposits at the expense of other forms with higher servicing costs. Overall, the approach generated a gradual improvement in the unit margin on deposits, from an average eight-tenths of a point in the first half of the year to around a full point in the second.

Rates paid on demand deposits were down on average by 1.5 points, compared with a market decline of 2 points, as the proportion of special agreement-regulated accounts rose steadily. These now represent about a third of the total, and lend greater stability to the relevant revenue stream; on the other hand, they reduce the Bank's room for flexibility in negotiating terms.

During 1996, the cost of servicing Certificates of Deposit (CDs) was still rising despite falling market rates; the trend reversed during 1997, rates on CDs easing by a point as high-yielding long-dated instruments were replaced by short-dated certificates issued at a discount with respect to market rates.

Similar considerations applied to bonds. Their average servicing cost decreased by more than two points as older issues were superseded by instruments with lower rates, an effect compounded by early redemptions of certain tranches. Operations in the latter category responded to growing early-settlement applications relating to facilities to which the relevant bond issues were linked.

Among lending rates, those on short-term advances declined by about two points, completing the process of alignment with the relevant market trend. Indeed, at certain times, strong competitive pressure based on market operators' reading of the downward trend forced the banks to offer terms which sometimes anticipated the effective reduction in rates. Those on medium and long-term lending proved more resilient, easing by 1.6 points;

the key influence was the inertia associated with a process whereby rates on floating-rate loans are adjusted only at the prescribed dates for revision of the particular market reference rates.

The effect on the interest margin of shrinking spreads was compounded by a declining level of customer business in lire, which affected deposits and lending to roughly equal degrees.

In this connection, the downturn in deposit funds was largely confined to repurchase-agreement business; the level of funds in this category fell on average by over 4,000 billion lire, largely diverted to managed savings. The aim of this policy is to stabilize a highly volatile element of deposit funding, whose contribution to profits is now reflected in income from services rather than the interest margin. By contrast, demand deposits rose by 8.7%, passing 3,000 billion lire. The increase in liquid funds counterbalanced the decline in CDs, while the average level of bonds was little changed.

Lending levels declined in both the short and medium/long-term sectors. In the latter case, key factors again included a high volume of loan reclassifications as non-performing, combined with an increase in early settlements of facilities at high interest granted in earlier years.

Distinguishing between rate effects and volume effects provides a broad-brush, single-figure indicator of the combined effect of these various factors on the result in question. Applying the actual rates to equal volumes of deposit and lending business to eliminate distorting influences, gives an estimated financial penalty of around 270 billion lire from the narrowing of spreads and the decline in lira-based business.

#### *Effects on financial transactions*

The erosion of the interest margin was also due to a noticeable decline in yields on investment in securities and on the interbank market which absorbed the respective excesses of deposit funds over lending, and of stockholders equity and non interest-bearing debt over non revenue-earning assets.

The return on the securities portfolio was down by 1.8 percentage points, affected by restructuring to reduce risk and shorten average maturity. The decline in the yield on interbank funds - characterized by very short maturities and thus fully exposed to the downturn in market rates - was equally sharp.

Elimination of the differential between funding cost and the combined returns from interbank and stockmarket investments significantly affected volumes traded by the Bank in the money market, as both buyer and seller. The policy thus focused on optimizing the net interbank position, which was turned around from one of net borrower on average to the tune of around

3,000 billion lire in 1996, to an average net lending position of 2,000 billion lire.

Applying the same rate and volume calculations as those mentioned in connection with deposit and lending levels, the impact on the statement of income of the narrower spreads and lower levels of investments and interbank funds amounted to around 140 billion lire.

*Foreign branch margins*

Among the foreign branches, the benefits of higher volumes (largely attributable to exchange-rate trends) were counterbalanced by significant reductions in the spreads of rates and in the yields on securities; the latter represent over a third of the funds retained within the international network.

*Dividends on shares and equity investments*

The impact on the interest margin of the adverse factors discussed above was cushioned to some extent by dividends on shares and equity investments, which more than doubled the 1996 level to reach 189 billion lire. The principal items were 67 billion lire received from Crediop out of its first year's profits, and 57 billion lire from Sanpaolo Ireland.

The reduction in net interest income compared with 1996 is analyzed by principal cause below:



	Change in interest margin (L/bln)
Lira-based customer business (including the compulsory reserve)	-272
• reduction of spread	-123
• reduction in volumes	-149
Rate and volume effects on investments (including foreign exchange business and hedging costs)	-141
Change in foreign-branch interest margins	-20
Change in dividends	104
Effect of transferring Crediop business (*)	-26
Change in net interest income	-355

(\*) Represents the interest margin on assets and liabilities subsequently transferred to Crediop, accruing during January 1996.

	1997			1996 (a)		
	Average value (L/bln)	Interest (L/bln)	Average rate (%)	Average value (L/bln)	Interest (L/bln)	Average rate (%)
Interest-earning assets	185,013	13,696	7.4	189,793	16,769	8.8
• domestic branches	135,141	10,891	8.1	150,475	14,232	9.5
• loans to customers	81,556	7,355	9.0	85,306	9,110	10.7
• in lire	67,522	6,525	9.7	71,676	8,256	11.5
• in foreign currency	9,959	543	5.5	10,678	584	5.5
• repurchase agreements	4,075	287	7.0	2,952	270	9.1
• due from banks	27,033	1,620	6.0	33,218	2,239	6.7
• in lire	6,578	480	7.3	8,529	829	9.7
• in foreign currency	16,549	842	5.1	19,393	968	5.0
• repurchase agreements	3,906	298	7.6	5,296	442	8.3
• securities	21,957	1,685	7.7	28,032	2,668	9.5
• compulsory reserve	4,595	231	5.0	3,919	215	5.5
• foreign branches	49,872	2,805	5.7	39,318	2,537	6.5
Non interest-earning assets	34,745	-	-	31,095	-	-
Total assets	219,758	13,696		220,888	16,769	
Interest-bearing liabilities	179,549	10,183	5.7	183,916	12,500	6.8
• domestic branches	130,000	7,611	5.9	142,804	10,193	7.1
• due to customers, securities issued, subordinated liabilities	104,903	6,232	5.9	106,782	8,144	7.6
• in lire	100,150	6,006	6.0	103,688	8,011	7.7
• demand deposits	38,098	1,238	3.2	35,060	1,643	4.7
• certificates of deposit	24,493	1,927	7.9	27,436	2,449	8.9
• bonds	25,512	2,015	7.9	24,876	2,533	10.2
• subordinated loans	1,000	86	8.6	1,014	104	10.3
• repurchase agreements	11,047	740	6.7	15,302	1,282	8.4
• in foreign currency	4,753	226	4.8	3,094	133	4.3
• due to banks	25,097	1,379	5.5	36,022	2,049	5.7
• in lire	3,170	232	7.3	5,103	484	9.5
• in foreign currency	19,562	988	5.1	26,816	1,323	4.9
• repurchase agreements	2,365	159	6.7	4,103	242	5.9
• foreign branches	49,549	2,572	5.2	41,112	2,307	5.6
Non interest-bearing liabilities	30,484	-	-	27,229	-	-
Shareholders' equity (average)	9,725	-	-	9,743	-	-
Total liabilities and shareholders' equity	219,758	10,183		220,888	12,500	
Interest margin before effect on hedging transactions		3,513			4,269	
Effect of hedging transactions		-88			-411	
Dividends		189			85	
Effect of January '96 interest margin (Crediop)					26	
Net interest income		3,614			3,969	

(a) Restated on 1997 basis to allow for spin-off of public-works financing activity to Crediop.

## Net interest and other banking income

At 5,488 billion lire, net interest and other banking income was 8.2% lower than in 1996. The less steep decline than that in the interest margin reflects the substantial level of income from services, offset by a sharp drop in net gains on financial transactions; compared with the previous year's exceptional result, the latter fell by over 60%.

	1997 (L/bln)	1996 (L/bln)	Change (%)
Net interest income	3,614	3,969	-8.9
Net commissions	1,485	1,032	+43.9
• on management, dealing and consultancy services	794	366	+116.9
• managed savings (mutual funds, insurance, asset management)	498	176	+183.0
• placement and dealing in securities	136	70	+94.3
• stockbroking	88	45	+95.6
• custody and administration of securities	24	31	-22.6
• currency dealing	48	44	+9.1
• on loans and guarantees	258	255	+1.2
• loans	91	72	+26.4
• arrangement fees	4	11	-63.6
• lines of credit	30	32	-6.2
• discounting of notes	63	60	+5.0
• guarantees	70	80	-12.5
Collection and payment services	158	155	+1.9
• computer services	58	50	+16.0
• payment services	62	68	-8.8
• collection services	38	37	+2.7
Deposits and current accounts	283	268	+5.6
• deposits, current accounts in hand	164	159	+3.1
• current accounts overdrawn	119	109	+9.2
Other banking services	-8	-12	-33.3
Profits (losses) on financial transactions	389	979	-60.3
• dealings in securities, currency and derivatives	336	982	-65.7
• valuation of securities and derivatives	53	-3	n.s.
Net interest and other banking income	5,488	5,980	-8.2

## Commissions

Commissions on services generated a net contribution of 1,485 billion lire, following an acceleration of the upward trend apparent in 1996. This result fully indicates a commercial strategy of diversification designed to reduce San Paolo's dependence on traditional banking business while stabilizing its revenue streams.

All segments contributed to the 43.9% increase, although the steepest rises were in asset management, securities placing and dealing, and stockbroking, activities which together accounted for almost 50% of total services business.

The area represented by mutual funds, asset management and insurance earned commissions approaching 500 billion lire, almost a three-fold increase. The sharp upturn in volumes has thus clearly had no adverse effect on margins, a situation reflecting the benefits for pricing policy of healthy product performances. This latter consideration applies particularly to mutual funds, an area whose commission revenues, boosted by the addition of new funds towards the end of the year, soared by 244%. Insurance business also gained

considerable ground, the relevant commissions more than doubling the 1996 level.

Equally gratifying were the results from financial services, business outside the managed-savings area. Key influences included San Paolo's long-term track record in the placing of domestic and foreign bonds, rising volumes of stockmarket transactions, and its performance in the year's privatization operations (notably the San Paolo, ENI and Telecom placings). Commission revenues in these segments were up by 94% compared with the previous year.

Computer services also grew at a satisfactory rate, following measures to promote increased use of credit cards and debit cards. Commissions on loans and overdrafts began to recover from the downturn during 1996.

*Profits from financial transactions; dividends*

The year's net gains on financial transactions amounted to 389 billion lire. Dealings in securities and derivatives accounted for some 80% of the latter result, the remainder deriving from transactions in foreign exchange. A slight decline in the last-mentioned activity resulted from a decrease in foreign-currency business with customers. Gains on dealings in securities and derivative fell sharply.

The Bank's exceptional results from these activities in the previous year benefited from the downward trend in medium/long-term interest rates; in the year under review, turbulence in the financial markets precluded the possibility of a repeat performance. Uncertainties over the likely timescale for EMU led to alternating phases of optimism and scepticism in the early part of the year; effects on the Bank's relevant operations included a series of exposed positions whose resolution entailed foregoing the benefit of the succeeding reductions in rates. In addition, gradual, prudent restructuring of the portfolio to shorten average maturity neutralized rate exposure and magnified the effect of convergence with redemption value of securities priced above par (a significant proportion of the portfolio).

A new basis for valuing dealing securities was introduced during the year. Continuous daily average cost replaced the LIFO in annual layers method, on grounds of greater consistency with the Bank's operating requirements. As of the end of 1997, unrealized gains on the dealing portfolio amounted to over 50 billion lire.

In general terms, the plunge in gains on financial transactions can also be seen as anticipating a trend which is now general at national level, given that a number of sources of such profits are effectively drying up. Examples include asset swaps involving government securities, affected by increased market efficiency, while stabilization of rates has caused a noticeable decline on gains from derivatives. Those from foreign-exchange dealings are undermined by the impending introduction of the Euro.

## Operating income

The erosion of profit margins was more marked at the Operating Income level, this result declining by 19.1% to 1,508 billion lire. The main cause was the difficulty of matching the cost base to the reduced level of revenues.

	1997 (L/bln)	1996 (L/bln)	Change (%)
Net interest and other banking income	5,488	5,980	-8.2
Administrative costs	-3,919	-3,971	-1.3
• payroll	-2,621	-2,698	-2.9
• ordinary	-2,555	-2,568	-0.5
• extraordinary	-66	-130	-49.2
• other administrative costs	-852	-846	+0.7
• indirect taxes	-446	-427	+4.4
Other operating expenses	-15	-17	-11.8
Other operating income	325	281	+15.7
• expenses recovered from customers	259	248	+4.4
• other	66	33	+100.0
Adjustments to tangible fixed assets	-240	-266	-9.8
Adjustments to intangible fixed assets	-131	-143	-8.4
• deferred charges	-60	-72	-16.7
• merger differences	-71	-71	-
Operating income	1,508	1,864	-19.1

### *Administrative costs and other operating expenses*

Administrative costs were effectively contained however. At 3,919 billion lire, the total was down on the 1996 level by 1.3%, while the element represented by personnel costs declined by 2.9%. Other administrative costs were little changed. A slight rise in indirect taxes resulted from higher VAT (due to a rate increase in October) and an upturn in duties on stock-exchange transactions (due to larger dealing volumes in equities); in the latter case, the costs are recharged to customers.

The saving of nearly 3% in personnel costs primarily derived from the early-retirement scheme introduced in the previous year. Ignoring extraordinary charges (66 billion lire in 1997 and 130 billion lire in 1996), the reduction amounted to 0.5%, a significant reversal of a rising trend. Moreover, the figures quoted exclude cost recoveries (recorded under other operating income) for staff seconded elsewhere in the Group, amounting to 23 billion lire against an average in earlier years of 6 billion lire.

The bulk of the extraordinary charges mentioned related to severance settlements and the replacement of personnel engaged in completing the program to rationalize branch-network information systems. A further approximately 10 billion lire was absorbed by leaving incentives, while a similar sum was incurred, in respect of staff bonuses on the results of placing activities under the year's privatization operations.

Other administrative costs edged up 0.7%, well below the rate of inflation. Ignoring non-recurrent expenditure on completing the process of integrating

the banks absorbed in recent years, together with that on the advertising campaign in connection with the Bank's privatization program, the change was a saving of approximately 3%.

Other operating income, mainly comprising cost recoveries from customers, was 15.7% higher than in 1996. Factors in the rise included higher cross-charges for staff seconded to other Group companies (mentioned earlier).

#### *Adjustments to tangible and intangible fixed assets*

A 9.8% reduction in the total for ordinary depreciation charges resulted from disposal during the year of properties with a gross carrying value of 200 billion lire, together with a decrease in accelerated depreciation on properties awaiting sale. The latter were adjusted to market value as determined by independent valuation, or to agreed selling price.

#### **Income before taxes**

Income before income taxes amounted to 253 billion lire, in decline with respect to the previous year by 67.4%.

	1997 (L/bln)	1996 (L/bln)	Change (%)
Operating income	1,508	1,864	-19.1
Provisions for risks and charges	-92	-40	+130.0
Adjustments to loans and provisions for guarantees and commitments	-1,890	-1,317	+43.5
• specific writedowns	-1,139	-831	
• global provisions for inherent risk	-200	-	
• losses on settlements and disposals	-211	-213	
• scaling-down losses in bankruptcy cases	-339	-273	
• provisions for guarantees and commitments	-1	-0.3	
Writebacks of loans:	609	559	+8.9
• writebacks at year-end	385	351	
• collection of principal	38	38	
• collection of default interest previously written-off	96	129	
• collection of shortfalls on scaling down	90	41	
Writedowns of financial fixed assets:	-331	-363	-8.8
• equity investments	-317	-362.5	
• investment securities	-14	-0.5	
Writebacks of financial fixed assets:	7	-	
• equity investments	5	-	
• investment securities	2	-	
Net extraordinary income:	442	74	+497.3
• collection of default interest covered by earlier provisions	-	37	
• net gains on divestment of equity interests	153	10	
• prepaid income taxes	286	-	
• gains on translation of foreign-currency fixed assets at current exchange rates	62	-	
• contributions to the Interbank Deposit Guarantee Fund	-74	-	
• other extraordinary income (net)	15	27	
Income before taxes	253	777	-67.4

The key factors in the reduction in pre-tax income were the heavy writedowns (net of reinstatements) against loans and investments, and the level of provisions. Overall, these items amounted to 1,697 billion lire, compared with 536 billion lire in 1996.

*Adjustments to loans,  
provisions*

The combined total of 1,373 billion lire for writedowns against the loans portfolio (net of reinstatements) and provisions for guarantees, commitments, risks and charges, is analyzed below:

- 954 billion lire in writedowns less reinstatements, comprising 515 billion lire allowable for tax purposes in 1997 and 439 billion lire to be spread over seven years on the basis of year-end revaluations. Gross writedowns were 1,139 billion lire, while writebacks of amounts written off in earlier years amounted to 385 billion lire; in addition, global provisions amounting to 200 billion lire were made against normally-performing loans;
- 211 billion lire in respect of losses against the carrying value of loans, incurred through settlements and transfers; this figure includes 139 billion lire in respect of the sale of a portfolio comprising more than 1,400 mortgages with a total face value (including default interest accrued through 12.31.97) of 420 billion lire, and a carrying value of 329 billion lire; the consideration was 190 billion lire;
- 339 billion lire to recognize losses against the carrying value of loans affected by bankruptcy proceedings (both where started in the year or where the terms of arrangements under earlier cases had deteriorated);
- 1 billion lire provided to the reserve for guarantees and commitments to cover the relevant estimated exposure;
- 38 billion lire in reinstatements representing the excess of recoveries of principal amounts over the corresponding carrying values;
- 90 billion lire in reinstatements following collection of amounts written off in previous years following scaling down in bankruptcy cases;
- 96 billion lire in writebacks following collection of default interest eliminated in earlier years as irrecoverable;
- 92 billion lire in provisions for risks and charges, including 83 billion lire relating to claims by the liquidators of bankrupt companies, exposure under guarantees granted on sales of equity interests, possible claims by the Interbank Deposit Guarantee Fund, and similar pending matters; the remaining 9 billion lire refers to employee long-service bonuses.

*Adjustments to financial fixed  
assets*

Writedowns of equity investments amounted to 317 billion lire, mainly affecting the interest in the debt-recovery company Sanpaolo Immobiliare SpA, and those acquired by virtue of debt rescheduling schemes for real estate groups in financial difficulties.

Permanent losses in value amounting to 14 billion lire on holdings based in countries at risk emerged from the valuation of investment securities. On the other hand, unrealized gains disregarded for accounting purposes exceeded 58 billion lire, net of possible losses on the related hedging arrangements.

Reinstatements, amounting to 5 billion lire, referred to equity investments in cases justified by agreed selling prices, or where improved performance nullified the reasons for earlier writedowns.

Similar adjustments to previously written-down investment securities amounted to 2 billion lire, and arose on securities acquired on conversion of loans subject to country risk, in cases where the risk rating published by the Bank of Italy had improved.

### *Extraordinary items*

The net effect of extraordinary items was a benefit of 442 billion lire, partly resulting from changes to the Bank's accounting policies. The total is analyzed below:

- 153 billion lire in gains on divestment of equity interests, relating to Crediop (131 billion lire), BNC Assicurazioni (15 billion lire), Locat (8.4 billion lire), Istituto Centrale Banche Banchieri (7.6 billion lire); offset by a loss in the case of Banco Sanpaolo in Spain (21 billion lire, net of exchange effects);
- a 62 billion lire benefit from translating the Bank's investment in its foreign branches at current rates of exchange, after deducting an exchange loss of 31 billion lire relating to Banco Sanpaolo in Spain;
- 74 billion lire in contributions to the Interbank Deposit Guarantee Fund in connection with Sicilcassa and Credito Commerciale Tirreno;
- a 286 billion lire benefit relating to prepaid taxes;
- 15 billion lire in other extraordinary income (net).

### **Net income**



t 53 billion lire, net income for 1997 was 89.7% lower than in the previous year.

	1997 (L/bln)	1996 (L/bln)	Change (%)
Income before taxes	253	777	-67.4
Income taxes	100	260	-61.5
Substitute tax on merger differences	100	-	n.s.
Net income for the year	53	517	-89.7

### *Income taxes*

The basis of the year's income tax charges is discussed below:

- Taxation of 286 billion lire was deferred following application of the relevant international accounting standard; this adjustment also reflects the

materiality of the item, and is restricted to deferrals based on timing differences originating in the year under review.

- The Bank has opted for the basis under Art. 9 of Decree 358/97 enabling tax relief to be obtained for merger differences brought forward from the previous year, through the mechanism of substitute tax (at 27%). The differences in question are those included, at 370 billion lire, among intangible fixed assets, and arose from the Banca Provinciale Lombarda, Banco Lariano and Crediop mergers. Apart from reducing current taxation by around 38 billion lire (related to the allowability of the year's amortization), the substitute tax charge of approximately 100 billion lire also generates a benefit of 163 billion lire in terms of the allowability of the amortization charges relating to the merger differences mentioned.

Current income taxes amount to 100 billion lire. Factors taken into account in determining this provision include the allowability of the provision to the reserve created under Art.7.3 of the Amato Law , and irrelevance for the present purposes of prepaid taxes credited as income.

The effective tax rate amounted to 39.7%; disregarding the Amato Law provision, the effective rate was around 50%.

As in 1996, the tax charge to the statement of income does not include capital tax, estimated for 1997 at around 82 billion lire; as permitted by the relevant legislation and authorized by the shareholders' in Extraordinary Meeting on April 30, 1996, this tax will be charged against the reserve created under Art. 7.3 of Law 218/90.

Substitute equalization tax under Decree 467/97 on certain reserves amounted to 14 billion lire, and has been charged to the Amato Law reserve in accordance with a resolution of the shareholders' extraordinary meeting.



*Provision under the  
Amato Law*

For tax reasons, a provision equal to the year's net income of 53 billion lire has been made to the special reserve created under art. 7.3 of the Amato Law (Law 218/90). The provision relates to the last allowance of relief relating to the Banca Provinciale Lombarda and Banco Lariano mergers; under the relevant legislation, the Bank will be permitted to make further provisions of this type, relating to the Crediop and BNC mergers and amounting to 172 billion lire, over the next two years.

After the Amato Law provision, the statement of income thus reports a break-even result.

# Deposits

## Deposit business

The level of customer deposits grew by around 30,000 billion lire in 1997, including 23,000 in relation to managed savings alone and passing 287,000 billion lire in total. At 11.6%, the overall growth was significantly faster than in 1996 (6.7%). The increase was largely confined to the various forms of indirect deposits (securities lodged with the Bank); in total, these grew by 23.6% (1996: 17.2%), while the corresponding aggregate of direct deposits was little changed: a reduction of 0.7% compared with a decline during 1996 of 2.1%.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Direct customer deposits	126,719	44.1	127,646	49.6	-0.7
• customer deposits	73,977	25.8	66,935	26.0	+10.5
• securities issued	49,534	17.2	57,533	22.4	-13.9
• subordinated liabilities	3,208	1.1	3,178	1.2	+0.9
Indirect customer deposits	160,401	55.9	129,734	50.4	+23.6
• asset management	53,947	18.8	30,735	11.9	+75.5
• asset administration	106,454	37.1	98,999	38.5	+7.5
Financial assets of customers	287,120	100.0	257,380	100.0	+11.6

The proportion of total customer assets represented by those entrusted to the Bank's management and administration services easily exceeded that represented by direct deposits, rising during the year from 50.4% to 55.9%. In the case of asset management, the increase was from 11.9% to 18.8%.

The movement in the average total for deposits also confirms the rising trend (albeit at a slightly lower rate of growth), as does that for the indirect component. In the case of direct deposits, in contrast to the result of the year-end comparison, the average basis indicates another rising trend, which accelerated during the second half of the year.

## Market positioning

The Bank's share of the customer deposits market grew overall from 7.7% to 7.8%. As between the two primary sectors, the share of indirect business rose appreciably, to 8.5%, more than offsetting a reduction to 7.1% in that of direct deposits (affected by a downturn in bonds).

	12/31/97	12/31/96	Change (%)
Market share: direct deposits	7.1%	7.4%	-0.3
Market share: indirect deposits	8.5%	8.0%	+0.5
Market share: financial assets of customers	7.8%	7.7%	+0.1

## Direct deposits

At 126,719 billion lire, the level of direct deposits was slightly below that at the end of 1996 (127,646 billion lire). The decline was concentrated in the domestic branches (a downturn of 1,700 billion lire); deposits at the Bank's foreign branches were up by around 800 billion lire.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Deposits with Italian branches	104,206	82.2	105,942	83.0	-1.6
• current accounts and savings deposits	44,593	35.2	41,170	32.3	+8.3
• certificates of deposit	21,283	16.8	26,830	21.0	-20.7
short term	7,428	5.9	3,631	2.8	+104.6
medium/long term	13,855	10.9	23,199	18.2	-40.3
• bonds	24,079	19.0	26,395	20.7	-8.8
• subordinated liabilities	1,000	0.8	1,000	0.8	-
• repurchase agreements	12,481	9.8	9,500	7.4	+31.4
• other	770	0.6	1,047	0.8	-26.5
Deposits with foreign branches	22,513	17.8	21,704	17.0	+3.7
• current accounts and savings deposits	12,798	10.1	11,212	8.8	+14.1
• certificates of deposit	3,623	2.9	3,494	2.7	+3.7
• subordinated liabilities	2,208	1.7	2,178	1.7	+1.4
• repurchase agreements	3,623	2.9	4,573	3.6	-20.8
• other	261	0.2	247	0.2	+5.7
Direct customer deposits	126,719	100.0	127,646	100.0	-0.7

**Deposits with Italian branches** As of the year-end, deposits at the domestic branches stood at 104,206 billion lire, 1.6% lower than a year earlier. The short-term component rose by a substantial 19%, while the decrease in medium/long-term deposits amounted to 23%. As a proportion of the total, the rise in the former category was from 51% to 62%.

A sharp increase in demand deposits was the clearest sign of a renewed preference among customers for liquidity. The combined balances on current and savings-deposit accounts increased by over 3,400 billion lire, or 8.3%, during the year. The substantial inflow of liquid funds to the banking system has raised the real-terms level of cash in private hands, as well as causing an average rise in the M2 (again in real terms) of 7%. A number of factors contributed to this trend.

One of the primary causes was the drastic reduction in issues of treasury bills (BOTs), combined with a particularly aggressive policy on rates. In a climate of continuing uncertainty, the Treasury's attitude prompted many savers (mostly the less sophisticated) to turn to short-term banking products. This tendency was exaggerated by a pattern of rates which, by the end of the year, included yields on short-term instruments at or above those in the over five years sector.

Among other factors was an acceleration of the trend among personal savers towards greater diversification of investment. Effects included the

accumulation of both temporary and longer-term liquidity, in the former case to facilitate flexibility in changing market conditions, and in the latter to counterbalance forms of investment at the other extreme (insurance, mutual funds, asset management).

This trend was also encouraged by a narrowing of the differentials between the respective yields of the money market and government securities, reducing the opportunity cost of large current account balances and bank deposits. The average gap compared with 3-month treasury bills declined from 3.5 points in 1996 (having stood at over 4 points at the start of that year) to 3 points in 1997.

Repurchase agreements were also popular, especially around mid-year, as a temporary home for surplus cash. The trend in interest rates was a major factor, these rising sharply on short-term business. The increase in deposit funds related to this mechanism amounted to 31.4%.

Deposits in the form of Certificates of Deposit (CDs) maturing in less than 18 months were boosted by non-renewal of medium and long-dated CDs amounting to in excess of 9,300 billion lire. The latter situation resulted from the change in the tax treatment of such instruments introduced in the summer of 96, which more than doubled the rate (from 12.5% to the now standard 27% on new issues). The associated rise of 3,800 billion lire in short-dated CDs doubled the level of these, increasing their proportion of total direct deposits at the domestic branches from 3% to 7%. The corresponding decline in longer-dated certificates was from 22% to 13%, a trend expected to continue during 1998.

Deposits in the form of bonds decreased by over 2,300 billion lire, or 8.8%, in contrast to a rising trend across the banking system as a whole mainly reflecting the need to offer effective alternative investments to holders of maturing medium/long-dated CDs. Such considerations did not apply in San Paolo's case for two basic reasons, namely the success in this context of both short-term CDs and managed-savings products, and the need to match maturities with those of the lending business. The relevant features of the latter were a marked reduction in medium/long-term loans, compounded by exceptional early repayment of certain industrial financing facilities.

*Deposits with foreign branches* The level of customer deposits at the Bank's foreign branches had passed 22,500 billion lire by the end of the year, continuing the upward trend apparent in 1996, although at a less marked rate of increase (3.7%). Factors contributing to the rise included the strength of the dollar and pound sterling against the lira, and an upturn (apparent across most branches) in short-term business. The latter rise was substantial in the case of the New York office, and counterbalanced a downturn at the London branch. A declining trend was

apparent in deposits related to repurchase agreements (which fluctuated widely during the year) and in medium/long-term securities.

*Analysis by currency,  
maturity, rate and residence*

An analysis by currency reveals a slight rise in non-lira deposits, which accounted for 15.2% of the total as of the year-end.

In terms of maturity, the bias towards on-demand and other short-term forms continued, reflected in rising levels of deposit accounts, funds linked to repurchase agreements and CDs maturing at less than 18 months. As a percentage of the total, deposits in the over 12-months category were down by 6 points; the fixed-interest component proved the more resilient, in conditions of falling rates.

The proportion of total deposits held by the residents of other EU countries edged upwards, while those of Italian residents eased to 84.3%.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Deposits in lire	107,421	84.8	109,010	85.4	-1.5
Deposits in foreign currency	19,298	15.2	18,636	14.6	+3.6
Demand deposits	49,472	39.0	47,329	37.1	+4.5
Due within 12 months	47,459	37.5	42,701	33.4	+11.1
Due beyond 12 months	29,788	23.5	37,616	29.5	-20.8
• fixed rate	16,147	12.7	20,503	16.1	-21.2
• floating rate	13,641	10.8	17,113	13.4	-20.3
Deposits from residents in Italy	106,763	84.3	108,829	85.3	-1.9
Deposits from residents of other EU countries	10,006	7.9	9,438	7.4	+6.0
Deposits from residents of other countries	9,950	7.8	9,379	7.3	+6.1

**Managed and administered savings**

The indirect deposits category includes the various types of managed savings, as well as securities and similar instruments lodged by customers for administration.

The level of indirect deposits grew by over 30,500 billion lire or 23.6% during 1997, passing 160,000 billion lire.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Managed savings	53,947	33.6	30,735	23.7	+75.5
• mutual investment funds	43,763	27.3	21,733	16.8	+101.4
including:					
fund-based asset management	1,891	1.2	-	-	n.s.
• asset management	7,524	4.7	7,672	5.9	-1.9
• insurance policies	2,660	1.6	1,330	1.0	+100.0
Asset administration	106,454	66.4	98,999	76.3	+7.5
• Government securities	43,488	27.1	50,724	39.1	-14.3
• other financial assets	62,966	39.3	48,275	37.2	+30.4
Indirect customer deposits	160,401	100.0	129,734	100.0	+23.6

While 1996 was the turning point for asset management, in 1997 San Paolo demonstrated a notable ability to grasp the opportunities presented by the system and increased its lead in asset management.

Savers seeking diversification and maximum containment of risk increasingly turned to professional management services, as the globalization of markets accentuated knock-on effects between financial markets and yields on traditional forms of investment declined. The Bank benefited from this tendency, by virtue of effective promotion and selling activity across the branch network, combined with constant updating of the product range and close attention to operating policy.

Results of this strategy included 11 new fund issues, including three ethical funds involving the donation of part of the returns for charitable purposes, along lines which have become firmly established in the UK, US and other markets. The various types of asset management service were revisited, while other innovations included fund-based management and index-linked life insurance. Measures to protect customers' levels of return involved guaranteeing generally above-average yields, even in the most volatile markets; examples include the *Pacific* and *Emerging Countries* funds.

The results were most gratifying, and exceeded expectations. Assets entrusted to the Bank's asset management services approached 54,000 billion lire by the year-end, having leaped by 75% since the end of 1996.

#### *Mutual investment funds*

The Bank's mutual funds had a particularly successful year. Net inflows from subscribers exceeded 20,000 billion lire, increasing total fund assets to around 44,000 billion lire (including about 2,000 billion lire handled by the fund-based asset management services). As a proportion of the total, the assets of equities-based funds doubled, from 7% to 13.5%; given that placings of shares in these funds represented 17.5% of the year's gross inflows, this trend is apparently set to continue.

#### *Asset management*

Securities handled by San Paolo's asset management services amounted to 7,500 billion lire at the end of 1997, including over 3,000 billion lire at Sanpaolo Asset Management SIM. The slight reduction from the total a year earlier reflected product changes which increased the size of the average customer portfolio, to around 1 billion lire. One effect was diversion of smaller-account business to fund-based management, which has a lower entry threshold.

#### *Life insurance*

1997 was an excellent year for the Bank's life insurance business. Premium revenues of around 1,200 billion lire, combined with effective enhancement of the portfolio, resulted in doubling customer funds absorbed by this form of investment. Plans for further development of banking-channel insurance

business during 1998 adopt a two-part strategy: life operations will be expanded by exploiting Sanpaolo Vita's experience and capacity for distribution via the network, while a new company (Egida) will market new loss-sector policies in the personal accident, asset cover and wealth-protection segments. Sanpaolo Vita is now a wholly-owned subsidiary of the Bank and ranks in second place among Italy's banking-channel insurance operators; Egida is to be owned in equal shares with Reale Mutua Assicurazioni.

#### *Administered savings*

The savings-administration activity enjoyed a moderate expansion during the year, despite losing some business to the asset management segment. Factors contributing to the improvement included a healthy performance in equities and foreign securities in terms of both volumes and price-rises. Investments of these types - the most popular among customers - rose respectively by around 8,000 and 4,000 billion lire. Clearly, this business area represents a substantial pool of customer wealth with potential for redirection to the Bank's active management services. The two key objectives in this connection will be those of offering personal customers a higher added-value service, and directing savings towards forms which are more remunerative for the Bank.

#### *Pension funds*

The regulatory framework which will govern the provision of supplementary pensions neared completion in 1997, offering the prospect of an early start-up date for the new pension funds. The first contributions could begin to flow during the second half of this year (allowing for the time needed to organize, finalize procedures and complete the final stages of the official approval process).

Supplementary pensions will be based on both open-ended funds set up by insurance and other finance-sector operators, and on contractual schemes established by individual companies and trade associations, and at national level or otherwise.

Historically, margins have been slim for the pension-fund management bodies, reflecting the long-term, low-risk nature of the investment portfolio and the scant room for flexibility under the relevant legislation, combined with the effects of intense competition.

Against this background, Sanpaolo will be aiming for profitability, based on expansion in direct partnership with the more substantial pensions institutions, by offering these the more profitable types of service associated with the newly-established funds.

The open-ended funds include Sanpaolo Previdenza, set up by Sanpaolo Fondi mainly to address the needs of the self-employed, but designed also to

accommodate groups of employees. The objectives are to secure a substantial level of fund assets, enhance the loyalty of the Bank's existing customer base, and promote business expansion in the retail-banking sector.

San Paolo's strategy for the contractual funds segment is to position the Group as a highly-skilled provider of all the relevant services. Its resources already include the people and professional skills needed to develop the business in question, in the fields of asset management, trustee-bank services, insurance services, payment services, and management and control procedures.



# Lending

## Lending business

Loans to customers after writedowns stood at 99,502 billion lire at the end of 1997, 0.3% above the level a year earlier.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Loans by Italian branches	82,594	83.0	88,046	88.8	-6.2
• ordinary loans	42,416	42.6	41,404	41.8	+2.4
• current accounts	20,880	21.0	21,887	22.1	-4.6
• portfolio transactions	4,743	4.8	4,309	4.3	+10.1
• import - export loans	4,988	5.0	3,839	3.9	+29.9
• other ordinary loans	11,805	11.8	11,369	11.5	+3.8
• mortgages and other industrial loans	8,945	9.0	11,078	11.2	-19.2
• mortgages and other construction loans	23,887	24.0	25,432	25.6	-6.1
• mortgages and other agricultural loans	1,588	1.6	1,781	1.8	-10.8
• repurchase agreements	1,365	1.4	4,739	4.8	-71.2
• non-performing loans	4,393	4.4	3,612	3.6	+21.6
Loans by foreign branches	16,908	17.0	11,131	11.2	+51.9
• ordinary loans	9,966	10.0	7,261	7.3	+37.3
• repurchase agreements	6,936	7.0	3,862	3.9	+79.6
• non-performing loans	6	-	8	-	-25.0
Loans to customers	99,502	100.0	99,177	100.0	+0.3

Mixed performances as between the various customer segments and types of loan marked the year's lending activity. The foreign branches enjoyed an influx of international - specifically European - business, while the domestic network sought to optimize operations by limiting large-borrower exposures while increasing their grassroots commitment to the home territory in the retail-banking sector.

The principal guidelines observed during the year are summarized below:

- completion of the process of integrating, evaluating and rationalizing the lending portfolios acquired through the recent mergers, notably that of the former Crediop - *Credito per le Imprese e le Opere Pubbliche*, absorbed by the Bank in 1995;
- restructuring aimed at a gradual reduction in large-customer exposures while improving margins;
- an expanded presence in both the retail-banking sector - through promotion of personal loans (especially mortgages) - and in business with small and medium-sized enterprises (SMEs), through increased activity in industrial loans and financing of working capital.

The combined effects of these measures included a 6.2% reduction in lending by the domestic branches, as repurchase-agreement business and medium/long-term loans declined by 71.2% and 10.1% respectively; ordinary lending grew by 2.4%.

### *Ordinary lending*

A rising trend in ordinary lending emerged during the second half of 1997, reflected in a year-on-year growth rate of 2.4% - compared with a 2.3% rate of decline during the 12 months ended June 30. Levels in the first half were affected by a policy designed to maintain margins at the industry average, involving reduced levels in the segment of borrowers large enough to influence the terms of business.

The upturn coincided with clearer signs of revival by the economy, both nationally and in the Bank's principal territory, the north-west of Italy.

Lending policy promoted an expansion in self-liquidating types of financing, by 10.1% and 29.9% respectively in the cases of discounting operations and financing of foreign trade.

The private-company segment set the pace, with lending up 7%; the proportion of total short-term advances absorbed by customers in this category rose from 57.6% to 60.5%. Consumer credit business grew by a notable 4%, reflecting upturns in convention-regulated accounts and personal loans; the segment is still of modest size however, representing some 4.5% of ordinary lending.

Lending to government-backed finance companies (national, regional and local) declined by 11.6% from the level at the start of the year. The key factors were a policy of reducing exposure in this segment, combined with the transfer of loans to the new Crediop in its financing role in relation to public-sector bodies. Lending to family business was also down, by 2.7%, although the reduction was confined to the first semester.

### *Industrial lending*

Overall, industrial lending declined by 19.2% from the end of 1996 level, affected by substantial early settlements by certain corporate-segment customers during the first semester. The effect of these repayments on San Paolo's market shares was significant.

By contrast, grassroots lending activity via the branch network, based on products targeting small and medium-sized enterprises (SMEs), continued to expand rapidly. Outflows in this category, via over 5,000 transactions, exceeded 1,600 billion lire.

A wide variety of facilities were granted in the ordinary lending segment (the *Linea Imprese* product range) and in that represented by loans at subsidized interest or using third-party funds. In this connection, substantial facilities were granted under the Sabatini Law as well as those using EIB (European Investment Bank) funding, amounting respectively to 230 and 150 billion lire.

San Paolo also consolidated its services on behalf of the authorities, following inclusion of the Bank during 1996 on the Ministry's list of institutions authorized to screen applications for assisted finance under Law 488/92. Around 800 investment projects were reviewed by San Paolo in this connection during 1997, representing commission income of some 7 billion lire. In the last quarter, the Bank also won a tendering round organized by the Treasury Ministry relating to investigation on behalf of the Administration of proposals (*Patti Territoriali* and *Contratti d'area*) under Law 662/96 and the Pricing Directive of 3/21/97.

### *Mortgage lending*

Volumes in this segment were affected by the crisis of some years standing in the construction sector. The persistence of the latter situation reflected various adverse influences including high property taxes, undefined delays in the granting of concessions and relatively poor returns on investment in real estate.

At around 3,000 billion lire, lending outflows were comparable with those in 1996. The personal mortgage element again grew however, by 14% in the case of the *Domus* product.

Company mortgage business remained biased towards projects with a lower level of business risk, including those involving smaller, readily marketable premises; examples include old-town conversions and refurbishing works on easily salable residential premises. Such activities are expected to spearhead the long-awaited revival in the sector. The Bank's lending volume to finance large-scale building projects was less than significant.

The decline of 6.1% in the overall segment lending level was largely due to a steady flow of early settlements by borrowers, in conditions of falling interest rates (dating back two years); this trend is expected to accelerate during 1998.

### *Agricultural loans*

The 10.8% decline in the level of the Bank's lending to the farming industry is consistent with a trend throughout the banking system, affected by the ongoing radical restructuring of the agricultural sector. A central office with overall responsibility for medium/long-term lending was established at the end of the year, to facilitate rapid adaptation to the changing needs of sector operators combined with more effective support for the distribution network.

### *Lending to fund public works*

Lending activity in the public works segment was again conducted in accordance with the Bank's collaboration agreement with Crediop.

Business secured on behalf of Crediop amounted to 1,440 billion lire. In the face of intense competition, substantial increases were recorded in both

loans arranged with public bodies and service agreements. The latter primarily related to the issue of bonds (BOCs and BOPs), financial advice to local agencies, and re-negotiation of existing loans (in some cases on behalf of medium/small agencies).

### *Market positioning*

By virtue of the trends discussed above, the domestic branch network's share of the market in lending to residents declined during 1997 from 7.2% to 6.6%. The downturn was largely restricted to the first semester and to medium/long-term business (down from 7.5% to 6.5%). The reduction in short-term lending was less marked (San Paolo end-1997 share: 6.7%).

	12/31/97	12/31/96	Change (%)
Market shares: Short-term lending	6.7%	7.0%	-0.3
Market shares: Medium/long-term lending	6.5%	7.5%	-1.0
Total lending	6.6%	7.2%	-0.6

### *Lending by foreign branches*

A surge towards the end of the year increased the combined lending levels at the foreign branches by 51.9% to 16,908 billion lire. On a comparison of average levels, the increase over 1996 was a more modest 8.8%.

The rise was to a certain extent on paper in that it reflected depreciation of the lira against the dollar and pound sterling; it involved both traditional lending business and that linked to repurchase agreements.

The London and New York branches were especially busy towards the end of the year, with growing volumes in both securities purchasing for treasury purposes and repurchase-agreement lending transactions with finance companies. Development of this latter market reflects its attractions in terms of modest credit risk combined with returns broadly in line with those on cash lending to primary counterparties.

Ordinary loans were 37.3% up, although performance varied considerably as between business with residents in Italy and those elsewhere.

There was little change in the level of lending to Italian customers and the foreign branches of Italian groups, following the significant downturn during the second half of 1996.

By contrast, lending to non-Italian corporate borrowers - mainly short-term facilities provided to large international enterprises - climbed by 39.5%. Leading European names figured prominently in the business conducted by the branches in continental Europe, which included participation in syndicated lending operations. Penetration of this segment represents an early stage in the increasing Europeanization of the customer base, a tendency which will be more actively encouraged during 1998, in the run-up to EMU.

*Analysis by currency, maturity, rate, residence and security*

The appreciable (20.6%) increase in foreign-currency lending was attributable entirely to the foreign branches; such lending to residents by the domestic branches declined by 7%.

Convergence of Italian interest rates with those elsewhere in the EU was brought closer as the lira stabilized against its neighbour currencies and Italy's prospects for participation in the single currency from Day One improved. This trend, which somewhat undermined the benefits of foreign borrowings, is expected to accelerate during 1998, in step with the various stages of the Euro's introduction.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Loans in lire	77,215	77.6	80,699	81.4	-4.3
Loans in foreign currency	22,287	22.4	18,478	18.6	+20.6
Loans repayable on demand	24,404	24.5	26,947	27.2	-9.4
Due within 12 months	37,485	37.7	31,503	31.8	+19.0
Due beyond 12 months	32,124	32.3	35,777	36.0	-10.2
• fixed rate	13,611	13.7	14,030	14.1	-3.0
• floating rate	18,513	18.6	21,747	21.9	-14.9
Unspecified maturity	5,489	5.5	4,950	5.0	+10.9
Loans to residents of Italy	81,992	82.4	85,372	86.1	-4.0
• Northern Italy	58,467	48.7	58,193	58.7	+0.5
• Central Italy	12,719	12.8	16,174	16.3	-21.4
• Southern Italy and Islands	10,806	10.9	11,005	11.1	-1.8
Loans to residents of other EU countries	9,572	9.7	9,584	9.7	-0.1
Loans to residents of other countries	7,938	7.9	4,221	4.2	+88.1
Loans secured by mortgages	27,593	27.8	28,531	28.8	-3.3
Loans secured by pledges and personal guarantees	18,058	18.1	22,106	22.3	-18.3
Unsecured loans	53,851	54.1	48,540	48.9	+10.9

Disproportionate reductions in the levels of industrial and construction mortgage-based loans was associated with a bias towards terms of less than 12 months. The incidence of advances in this category (including those repayable on demand) increased from 59.0% to 62.2%. The decline in lending for longer periods was confined to index-linked facilities, down as a proportion of the total from 21.9% to 18.6%; the corresponding percentage of fixed-rate loans at the year-end was 13.7%.

Apart from the rate of repayment of loans secured against land, the reduction in mortgage lending also reflected without-recourse disposal of non-performing accounts in this category (as mentioned earlier). In the case of lending secured by pledge or backed by personal guarantee, the downturn was attributable to the introduction during 1996 of withholding tax on income from personal assets securing loans to businesses.

Of note in connection with the geographic distribution of lending are: a modest rise in loans to residents of northern Italy; a sharp decline in the case

of the central regions, directly attributable to repayment of corporate-sector loans inherited from the old Crediop (and consequently Rome-based) as mentioned earlier; and an easing in the level relating to customers resident in the south and the islands.

The effectiveness of the Bank's foreign branches is evidenced by an appreciable rise in the incidence of loans to non-residents, from 13.9% of the total to 17.6%.

#### *Loans by customer sector*

Within the category of lending to residents of Italy, the level of loans to energy-sector customers increased by 7.6%; significant reductions occurred in the cases of construction (6.5%) and commercial services (5.4%). Also down, by 2.9%, were loans to finance-sector companies.

	12/31/97		12/31/96		Change
	Amount (L/bln)	%	Amount (L/bln)	%	(%)
Non-financial and family businesses	58,651	58.9	57,971	58.4	+1.2
• residents in Italy	52,306	52.6	52,985	53.4	-1.3
• construction and public works	8,859	8.9	9,473	9.5	-6.5
• other services for sale	8,274	8.3	8,745	8.8	-5.4
• commerce, salvage and repairs	7,825	7.9	7,908	8.0	-1.0
• energy products	2,554	2.6	2,373	2.4	+7.6
• textile, leather and footwear, clothing	2,545	2.5	2,546	2.6	-
• other	22,249	22.4	21,940	22.1	+1.4
• residents of other countries	6,345	6.3	4,986	5.0	+27.3
Governments	1,862	1.9	1,705	1.7	+9.2
Other public agencies	785	0.8	885	0.9	-11.3
Financial institutions	20,193	20.3	20,787	21.0	-2.9
Other operators	18,011	18.1	17,829	18.0	+1.0
Loans to customers	99,502	100.0	99,177	100.0	+0.3

#### **Analysis of the loan portfolio**

Turning to the evolving risk profile of the loans portfolio, the rise in non-performing loans during 1997 was largely confined to a construction sector still under the shadow of the long-running crisis in the property market. As mentioned earlier, the Bank has severely tightened its criteria for the classification as non-performing of lending in this and other sectors requiring closer monitoring and higher levels of hedging.

#### *Net loans*

Total non-performing loans at the end of 1997 exceeded the level a year earlier by 21.5%, following a net increase - almost entirely attributable to the construction-lending sector - of around 780 billion lire. In the case of industrial lending, the increase primarily results from reinstating the carrying value of loans previously written down, in the hands of a Group in receivership; following definition of the terms for repayment, the reasons prompting the writedowns in question no longer apply. Non-performing loans after writedowns were little changed in the ordinary and agricultural lending sectors.

Problem loans declined in total by over 470 billion lire, or 12.2%.

The ratio of non-performing and problem loans to total customer lending after writedowns edged up during the year, from 7.6% to 7.9%.

The corresponding rise in the ratio of non-performing loans alone was from 3.7% to 4.4%.

	12/31/97		12/31/96		Change (%)
	Net amount (L/bln)	%	Net amount (L/bln)	%	
Non-performing loans	4,399	4.4	3,620	3.7	+21.5
• lending by Italian branches	4,393	4.4	3,612	3.7	+21.6
• ordinary loans	1,273	1.3	1,230	1.3	+3.4
• mortgages and other industrial loans	390	0.4	262	0.3	+50.6
• mortgages and other construction loans	2,496	2.5	1,887	1.9	+32.1
• mortgages and other agricultural loans	234	0.2	233	0.2	+0.4
• lending by foreign branches	6	-	8	-	-25.0
Problem loans	3,405	3.5	3,878	3.9	-12.2
Loans to countries at risk - customers	343	0.3	144	0.1	+138.2
Loans performing normally	91,355	91.8	91,535	92.3	-0.2
Total loans to customers	99,502	100.0	99,177	100.0	+0.3
Loans to countries at risk - bank	380		183		+107.6

#### *Performance of loans before adjustments*

A reading of the gross exposures highlights the rigorous provisioning policy adopted by the Bank. The year's movements in gross lending are detailed in the explanatory notes, together with the related writedowns; overall, downward adjustments amounted to 38.9% and 20.3% against non-performing and problem loans respectively (1996: 37.6% and 20.2%). The high level coverage is emphasized by the fact that the gross figures quoted already discount reductions arising from the scaling down of claims in bankruptcy proceedings. Recalculation based on the original gross values, and including the reductions mentioned with the other adjustments, gives a coverage ratio of around 56% for non-performing loans and about 27% for problem loans.

	12/31/97			12/31/96		
	Gross amount (L/bln)	Total writedowns (L/bln)	Net book value (L/bln)	Gross amount (L/bln)	Total writedowns (L/bln)	Net book value (L/bln)
Non-performing loans	7,198	2,799	4,399	5,803	2,183	3,620
• lending by Italian branches	7,169	2,776	4,393	5,775	2,163	3,612
• ordinary loans	2,866	1,593	1,273	2,552	1,322	1,230
• mortgages and other industrial loans	706	316	390	494	232	262
• mortgages and other construction loans	3,244	748	2,496	2,390	503	1,887
• mortgages and other agricultural loans	353	119	234	339	106	233
• lending by foreign branches	29	23	6	28	20	8
Problem loans	4,273	868	3,405	4,860	982	3,878
Loans to countries at risk - customers	421	78	343	201	57	144
Loans performing normally	91,685	330	91,355	91,823	288	91,535
Total loans to customers	103,577	4,075	99,502	102,687	3,510	99,177
Loans to countries at risk - banks	455	75	380	298	115	183

### *Non-performing loans*

An upturn of 35.7% in the mortgages and other construction loans segment was primarily responsible for the 24% overall rise in gross non-performing loans (defined as those in the hands of debtors who are insolvent or in a similar situation).

Measures to improve lending quality in the segment mentioned included the sale of 1,400 accounts, with a total face value of 420 billion lire (including default interest accrued through the end of 1997) and appearing in the balance sheet at 329 billion lire. The consideration for the transfer, on a without-recourse basis (to the Morgan Stanley Group), was 190 billion lire. The loss of 139 billion lire basically equates to the purchaser's collection costs and the interest factor implied by the likely timescale for recovery.

### *Problem loans*

The 12.1% reduction in problem loans resulted from a combination of reclassifications to the non-performing category following application of stricter criteria, and re-inclusion among normally performing loans where the customer concerned had recovered from financial difficulty.

### *Rescheduled loans*

The Bank of Italy rules define rescheduled loans as those resulting from debt-consolidation schemes or re-negotiated at interest below market rates.

For management purposes, San Paolo also prudently includes in this category loans restructured under similar schemes outside the relevant banking conventions. The year-end total on this basis amounted to 1,595 billion lire.

The balance-sheet treatment of such loans is strictly based on the facts of the case with reference to the various risk-based classifications (the majority are included among problem loans, while the non-performing or normally-performing categories apply in some cases). Their appraisal thus takes place within the category to which they are assigned. Writedowns in these cases include an estimate of future interest cost, calculated on a basis using the cost of capital.

### *Loans to parties in countries at risk*

Gross lending to customers and banks subject to country risk under the relevant Bank of Italy instructions was 75% higher than at the end of 1996. The principal factors contributing to the rise were increased export-import financing business with companies resident in Brazil, and reclassification to this category of loans to residents of countries in South East Asia affected by the region's recent financial crisis.

The Bank has included Thailand and Malaysia in this category, in addition to the list published by the Bank of Italy (South Korea, Indonesia and the Philippines).



The relevant writedowns amounted to 153 billion lire, including 78 billion lire relating to customers and 75 billion lire to banks (the elements of these figures referring to borrowers in South East Asia were 28 billion lire and 4 billion lire respectively).

*Loans performing normally*

Adjustments to reflect the risks inherent in the portfolio of normally-performing loans amounted to 200 billion lire.

*Balance-sheet provisions and reserves*

Reserves to cover the possibility of adverse outcomes on legal cases, notably claims by the liquidators of bankrupt companies, were increased from 125 to 147 billion lire. Exposures covered by reserves for guarantees and commitments amounted to 32 billion lire.

The reserve for risks and charges was increased by 32 billion lire to cover possible costs arising from guarantees granted in connection with sales of equity investments, and from claims from the Interbank Deposit Guarantee Fund. A provision of 9 billion lire relating to staff long-service bonuses was also credited to this reserve.



## Financial market activity

### Securities, derivatives and treasury management

As in the previous year, conditions in the financial markets were positive during 1997. Italy's prospects for participating in EMU from the outset improved, as inflation declined and the deficit fell sharply. The equities and bond markets were quick to respond, with a generalized upward trend. Italy's 10-year benchmark yield declined during the year from 7.62% to around 5.60%.

The composition of the Bank's securities portfolio at the beginning of the year anticipated these market trends, with a bias to reflect the falling long-term yields implied by the expected upturn in bond prices (associated with improving economic fundamentals and convergence with rates elsewhere in Europe). Also taken into account was a likely decline in short-term yields, as monetary policy eased. Further restructuring from early 1998 onwards moved towards longer-term maturities and fixed-rate stocks.

In the event, extraneous influences caused strong pressures on long-term rates. Nervousness developed in the European bond markets, in a climate of uncertainty over the timing of EMU, compounded by an upturn in short-term rates in the USA. Between the end of January and the end of March, the price of treasury-bond (BTP) futures fell from 131 to 125 (recovering somewhat in April), while the 10-year benchmark rates rose by around 7.5 tenths of a point. The upturn on the bond market was clearly bad news for the Bank, given the recomposition of its portfolio as described above. It was decided that prompt de-risking action was needed, aimed at reducing average maturity (through replacement of longer-dated with shorter-term stocks). Later in the year, the persistently uncertain climate in the financial markets prompted action to insulate the portfolio from the effects of a further decline in prices.

In June however, three-month and long-term rates began to diverge. The yield on treasury-bond futures maintained the downward path it had recently begun, while short-term rates stabilized at levels well above expectations; the predicted appreciation of the securities portfolio was consequently delayed.

An effect of this combination of circumstances was a first-half result from financial transactions more than 55% down on the corresponding figure in 1996.

However, this comparatively adverse outcome needs to be seen in the light of the exceptional nature of the earlier year's performance. Moreover, it was not an isolated phenomenon: a large number of Italian banks saw similar

downturns, these averaging 49.1% (first half 1997 compared with the same period in '96) among the main groups, according to ABI figures.

A highly cautious approach was adopted during the second half, with a heavy emphasis on the risk-management aspects of taking advantage of such market opportunities as remained, to avoid further erosion of the results. The prudent character of the revised portfolio is evidenced by average duration of government stocks, which fluctuated between 0.30 and 0.60.

As of the end of the year, the portfolio stood at 34,003 billion lire, including 16,575 billion lire held in Italy; most of the balance was split between the London and New York branches, reflecting a policy of concentrating the Bank's holdings in the principal financial markets. The total was down on that at the start of the year by 8.8%.

	12/31/97 (L/bln)		12/31/96 (L/bln)		Change (%)
		%		%	
Investment securities	3,876	11.4	3,473	9.3	+11.6
Dealing securities	30,127	88.6	33,817	90.7	-10.9
Total securities	34,003	100.0	37,290	100.0	-8.8
Due to banks, net	5,262		2,626		+100.4
Derivatives and forward foreign-exchange contracts	620,634		597,840		+3.8

#### *Investment securities*

Holdings of investment securities rose by over 400 billion lire, following measures to cover rate-risk on the corresponding types of deposit business. Unrealized gains on stocks capitalized in the latter connection, whose maturities approximated those of the relevant deposit funds, amounted to around 56 billion lire.

#### *The dealing portfolio*

A reduction of more than 3,500 billion lire in the level of dealing securities basically resulted from diversion of liquidity to the short-term interbank market, in conditions which moved towards the short term (a downturn in interest rates, which accelerated during the second half).

Apart from shortening average maturity, restructuring of the portfolio was also affected by purchases of equities, mainly by the London branch, in connection with increased activity in futures and options, notably MIB 30 and ISOALFA options, as well as OTC derivatives including equity swaps, options and warrants.

Foreign stocks also figured to an increasing extent, reflecting San Paolo's growing activity in international markets, aimed at diversifying in terms of both issuer and currency; another objective is to acquire know-how, in an international context based on ratings - a situation which will be reproduced in Europe's post-integration market.

Securities linked to derivative agreements within complex financial portfolios gained further ground, a symptom of increasing integration between stocks and derivatives which seeks optimization of trading activities, while expanding the range of financial products available to the customer:

	12/31/97 (L/bln)	%	12/31/96 (L/bln)	%	Change (%)
Debt securities	32,593	95.9	36,282	97.3	-10.2
• Government securities	22,197	65.3	26,609	71.4	-16.6
• other securities	10,396	30.6	9,673	25.9	+7.5
Equities	1,410	4.1	1,008	2.7	+39.9
Securities denominated in lire	23,193	68.2	27,614	74.1	-16.0
Securities denominated in foreign currency	10,810	31.8	9,676	25.9	+11.7
Sight securities (including shares)	2,290	6.7	1,395	3.7	+64.2
Securities maturing within 12 months	8,655	25.5	9,366	25.1	-7.6
Securities maturing beyond 12 months	23,058	67.8	26,529	71.2	-13.1
• fixed rate	16,924	49.8	20,580	55.2	-17.8
• floating rate	6,134	18.0	5,949	16.0	+3.1
Quoted securities	27,105	79.7	29,580	79.3	-8.4
Unquoted securities	6,898	20.3	7,710	20.7	-10.5
Securities covered by derivative contracts	1,565	4.6	2,093	5.6	-25.2
Securities linked to derivative contracts included in complex financial portfolios	20,536	60.4	18,352	49.2	+11.9
Securities not linked to derivative contracts	11,902	35.0	16,845	45.2	-29.3

#### *Head Office and foreign branch operations*

In the course of its dealing operations on own and client account, the Bank maintained an active market presence, confirming its Specialist status. The primary activities were those concerned with stocks, and between stocks and derivatives.

The London branch continued in its supporting role in relation to the domestic and international network. It offered its national and international clientele a wide range of bond- and equities-based products, and carried out a study supporting the Bank's distribution activities. Other activities included dealings in corporate bonds and equity swaps, together with an important role in the design of structured financial instruments for the Bank's business and retail customers.

The combined securities portfolios of the New York and Nassau branches rose by 43% in lira terms, during the year.

#### *Interbank position*

The downward drift in interest rates move towards the very short term as regards investment of surplus liquidity. Head Office operations resulted in a substantial improvement in its interbank position, which became one of net lender to the extent of 13,852 billion lire by the end of the year (almost doubling the end-1996 level of 7,457 billion lire). By contrast, the net interbank borrowings of the foreign branches rose by 78%, from 4,831 billion

lire to 8,590 billion lire. At 5,262 billion lire, the overall net lending position was still almost a 100% improvement however. The corresponding share of the Interbank Deposits Market amounted to 5.10%.

### *Operations in derivatives*

San Paolo consolidated its position among the leading operators in derivatives. The Bank's span of activities extended to the management of risk deriving from the "other instruments" category, to hedging between products and markets, as well as own-portfolio dealings and market-making. These operations involved both derivatives and the underlying securities, and provided the customer with a range of alternative investments together with arbitrage and hedging mechanisms of considerably greater sophistication than the traditional product solutions.

As of the end of 1997, the aggregate face value of the securities represented by derivatives, plus forward foreign exchange contracts, amounted to some 621,000 billion lire; 28,000 billion lire related to quoted derivatives, 410,000 billion lire to OTC derivatives, and 183,000 billion lire to foreign exchange transactions. In terms of hedging versus dealing, cover for assets and liabilities affecting net interest income amounted to 206,000 billion lire. The remaining 415,000 billion lire is the aggregate value of derivatives built into the complex financial portfolio deployed in dealing/arbitrage operations, as well as in straightforward trading (within clearly-defined risk limits, in the latter case).

The Bank's year-end shares of the Italian Futures Market (MIF) and Telematic Options Market (MTO) stood at 4.32% and 12.15% respectively. Including those of the London branch, dealings in treasury-bond (BTP) futures and the related options represented market shares of 7% and 10% respectively.

The London branch also became a high-profile operator in certain segments of the equities market. It secured a position among the leading accredited intermediaries in equities-based derivatives, as Market Maker for MIB 30 options. A strengthened IDEM presence was reflected in a market share exceeding 5%, while the corresponding percentage as regards ISOALFA approached 8%.

The Intersim subsidiary had a particularly active year in terms of dealings in derivatives. Its FIB 30 and MIB 30 transactions amounted to 23,760 and 4,070 billion lire respectively at face value; the corresponding figures in the previous year were 16,800 and 2,300 billion lire.

	12/31/97 (L/bln)	%	12/31/96 (L/bln)	%	Change (%)
Dealing derivatives	387,796	88.5	415,372	91.9	-6.6
• quoted	23,397	5.3	108,918	24.1	-78.5
• unquoted	364,399	83.2	306,454	67.8	+18.9
Hedging derivatives	50,331	11.5	36,673	8.1	+37.2
• quoted	4,405	1.0	6,798	1.5	-35.2
• unquoted	45,926	10.5	29,875	6.6	+53.7
Forward forex transactions	182,507		145,795		+25.2

### *Dealings in foreign exchange*

Relative stability among the 'Euro area' currencies depressed the Bank's foreign exchange dealing volumes in both the spot and derivatives sectors. Derivatives played an increasing role in insulating spot portfolios from abrupt fluctuations in exchange rates. Transactions rose in the case of the dollar and pound sterling, as these currencies hardened throughout the year.

### **Placement business and dealing for customers**

The Group's policy on bond issues was inevitably conditioned by the steady decline in interest rates. Relevant trends included the preference among savers for diversification, which moved towards managed savings and direct investment on the stockmarket. Against this background, the Bank's relevant placing and dealing activities were constrained by market forces, although still representing substantial volumes.

### *Placement of Group securities*

San Paolo bonds placed by the Bank's network amounted to 4,200 billion lire, 20% below the previous year's volume. The decline was less marked in the case of Crediop securities, placings easing from 1,527 billion lire in 1996 to 1,400 billion lire.

### *Placing of government stocks*

A steadier performance in the primary market in government stocks was reflected in an increase in market share during the year, from 6.90% to 8.13%.

### *Placing of other bonds*

In the field of lira-based bond issues, San Paolo took the lead with the Crediop and Centrobanca operations, together worth 1,100 billion lire. The Bank also participated in various issues organized by other banking institutions, and by supra-national bodies which included the EIB and the World Bank. San Paolo's share of the year's placings of domestic bonds amounted to around 8%.

At system level, Eurolira bond issues numbered 208 in 1997, with a total value 51,308 billion lire; the corresponding statistics for 1996 were 156 issues and 36,700 billion lire. 'Structured' issues proved the most popular, while emerging countries in Latin America and elsewhere figured more prominently than ever. The Bank's share of this market amounted to 2.71%, represented by the lead role in 13 issues worth a total of 1,381 billion lire.

### *Share dealings and placings*

The Bank was particularly active in the equities market during 1997, in response to the growing preference among customers for diversified portfolios, and the steadily improving profile of the Italian stockmarket.

The increasing importance of the Milan exchange is clearly indicated by the figures: capitalization rose during 1997 by over 200,000 billion lire, to 590,000 billion lire; daily average transactions shot up by 116%, reaching 1,344 billion lire. Recourse to the market by businesses also increased sharply: rights issues more than doubled, reaching 7,839 billion lire, while Public Offers for sale or subscription amounted to 39,000 billion lire, treble the previous year's total. Interestingly, the ENI3, San Paolo and Banca di Roma privatization operations together accounted for over 90% of the total.

The Bank again expanded its broking operations in organized markets, via Intersim (a subsidiary). Client-account dealings in the immediate-settlement sector amounted to 41,000 billion lire.

San Paolo's operations in the primary equities market expanded as its expertise grew. A key event in this process was the Bank's privatization: the Public Offer closed on May 23, 1997, following participation by some 200,000 new shareholders, including 16,000 of the Bank's employees. Over 400,000 individual applications were received, for 463 million shares, in addition to the 325 million shares reserved for around 400 institutional investors at home and abroad. Foreign interest was intense, and accounted for some 60% of the total shares applied for. The measure of the operation's success is the three-fold oversubscription for the 253 million shares comprising the offer.

San Paolo took a key role, as Coordinator or Lead Manager, in the year's more substantial privatization operations, including those relating to Telecom and ENI3. The Bank also acted as Coordinator of the respective Public Offers in the cases of the Aeroporti di Roma, Ittierre and Bipop placings. Apart from its vital contribution to the preparatory and launch stages of these operations, San Paolo also demonstrated its considerable placing capacity, reflected in market shares in the ENI3, Telecom and Aeroporti di Roma Public Offers of 14.6%, 12.3% and 26.4% respectively.

The Bank participated in 13 other Public Offers of shares and nine capital increases, underwriting a total of over 2,100 billion lire, compared with 640 billion lire in 1996.

Substantial volumes in the equities, foreign bonds and other sectors were generated by the year's brokerage activities and relevant transactions with customers - further confirmation of the trend towards diversification of savers' portfolios.



The various Customer Desks located throughout Italy continued to play a key role in the development of closer relations with the customer. The products available through this channel, to smaller banks as well as corporate and institutional clients, range from traditional and derivative instruments for hedging exchange and interest rates, to structured solutions and treasury products. The combined business of the desks amounted to 415,000 billion lire in 1997, 38% more than in 1996.

*Dealings in own shares*

San Paolo's dealings in own shares were also more numerous during 1997, following the guidelines set by a shareholders' resolution dated April 30, 1997, designed to stabilize the share price in the wake of the Global Offer in May.

Purchases amounted to 9,520 million lire at par (952,000 shares), for aggregate considerations of 11,612 million. The same number of shares were sold, the proceeds amounting to 12,873 million lire. There were no dealings in the Bank's shares by any of the subsidiaries during 1997.



# Integrated financial risk management

## Risk management

The objective of the integrated risk-management process is to minimize the probability of random losses in the course of San Paolo's routine operations in the lending, monetary and other financial markets at home and abroad, partly by containing the relevant capital exposures.

## *Risk and organizational structure*

Primary responsibility on the part of the Board of Directors for the Bank's operating strategies is at the heart of a system which constantly monitors, in detail, all the potential sources of risk.

Support for the Board's work in this connection is provided by the Risk Management Committee, which comprises the Managing Director, the General Management team of three, the heads of the operating divisions and Business Units, representatives of the subsidiaries, and the Risk Management Service chief. The Committee generally meets once a month, and is tasked with: strategic definition of risk-weighted profit objectives for the individual business streams; deciding the scale of the Bank's overall exposure; fixing levels of authority within the operating structures; and regular review of risk-control parameters.

The Risk Management Service reports directly to the Managing Director and acts as a technical secretariat to the Risk Management Committee. It oversees the entire process of monitoring and measuring risk, and advises the Bank's senior management, the Risk Management Committee and the Board itself on evaluation methods and the management of operating limits, thus contributing to the process leading to the allocation of capital. Risk Control Units are located within the operating units throughout the Group, to monitor the performance of the Finance area's various portfolios in terms of market-risk. The units' other functions include verifying local compliance with approved operating limits, and regularly reviewing the relevant results reported by the management accounting process.

Close, detailed monitoring of risk combined with effective, integrated risk-management at Group level are key components of the process of creating value for the shareholder, as well as prerequisites of competitiveness. San Paolo's recognition of the strategic significance of this activity in terms of efficiency and profitability, within the overall management process, is evidenced by a massive investment of human resources and technology in fully establishing the Group's risk-management system and maintaining it at the highest level of functionality.

## Market risk

**M**arket risk is quantifiable in terms of potential losses resulting from unexpected movements in interest rates, share prices or exchange rates, and affecting the Bank's balance-sheet and off balance-sheet financial assets and liabilities.

The measuring and monitoring of market risk are based on an analysis of the Group's operations which directly reflects EU Directive 93/6, together with the amendment to the Basle convention relating to relevant aspects of capital adequacy. Two primary types of risk are defined for the present purposes, according to the operating area affected and the nature of the income-statement impact. Market risks attaching to the "banking portfolio" (basically, commercial business via the network with retail and corporate customers, plus the related treasury operations) are monitored separately from the fluctuations in interest rates, exchange rates and share prices affecting the "trading portfolio" (which includes dealing and market-making activities in the financial markets, as well as opportunistic stockmarket operations on own account).

Exposure to market risks associated with trading are restricted to authorized Risk-Taking Centers, located in the dealing rooms at Turin and in the London, New York and Singapore branches; similarly approved units operate within three Group companies: Intersim, Crediop and Banque Sanpaolo.

### *Interest rate risk*

During 1997, interest-rate risk on Finance-area business was calculated assuming a parallel 25 basis-points shift in the rate curve, combined with partial correlation between currencies; and in the case of options, a change of 100 basis points in implied volatility. The resulting values averaged 37 billion lire, and stood at 40 billion lire at the year-end

In accordance with Bank of Italy guidelines and pending the appearance of the relevant amendment to the EU Directive on market risk, the Bank has started work on its procedures and information systems aimed at establishing a modeling system based on VAR (Value At Risk) methodology.

### *Exchange rate risk*

The impact of fluctuating exchange rates on the Bank's foreign currency holdings and currency-option dealings is also measured using a parameters-based VAR approach; in the case of options, the method allows for volatility-related risk. Foreign exchange exposure measured on this basis averaged 3.4 billion lire during 1997 and amounted to 2.2 billion lire at the year-end, assuming a 10-day holding period and at a confidence level of 99%.

The risk attaching to the Bank's portfolio of exchange-rate options is subject to a stress-scenario evaluation assuming extremes in terms of both rates and the volatility of these. On this basis, the 1997 exposure averaged 12 billion lire

### *Share-price risk*

Domestic stockmarket operations are evaluated with reference to a correlation-adjusted summation of all holdings (including derivatives), arriving at a total exposure figure in FIB30 contract equivalent terms.

During 1997, the Bank's holdings exposed to share-price risk averaged 202 FIB30 contracts, or around 51 billion lire (based on year-end prices).

### *External supervision*

Alongside the methods described above, the Bank also routinely calculates the risk attaching to its portfolio of dealing securities and derivatives, using a standard formula, for the purposes of reporting its capital adequacy ratio to the Bank of Italy.

The outcome in respect of 1997 demonstrates the scant effect of counterparty and market risk associated with the portfolio mentioned, on the Bank's overall capital adequacy. The uplift required for market risk averaged 1.0-1.2 percentage points

### **Liquidity risk**

**T**he liquidity risk profile, also monitored by the Risk Management Committee, is an indicator of the Bank's ability to meet its payment obligations in the immediate future and in the medium and long term, representing an exposure managed in the overall context of treasury operations.

Short-term liquidity needs are managed by Treasury by earmarking a suitable portion of government stocks and other highly-marketable securities with short maturities and thus ready for instant sale.

The overall risk profile (short-, medium- and long-term) is measured by the Asset & Liability Management system, which highlights any mismatching of maturities between assets and liabilities.

### **Lending risk**

**L**ending risk attaching to the totality of banking activity (notably traditional customer business) is defined as the potential loss arising from default by the borrower. This is the Bank's principal exposure.

San Paolo's present facilities for identifying, measuring and monitoring lending risk apply the principles of Credit Risk Management and comprise: an internal rating system for large businesses; an Early Risk Detection procedure covering the bulk of the loans portfolio; and an exposure-analysis model, based on business sectors and geographic areas.

During 1997, the Bank initiated a project aimed at a fundamental redefinition of the credit-risk management process, in line with the highest

standards among the major international banks. The key elements are a grading model addressing the complete spectrum of lending exposures, and the introduction of a portfolio modeling system.

The objective of the grading model is to provide a credit-worthiness indicator for individual borrowers or classes of borrower, on a standard basis across the entire network. An important focus is an in-house exposure-rating system for small and medium-sized enterprises.

In the case of the portfolio modeling system, the objective is an overview of lending activity, using groupings based on borrower rating, size, economic sector and geographic area. Outputs will include quantification, for each such grouping, of foreseen and unforeseen losses, commitment of resources, risk-adjusted profitability, and data for monitoring the trend in lending quality.

The credit-risk monitoring capability to be delivered by this program will include a monitoring system covering the entire loans portfolio. This system will also feed into the provisions policy, by generating estimates of the losses implied by the total relevant exposure; it will also facilitate fine tuning of the existing systems which give early warning of changes in risk trends. Its benefits in terms of risk management will include the application of portfolio theory to lending, enabling prompt action to remedy adverse changes in the risk/return profile, through restructuring of customer segments.

#### *Lending risk on derivatives*

San Paolo regulates its derivatives dealings through the mechanism of subscription to external framework agreements (e.g. the ISDA Master Agreement), which allow netting of positions. On the latter basis, it should be possible to evaluate "net" counterparty risk, in line with the rules of the relevant national and international supervisory bodies.

At the end of 1997, counterparty risk was still measured on a 'gross' basis however. Credit-equivalent risk amounted to 14,738 billion lire, on derivatives amounting to 593,000 billion lire at face value. The bulk of the exposure related to parties officially classified as low credit-risk, and thus associated with a 20% weighting.

In future, the netting off expected to be permitted under currently-proposed legislation is likely to result in significantly reduced figures for credit-risk equivalent counterparty exposure.

#### **Asset & Liability Management**

**T**he Asset & Liability Management (ALM) system monitors, on a monthly basis, the interest-rate, exchange-rate and liquidity risks arising from the temporary imbalances associated with differing maturities, and with changing values within the Bank's overall capital

structure. Responsibility for the ALM system rests with the Risk Management Service.

The system tracks the detailed changes in interest-rate risk attaching to the 'banking portfolio' and thus affecting the stability of the interest margin. The banking portfolio basically comprises those activities which determine net interest income, and thus includes customer deposits and lending (short-, medium- and long-term), the interbank position, and the portfolios of investment securities and medium/long-term hedging derivatives. Also included are short-dated dealing stocks at the Turin dealing room (since these are held solely for treasury purposes), together with asset swaps within the owned portfolio (used to create technical short-term, floating-rate positions).

The apparent sources of interest-rate risk monitored by the ALM system are thus: the traditional conversion of maturities, and differences in the timing of rate-changes as between deposits and lending; inertia in the processes of adjusting rates paid and charged on 'demand' business in line with movements in reference rates; pre-payment on medium/long-term lending to customers. The last-mentioned factor acquires growing significance in conditions of falling market rates.

The appraisal is based on a monthly 'snapshot', i.e. assuming that the dealing volumes and the composition of the banking portfolio at the time of the evaluation remain constant throughout the period chosen.

### *Gap analysis*

In terms of maturity mismatches, and pricing gaps between the Bank's deposit and lending portfolios, the overall structure appears reasonably well balanced - notwithstanding the effects of seeking to benefit from conditions of declining rates. (Dealing securities are included in the rapid-adjustment class, being aligned with market value).

Recourse to derivatives-based hedging and bond issues progressively reduced the effect of banking-portfolio activities on the interest-margin forecasts. Sensitivity to an adverse one-point movement in rates at the end of the year amounted to 30 billion lire in terms of interest-margin at risk, or 0.8% of the budgeted result at this level for 1998.

The effect of such a movement on the value of shareholders' equity (valued on a realization basis) was a potential loss of around 1.6%.

	billions of lire						
	0-3 months	3-6 months	6-12 months	1-5 years	5-10 years	over 10 years	Total
Assets exposed							
to interest-rate risk	125,008	13,085	4,476	7,305	4,072	1,231	155,177
• due from banks	32,313	3,895	2,522	500	-	-	39,230
• loans to customers	64,490	8,965	1,903	6,804	4,072	1,231	87,465
• on demand	27,203	750	320	-	-	-	28,273
• fixed-rate	21,632	2,584	1,102	6,463	4,072	1,231	37,084
• floating rate	15,655	5,631	481	341	-	-	22,108
• dealing securities (market value)	23,172	-	-	-	-	-	23,172
• others	5,033	225	51	1	-	-	5,310
Liabilities exposed							
to interest-rate risk	-123,873	-16,274	-8,510	-11,274	-5,486	-1,131	-166,548
• due to banks	-29,589	-6,031	-3,432	-1,271	-1,058	-54	-41,435
• customer deposits and securities issued	-92,048	-10,243	-5,078	-10,003	-4,428	-1,077	-122,877
• on demand	-44,592	-	-	-	-	-	-44,592
• fixed-rate	-33,523	-6,912	-5,177	-10,012	-4,428	-1,077	-61,129
• floating rate	-13,933	-3,331	99	9	-	-	-17,156
• other	-2,236	-	-	-	-	-	-2,236
Base Gap	1,135	-3,189	-4,034	-3,969	-1,414	100	-11,371
Dealing securities portfolio	2,246	1,350	2,091	1,248	-	-	6,935
Investment securities	691	614	171	2,124	110	80	3,790
Hedging derivatives	-512	-1,690	-1,575	733	1,779	300	-965
Total Gap	3,560	-2,915	-3,347	136	475	480	-1,611
Cumulative	3,560	645	-2,702	-2,566	-2,091	-1,611	
<b>Gap ratio (assets/liabilities)</b>	<b>1.03</b>	<b>0.84</b>	<b>0.67</b>	<b>1.01</b>	<b>1.09</b>	<b>1.42</b>	

## Non-business risks

This category comprises the various types of occurrence within the organization potentially affecting the asset base, prejudicing operations or revenue-earning ability, or threatening the survival of the enterprise.

The Bank is presently developing the relevant reporting structures and risk-recording and evaluation processes, in the light of the Basle Principles and evolving international practice.

The ultimate aim remains that of avoiding surprises at operations level, while arriving at an effective system of allocating capital resources to business streams. In parallel, implementation is proceeding on business-continuity aspects of the central data-processing systems, payment systems and dealing-room operations.



## Legal risk

The risks associated with legislative change and with gaps in the rules governing operating instruments remain under close scrutiny and control by the Risk Management Service.

A review of San Paolo's terms of business in the various sectors, with customers and other market operators, has led in some cases to changes in the standard conditions, with a view to more effective safeguarding of the Bank's position.



## Capital adequacy

### Shareholders' equity

Shareholders' equity in the Bank amounted 9,592 billion lire as of the end of 1997, 2.7% lower than a year earlier.

	billions of lire
Shareholders' equity as of January 1, 1997	9,860
Increases	
• transfer to the reserve created under Art. 7.2 of Law 218/90	53
Decreases	
• dividend for 1996	-228
• capital tax for 1996 under Law 461/92 charged to reserves	-79
• substitute tax under Decree 467/97 charged to reserves	-14
Shareholders' equity as of December 31, 1997	9,592

### Adjusted equity and capital adequacy ratio

In line with Bank of Italy regulations, the Bank's capital adequacy is measured with reference to the adjusted equity determined for reporting purposes, together with on and off balance-sheet assets weighted for risk (using the parameters established in the relevant regulations).

### Adjusted equity

Adjusted equity for reporting purposes stood at 11,569 billion lire at the end of 1996, comprising Tier 1 capital of 9,013 billion lire and Tier 2 capital of 2,703 billion lire, less equity investments amounting to 147 billion lire. Tier 1 capital consists of share capital and (in general) equity reserves, less intangible fixed assets. Tier 2 capital largely comprises the subordinated liabilities and revaluation reserves.

	12/31/97	12/31/96
Tier 1 capital	9,013	9,096
Tier 2 capital	2,703	2,992
Equity investments deducted	-147	-71
Total capital	11,569	12,017

### *Risk-weighted assets*

Adjusted equity reflects risk-weighted assets (including off balance-sheet assets) amounting to 111,583 billion lire.

	12/31/97		12/31/96	
	Credit equivalent	Weighted	Credit equivalent	Weighted
Balance-sheet assets	155,900	97,510	180,203	96,614
Cash and secured loans	1,355	26	15,990	32
Loans to governments and central/multilateral banks	15,861	569	18,135	592
Other lending to banks	37,055	7,792	46,040	9,409
Other private-sector lending	81,823	74,464	78,385	71,345
Non-performing loans, and equity interests with losses in last 2 years	7,198	7,198	5,803	5,803
Shares, other equity interests, subordinated and other assets	19	39	63	126
Off balance-sheet assets	12,589	7,422	15,787	9,307
Guarantees and commitments	28,751	18,255	40,089	20,445
Interest- and exchange-rate derivative contracts	25,250	17,312	28,620	17,304
less: Losses and contingencies	3,501	943	11,469	3,141
less: Losses and contingencies	-4,182	-4,182	-3,656	-3,562
Total weighted assets	180,469	111,583	216,636	113,497

### *Capital adequacy ratio*

The ratio of total capital to weighted assets (the capital adequacy ratio) amounts to 10.4%, compared with 10.6% a year earlier and with the relevant required minimum of 7%.

	12/31/97	12/31/96
Tier 1 capital ratio	8.08	8.00
Total capital ratio	10.37	10.59

### **Adjusted equity and capital adequacy ratio at Group level**

Following its designation by the Bank of Italy as Parent Bank of the San Paolo Banking Group, the Bank now reports to the supervisory body on capital adequacy also at Group level.

### *Group adjusted equity*

Adjusted consolidated equity for reporting purposes stood at 11,964 billion lire at the end of 1997, comprising Tier 1 capital of 9,393 billion lire and Tier 2 capital of 2,782 billion lire, less equity investments amounting to 211 billion lire.

	12/31/97
Tier 1 capital	9,393
Tier 2 capital	2,782
Equity investments deducted	-211
Total capital	11,964

*Risk-weighted assets (Group)* Adjusted consolidated equity reflects risk-weighted assets (including off balance-sheet assets) amounting to 117,858 billion lire.

*Capital adequacy ratio (Group)* At Group level, the ratio of total capital to weighted assets amounts to 10.1%, compared with the relevant required minimum of 8%.

	%
	12/31/97
Tier I capital ratio	7.9
Total capital ratio	10.1

## 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 granted by a resolution of the Board on 5.9.95 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 Director and the General Manager were fixed by resolutions of the Board on 5.5.97. These refer to operations, 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. The powers of these officers are also constrained by the Bank's strategies, guidelines and plans, as well as by specific financial and other limits.

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 personnel and overseeing the functioning of departments;
- deciding the departments and functions of personnel, other than executives.

Under delegation arrangements made by the Managing Director, the Deputy General Managers have special powers in relation to their respective areas of responsibility.

These officers also have authority to act on the Managing Director's behalf in the event of the latter's absence or impediment, with two of them signing jointly. Any of the Deputy General Managers may act for the General Manager in similar circumstances, signing jointly with a Division, Department, Business Unit or service-function chief; this delegation applies to all the powers conferred on the General Manager by the Board of Directors.

## Organization of operations

### The branch network

The policy aimed at upgrading the Bank's branch network pursued during 1997 again focused on upgrading those channels most relevant to improving customer service at the lowest cost.

#### *The network in Italy*

The latter stages of the plan for expanding the domestic branch network were marked by a highly selective approach to potential new-branch locations, in the light of operational considerations and market potential, with a view to short pay-back periods for the relevant investments.

Domestic branches numbered 1,275 at the end of the year, 33 (or 2.7%) more than a year earlier. While coverage extends throughout Italy, the Bank's presence is greatest in Lombardy and Piedmont (respectively 479 and 350 branches, or 37.6% and 27.5% of the network). San Paolo operates in 89 of Italy's 103 provinces.

A policy of closely adapting services to customer needs led to further specialization among the branches. Areas to gain emphasis included Private Banking, concerned with portfolio management and offering specialized service points to the business customer. The *Presto Point* project, launched in the year, aims at promoting and exploiting operating units located in Italy's major rail termini.

#### *The international network*

The objective of optimizing cost/revenue ratios was also the guiding principle in the policy for expansion abroad. Changes at the foreign branches again focused on operational rationalization, while the task of preparing for entry into new markets was assigned to the relevant representative offices. The latter constitute a lightweight alternative form of territorial presence, facilitating the deployment of a range of corporate-sector products and services at low operating cost, in tandem with effective monitoring of local conditions. In this way, the conditions for more extensive future penetration can be created.

At the end of 1997, the Bank's presence on foreign soil comprised 11 branches and 12 representative offices, including the new Warsaw and Tokyo offices. The Tokyo office was set up to offer Italian and other European stocks to Japanese investors. The Sidney office was closed, following the Bank's decision to withdraw from the Australian market.

San Paolo's overall commitment abroad includes equity interests in local banks and collaboration agreements in the finance/banking sectors, as well as the 52 branches operated by the subsidiary Banque San Paolo in France. It

extended its operations in Central Eastern Europe, leading to changes which included taking over Sanpaolo Bank Holding's interest in Inter-Europa Bank, Hungary.

Technical assistance programs were launched with two Russian banks: Kuzbassocbank in Kemerovo and Bank Menatep in Moscow. Both projects aim to contribute to the rationalization of the Russian banking system and are backed by the World Bank and the European Bank for Reconstruction & Development (EBRD); they represent an opportunity for San Paolo to enhance its position in a market of growing interest to the Italian business community.

As discussed below in the context of the Bank's equity interests, San Paolo withdrew from the Spanish market during 1997, in the light of poor returns on its substantial investment. The relevant subsidiary (Banco Sanpaolo) was sold to Caja de Ahorros del Mediterraneo (CAM).

## **Automation and electronic banking**

**E**lectronics-based business with both retail and corporate customers continued to expand steadily during 1997, boosted by certain specific Bank initiatives.

### *Credit cards, debit cards*

San Paolo extended its lead in a plastic-money sector which is characterized by rapid growth in volumes and margins. Credit-card business was especially lively: the number of cards in circulation grew by over 100,000 (22%) to a total approaching 556,000. Although the rise in debit cards was less steep, their use expanded sharply, partly in response to a promotion of the *PagoBancomat* system. Debit cards in issue increased by 5% to 1,370,000, while the year's volume of transactions reached 10 million.

A satisfactory year in terms of payment-card business volumes was accompanied by a significant improvement in the related contribution margin, to over 50%.

The population of active PoS terminals grew by 8.6% during 1997, to around 18,400 machines. Transactions via the Bank's PoS systems numbered in excess of 20 million, generating a 30% rise in the associated revenues.

San Paolo's grassroots presence is reinforced by the network of *Bancomat* ATMs, the installed population of which grew by 3% to more than 1,700; the total business volume exceeded 51 million transactions.

### *Direct banking*

San Paolo's *Directa Green* electronic banking service continued to attract customers, and grew faster than expected. Some 13,000 new agreements were entered into during 1997, taking the total beyond 35,000, while transactions numbered over 500,000.



### *Remote banking*

In the area of electronic services for business customers, remote-banking computer connections jumped by 8,000 (60%), passing the 20,000 mark. The associated activity level amounted to over 8 million transactions.

### *Payment systems*

*BIREL*, the national real-time gross settlement system, was readied for operation during 1997, the final module being completed last January. The system's daily throughput has averaged around 5,000 transactions, worth a total of over 30,000 billion lire. The transition to a net-settlement basis was a condition for participation in *TARGET*, a program to integrate national systems of this type at EU level; the scheduled date for entering service is January 1, 1999, to coincide with the introduction of the Euro.

The Bank's revenues from lira-based clearing operations amounted to around 13 billion lire in 1997. San Paolo's 10% share of this market places it second among Italy's clearing banks. A position still among the leaders is planned also in the wake of the Euro's launch, in likely conditions of greatly intensified competition - in the ordinary customer sector as well as in the interbank markets.

With this aim in mind, the Bank is investing heavily to ensure its future efficiency in operating the new systems. An essential step in this connection is participation in the Ecu clearing system overseen by the Ecu Banking Association (EBA); this body is equipping itself to become the principal channel for settlement of Euro-based trading transactions, and expects to handle around a third of such traffic. San Paolo, a founding member of the EBA, is providing strategic and operational support, while upgrading internal procedures with a view to their complete automation.

San Paolo also enjoys a position of the highest standing within IBOS, an association of leading European and US banks whose primary aim to provide business and other customers with real-time international payment and cash-management services. The Bank introduced its first service on the system, statement issue, during 1997, and plans to make operations-services available to customers within the next few months.

## **Organizational structure**

**T**he year's organizational changes primarily resulted from: reorganization at Head Office in the wake of transferring operational activities to the Business Units and Divisions; completing the program aimed at integrating the branch networks of banks recently absorbed; and further implementation of the *Euro* project, launched in 1996.

### *Head Office reorganization*

The aim of this exercise, which took place during the summer, was to adapt San Paolo's structure to its post-privatization mission, and involved assigning the banking-operations support functions to Business Units and Divisions.

At a higher level, the organization was divided into three primary areas (incorporating the new groupings just mentioned) reporting to the Managing Director. The thinking behind the overall design is discussed in the next section, together with details of the Business Units.

Among the three new primary areas, that headed by the *Chief Business Officer* comprises customer business directly handled by the Bank or another Group company.

The area reporting to the *Chief Operations Officer* comprises the mainstream operational activities which support the Business Units, Divisions and, in some cases, other Group companies.

The *Chief Financial Officer* has overall responsibility for integrated financial management at both Bank and Group level, with hands-on control of the principal components of the asset base, and of treasury and stockmarket activities.

### *Procedures*

The project aimed at integrating the branches of Banca Provinciale Lombarda and Banco Lariano with the San Paolo network was completed during 1997. Standardization of operating procedures was among the benefits of an exercise affecting 450 offices and over 4,000 employees, with full-time support from another 350 staff.

Following completion of the integration project, the HQ administrative functions were reorganized to combine the former BPL and Lariano management teams. Apart from releasing office premises in Bergamo and Grandate, these measures enabled a further reduction in the HQ administrative staffs of the two banks: some 290 persons were retrained and subsequently redeployed within the enlarged branch network.

### *The Euro Project*

Implementation of the Euro project, launched in 1996 with the objective of equipping the Bank to handle transactions in the single European currency as from January 1, 1999, continued during 1997.

Activities included studies to determine the impact of the Euro on the various aspects of operations, as well as addressing market issues and the necessary adaptation of the Bank's information systems.

During the first half, the project's 18 working groups joined forces to define a 'reference framework', identifying the key issues for the Bank. The top priority to emerge from this exercise was that of enabling parallel operation, by business and other customers, in both Euro and lira from 1999 onwards.

Work in the second half of the year included the early stages of functional and technical studies to refine estimates of the relevant costs, and decide the

priorities of the various implementation stages. The long-term budget which emerged from these exercises is very substantial, in terms of the number of internal and external personnel required, as well as of financial resources.

A detailed training plan affecting the Bank's entire workforce was put in place, based on the concept of creating a wide and internally consistent knowledge-base regarding the Euro, and focusing primarily on staff who deal directly with customers. San Paolo regards training as of fundamental importance to its preparedness for meeting the information and other needs of customers in connection with the new currency.

Similar considerations prompted the publication of a 'Euro' brochure, for both retail customers and businesses; the Bank also participated in the relevant promotions organized by the Treasury Ministry's Euro Committee.

Considerable efforts were dedicated to a large number of business clients on an individual basis, regarding matters which included the basic stages of monetary unification, progress to date in preparing for the Euro at national level, as well as the availability of Euro-based services - within the Italian banking system in general and from San Paolo in particular.

## Human resources

During 1997, a personnel policy which focused on containing the payroll affected both the size of the workforce and various aspects of its cost-effectiveness, including overtime levels, grading, transfers and attendance.

At the same time, the project aimed at integrating the branches of recently-absorbed banks (Banca Provinciale Lombarda and Banco Lariano) into the San Paolo network, called for further investment in terms of people, rationalization expenditure and training.

The Bank's workforce numbered 20,472 at the end of 1997, fewer than a year earlier by 280. Staff based in Italy amounted to 19,953; of the 519 located abroad, 449 were employed under local contracts.

Separations included 364 involving permanent staff with Italian contracts, 130 of which were attributable to an early retirement incentive scheme. A total of 111 new staff were recruited, mostly to fill specialist vacancies.

120 persons were engaged on work-experience contracts, to support the procedures-integration project (mentioned earlier), while there was a reduction in temporary appointments to cover extended absences by permanent staff.

As of the end of 1997, San Paolo's workforce comprised 182 executives, 3,429 officials, 3,808 supervisors, and 13,053 clerical and ancillary staff. The

proportion of the total represented by management-grade personnel amounted to 17.6%.

### *Training*

Training programs receiving especial emphasis during 1997 included those supporting the Bank's commercial strategy in the areas of savings management, insurance and new payment systems. A key aim was to equip the relevant operating personnel with the knowledge and skills needed to provide sound advice to the personal customer on saving and investment. Equally substantial were the course programs relating to the single European currency, discussed above.

Overall, training activity levels were well above those of previous years. The main factor was the need associated with the branch-network integration project mentioned earlier, which alone absorbed over 40,000 man/days of training.

## The Business Units

### *The objectives*

In July 1997, the San Paolo board approved a revised design for the Bank's organization structure, aimed at promoting basic changes in management methods throughout the enterprise. The emphasis is on devolution, in terms of decision-making and management style, to the levels represented by each of the various business streams.

The new structure's overriding mission is to create wealth for shareholder, an objective common to various initiatives launched in the wake of privatization to improve the return on capital. San Paolo's organization is now based on Business Units and Divisions, each endowed with the financial and human resources required to pursue a specific operating mission, and directly accountable in terms of financial results and ROE. This approach reflects the view that value to the shareholders depends on business-stream margins that exceed, in each case, the cost of capital. From a more general point of view, the changes can be seen as a move towards an organization based on multi-functional specialization which targets specific products and markets, and away from the recently-completed process of de-specialization (in the context of adopting the "Universal Bank" organizational model).

The changes will be wide-ranging, affecting the Bank's product and market strategies, the nature and level of resources committed to each sector, and the role of Head Office, as well as our organization structure.

Specialization in specific business areas will accelerate their development and improve margins, by virtue of more detailed knowledge of the market and the competitive scenario; this will lead to the design of products more closely matching customer needs. In other words, by focusing on individual products/segments, the Bank will release the full profit-potential of each product (an approach which does not rule out the possibility of marketing via third-party networks - an option that will be looked at on a case-by-case basis). A parallel process will eliminate products/segments which cease to be profitable.

Each business stream must be equipped with an organization and skills base appropriate to its products and market environment. Key objectives include acquiring, conserving and developing a pool of management skills, using mechanisms which will include results-related personal incentive schemes.

Head Office assumes a supporting role, facilitating devolution of decision-making, designing innovative personnel-management policies, and managing

the process of planning and control of capital invested and results. It will also evaluate the growth plans of the individual businesses to assess the prospects for effectiveness and consistency.

*Business Units and Divisions*

The eight operating groupings established by the reorganization plan are as follows: Retail Division, Corporate Division, Asset Management Business Unit, Mortgage Banking Business Unit, Medium/long-term Lending Business Unit, Real Estate Business Unit, Treasury & Broking Division, Equity Investments Business Unit. Each Business Unit and Division is primarily responsible for the management of its particular business stream and for maximizing its profitability.

*Business Unit financial and management reporting*

The basis adopted for financial reporting by the Business Units has been developed from an early study using existing sources of business information. Statements of income at Business Unit level are based on a combination of 'hard' data (interest, commissions, direct costs) and cross-charges reflecting transactions with other Business Units (internal transfer costs, notional commissions, re-charged expenses).

The other aspect of the reorganization was the downsizing of the Head Office. Cost allocations in respect of the latter to the Business Units are restricted to those relating to services directly supporting operations.

The calculation of the capital resources deployed by each Business Unit involves applying the Bank of Italy credit- and market-risk parameters. This allows return-on-capital benchmarks to be fixed for each Unit and Division, using their respective figures for pre-tax profit.

The first set of results, relating to 1997, reveals some disparity in profitability as between the business streams. The apparent causes are the differences in operating profiles and levels of capital employed.

The Retail, Mortgage and Asset Management Business Units all report RoEs appreciably higher than that of the Bank as a whole. In the latter two cases, the results are conditioned by low levels of risk - virtually nil as regards Asset Management, and modest in the Mortgage Banking Unit (given that the product is secured lending and the market segment is that of the personal customer). The Retail Business Unit benefits from product margins in its segment which are still high, and from sales commissions earned from other Business Units.

Market environments characterized by slimmer margins and more widely fluctuating earnings account for lower levels of profitability in the Corporate, Treasury & Broking and Medium/long-term Lending Business Units.

## Equity investments

### Changes during the year

The Bank's equity investments amounted to 3,395 billion lire at the end of 1997, having decreased during the year by 346 billion lire following certain substantial operations. The latter included divestment of a 40% interest in Crediop (acquired by Dexia, a Franco-Belgian group), and of a 70% holding in BNC Assicurazioni (purchased by the German HDI-Hannover Group). Various interests were exchanged between the Bank and Sanpaolo Holding. The entire interest in Banco Sanpaolo in Spain was disposed of, while Sanpaolo Ireland and Banque Sanpaolo benefited from capital injections designed to enhance local operating capacity.

#### *40% divestment of Crediop to the Dexia Group*

This operation was finalized at the end of June 1997. Dexia is European leader in the local-authority finance sector; the sale was designed to foster a strategic collaboration between the two Group's respective public-works financing businesses.

The reference value of Crediop for the purposes of the transaction was agreed at over 1,400 billion lire, more than one-and-a-half times its reported shareholders' equity. The price includes a fixed element of 480 billion lire, which was paid over on transfer of the interest. The balance of 85 billion lire is dependent on Crediop's operating results in the three years 1997-97.

A gain of 131 billion lire has been recognized on the divestment, the difference between the fixed element of the consideration (480 billion lire) and the corresponding proportion of book value (349 billion lire). Any remaining gains (maximum 85 billion lire), arising from the variable element of the price, will be recognized in later years.

#### *70% divestment of BNC Assicurazioni to the HDI-Hannover Group*

This sale enabled the realization of a substantial amount of fixed capital. Finalized in June at a consideration of 250 billion lire, the transaction generated a gain of 15 billion lire.

A provision has been made to the reserve for risks and charges to cover the Bank's exposure under guarantees granted to the purchaser.

#### *Exchanges of equity interests with Sanpaolo Holding*

The process of redistributing equity investments between the Bank and San Paolo Holding was completed at the end of June 1997. The scheme, designed as a means of releasing financial resources, was announced in outline in the run-up to privatization. For a total consideration of 114 billion lire, the Bank acquired a number of minority interests in foreign banks and finance companies, and received a total of 221 billion lire for certain holdings lacking



strategic relevance to the banking industry. San Paolo Holding also took over loans to Immobiliare Colonna granted by the Bank on terms involving interest below market rates, amounting to 307 billion lire; these facilities were repaid during the second half of the year.

The effect of the operation on the Bank's balance sheet was highly positive, involving the release of very large amounts of capital hitherto tied up in non-strategic fixed assets. The net inflow amounted to 414 billion lire.

The considerations for the various holdings were based on valuations carried out by independent experts engaged jointly by the two parties. The effect on the statement of income was a net charge of 22 billion lire, analyzed in the following table.

*Interests acquired from Sanpaolo Bank Holding*

Company	Interest (%)	Consideration (L/bln)
Banco del Desarrollo SA - Chile	16.5	52.4
Inter-Europa Bank Rt - Hungary	30.1	43.9
Banque Internationale Arabe de Tunisie SA - Tunisia	8.4	15.2
UBAE SpA	2.0	2.0
Nicco Uco Financial Services Ltd - India	2.6	0.3
Banque Nationale pour le Commerce - Ba.na.co. SA - Madagascar	22.0	-
<b>Total</b>		<b>113.8</b>

*Interests transferred to Sanpaolo Bank Holding*

Company	Interest (%)	Carrying value (L/bln)	Consideration (L/bln)	Gain/loss (L/bln)
Immobiliare Colonna '92 Srl (held via Sanpaolo Immobiliare SpA, a subsidiary)	90.0	72.0	37.8	-34.2
Filse SpA	3.1	0.6	0.5	-0.1
Finpiemonte SpA	9.8	3.2	6.1	+2.9
Finaosta SpA	11.9	15.5	16.4	+0.9
Lingotto Uffici SpA	15.0	36.0	29.0	-7.0
Lingotto Srl	9.3	3.5	2.2	-1.3
Sanpaolo Fin SpA	10.9	0.3	1.2	+0.9
Sanpaolo Formazione SpA (in liquidation)	20.0	-	-	-
Hambros convertible preference shares		111.9	127.6	+15.7
<b>Total</b>		<b>243.0</b>	<b>220.8</b>	<b>-22.2</b>

***Disposal of the 93.7% interest in Banco Sanpaolo SA Spain***

Total divestment of San Paolo's interest in its Spanish banking subsidiary formed part of a wider strategic plan aimed at enhancing profitability at Group level. The relevant studies revealed scant likelihood of the subsidiary's achieving results compatible with Group objectives, partly in the light of intensifying competition in Spain's retail-banking sector.

Negotiations were opened with a number of potential buyers during the summer, and in December led to sale to Caja de Ahorros del Mediterraneo (CAM) for approximately 175 billion lire. The consideration was calculated

as the relevant proportion of reported shareholders' equity uplifted by 12.5%. The resulting loss of 52 billion lire included 31 billion lire attributable to depreciation of the peseta in the interval since acquisition.

### *Other operations*

The following were the more significant of the year's remaining operations:

- an injection of 351 billion lire in Banque Sanpaolo, to provide the necessary support for the French subsidiary's growth strategy;
- an injection of 339 billion lire in Sanpaolo Ireland, to finance further growth of its banking business and a larger securities portfolio, partly associated with the granting of its banking license;
- subscription for a new share issue on capital increase by Sanpaolo Vita, amounting to 25 billion lire, to support the company's growing operations;
- purchase from SAI of a 17.65% interest in Sanpaolo Fondi for 24.8 billion lire, including 16.8 billion lire settled by the transfer of a property acquired on the liquidation of the Della Valle Group;
- subscription for new shares in Prospettive 2001 SpA on capital increase, as part of a debt-rescheduling scheme for the Sotim (formerly Situr)/Valtur Group; the investment of 24.5 billion lire was subsequently written down by 8.5 billion lire;
- participation, by means of capitalizing outstanding loans amounting to 21.3 billion lire, in the covering of the 1996 losses of Galileo Holding, and reinstating the company's share capital, as part of a rescue plan; the holding was subsequently written off;
- subscription for a new share issue on capital increase by Sanpaolo Asset Management, amounting to 17.2 billion lire; this company, formed on the conversion of the Sanpaologest Fiduciaria Group, is in process of becoming the focus for the whole of the Group's asset-management business;
- an investment of 9.5 billion lire in shares in Situr (now Sotim), as part of a restructuring of its group;
- subscription of new shares in Cedel International SA on capital increase of 4.7 billion lire, an injection to support the company's growing operations;
- participation, through the capitalization of loans amounting to 4 billion lire, in covering the 1996 losses of F.lli Marzoli & C and restoring its share capital, as part of a recovery plan for this company.

The year's principal divestments are listed below:

- the interest in Locat, for 28.5 billion lire, producing a gain of 8.4 billion lire;
- the interest in Istituto Centrale Banche Banchieri, for 12.5 billion lire, producing a gain of 7.6 billion lire;
- the interest in GFT, for 12.1 billion lire, producing a gain of 2.5 billion lire;
- the interest in Permasteelisa, for 4.3 billion lire, producing a gain of 0.3 billion lire;
- the interest in Serleasing, for around 4.2 billion lire, producing a gain of 1.3 billion lire;
- the interest in Stampal, for around 3.9 billion lire, producing a gain of 0.9 billion lire;
- the interest in Tekfin, for 3.8 billion lire, producing a gain of 2.2 billion lire;
- the interest in CBI Factor, for 3 billion lire, producing a gain of 1 billion lire;

- the interest in Mediocredito Lombardo, for 2 billion lire, producing a gain of 1.2 billion lire.

**Performance of companies  
representing equity  
investments**

**T**he performance of the principal subsidiaries and companies subject to significant influence is described in the report on the consolidated financial statements.

## Intercompany transactions

The amounts due to and from other Group companies, together with the corresponding totals for transactions during the year, are reported in the table below (in accordance with art. 4 of Decree 87/92).

*millions of lire*

San Paolo Banking Group companies	Balances included among:		Guarantees and commitments	Revenues (b)	Costs
	Assets (a)	Liabilities			
Apokè Six Srl	61,563	174	-	309	-
Apokè Two Srl in liquidation	117,709	1,466	5,176	-	-
Banque Sanpaolo SA	405,102	304,608	42,548	20,634	15,835
C. Fin SpA	-	2,971	-	-	6
Crediop Finance Plc in liquidation	-	1,432	-	-	2,796
Crediop Overseas Bank Ltd	147,258	247,505	1,814,743	2,891	18,225
Crediop SpA	1,704,729	433,228	100,469	149,681	8,608
Euke Srl in liquidation	-	9,668	-	-	573
Gedit SA	8,392	-	-	493	-
Intersim SpA	27,483	60,183	4,323	2,444	4,071
Prospettive 2001 SpA	44,290	214	-	39	1
Sanpaolo Bank Austria AG	3,970	79,050	27	2,329	5,111
Sanpaolo Fiduciaria SpA	-	454	-	461	41
Sanpaolo Fondi SpA	-	1,525	-	388,851	420
Sanpaologest Asset Management SIM SpA	-	20,844	2	5,836	807
Sanpaolo Immobiliare SpA	533,195	173,291	-	1,905	13,794
Sanpaolo Invest SIM SpA	-	90,171	239	3,450	22,247
Sanpaolo Ireland Plc	613,706	31,619	51,312	28,935	4,885
Sanpaolo Bank SA	146,601	1,321,622	-	12,570	61,057
Sanpaolo Leasing GmbH	286	14	-	13	13
Sanpaolo Leasing SpA	1,990,928	1,746	192,296	81,097	12,046
Sanpaolo Riscossioni Genova SpA	121,093	84	157	2,964	2,072
Sanpaolo Riscossioni Prato SpA	27,578	304	12,218	523	651
Sanpaolo Vermoögensverwaltung GmbH	-	546	-	2	-
Sanpaolo Vita SpA	52,491	4,129	13	44,393	3,788
San Paolo US Financial Co.	-	1,697,369	1,697,221	-	142,171
San Paolo US Holding Co.	-	466	-	-	2,997
Sep - Servizi e Progetti SpA	-	879	25	1,375	6,204
Sotim Srl (formerly Situr Srl)	59,082	-	453	974	-
<b>Total</b>	<b>6,065,456</b>	<b>4,485,562</b>	<b>3,921,222</b>	<b>752,169</b>	<b>328,419</b>

(a) Not including the carrying value of the equity investment.

(b) Not including dividends.

The following table summarizes the corresponding information relating to companies outside the San Paolo Banking Group, over which the Bank exercises a significant influence by virtue of a holding of over 20% of the voting capital.

*millions of lire*

Companies subject to significant influence	Balances included among:		Guarantees and commitments	Revenues (b)	Costs
	Assets (a)	Liabilities			
Banaco SA	-	79	-	-	4
Banca Italo Romena SpA	49,818	12	-	3,279	173
BNC Assicurazioni SpA	-	19,998	37	602	1,397
Consorzio USAS	6,121	819	-	449	15
Esatri SpA	286,162	-	325,686	4,446	5,943
Finconsumo SpA	46,235	202	14,208	5,385	2
Galileo Holding SpA	7,862	-	-	347	-
Gedeam Investments Group Inc. SA	49,010	13	-	2,921	1
Inter Europa Bank RT	41,845	3,312	3	1,671	517
Ruegg Bank AG	2,307	4,618	-	2	92
<b>Total</b>	<b>489,360</b>	<b>29,053</b>	<b>339,934</b>	<b>19,102</b>	<b>8,144</b>

(a) Not including the carrying value of the equity investment.

(b) Not including dividends.

All intercompany transactions (including those with non-Group companies subject to significant influence) were conducted at arm's-length, except for certain loans. Loans at interest below market rates applied to various companies acquired or formed in connection with the debt-rescheduling schemes arranged for companies and groups in financial difficulty. Loans in the latter category included those to Apoké Two, Apoké Six, Galileo Holding, Gedeam Inv. Group, Sotim and Prospettive 2001. A loan to Sanpaolo Immobiliare is similarly on 'soft' terms.

An arm's-length basis also applied to transactions with related parties - as defined by CONSOB Recommendations No. 97001574 of 2.20.97 and 98015375 of 2.27.98 - including those with personnel and officers of companies within the San Paolo Group and any of their subsidiaries.

Developments in dealings with the subsidiaries during 1997 included terminating currency-swap agreements with Sanpaolo Ireland Ltd. These had been arranged in earlier years as part of Group-level management of exchange-rate exposures; while the company has received financial injections in lire, its operations are denominated in US dollars. Sanpaolo Ireland requested the cancellation of the swap agreements in the light of shifts in volumes and average due dates within its loans portfolio, a step consistent with a revised basis for managing exchange-rate risk on fixed assets which matches investment with foreign-currency deposits. The net effect on San Paolo Ireland of the relevant movements during the interval between cancelling the swap agreements and the settlement date was a gain on financial transactions of around 69 billion lire, involving a 'loss' to the Bank of the same amount. The latter loss was recouped from the 1997 interim dividend subsequently received from the subsidiary.



## Rating

San Paolo enjoys a favorable rating among Italian banks. The major rating agencies again reviewed the activities of the Bank as a whole in 1997, and confirmed the existing ratings for short, medium and long-term debt. In August, Standard & Poor's *Outlook* (a prospective indicator for long-term debt) changed from 'Stable' to 'Positive'.

In the wake of the announcement in February 1998 of the proposal to merge with IMI, Moody's upgraded the Bank's 'Creditwatch' long-term rating, while a similar change occurred in Standard & Poor's indicators for both the short and medium/long term.

Also in February, Nippon Investors Service withdrew the Bank's AA+ rating, in the light of changes in San Paolo's deposit-business policy for South East Asia and the absence of further need for issues in yen. The same agency had also reviewed the Bank's rating in the wake of the IMI merger proposal.

The movements in ratings for short- and medium/long-term debt are summarized below:

Agency	Short-term debt		Medium and long-term debt (Senior)	
	as of 12/31/97	as of 2/28/98	as of 12/31/97	as of 2/28/98
Fitch-IBCA Limited	FI+	FI+	AA-	AA-
Moody's Investors Service	P-I	P-I	A1	A1: Creditwatch positive
Nippon Investors Service	-	-	AA+	-
Standard & Poor's	A-1	A-1: Creditwatch positive	A with outlook positive	A: Creditwatch positive
Thomson BankWatch	TBW-I	TBW-I	AA-	AA-

The Fitch-IBCA and Thomson BankWatch ratings for medium/long-term debt are at maximum, matching those assigned by these agencies to the Italian government's foreign-currency debt.

The same agencies' ratings for the Bank's short-term debt were again at the top of the respective categories, as was that of Moody's Investors Service.

Ratings in addition to those mentioned above, also highly competitive in the context of the banking industry, include the Fitch-IBCA's Individual Rating and Legal Rating, the Moody's Investors Service's *Bank Financial Strength*

rating (also judged positive on the 'Creditwatch' basis as of February '98) as well as the Thomson BankWatch *Issuer* rating.

Elsewhere in the Group, Crediop received an AA- rating from Fitch-IBCA and Aa3 from Moody's for its medium- and long-term debt (the highest possible in 1997 for an Italian bank). Banque Sanpaolo obtained Fitch-IBCA ratings of F1 and A for its short- and long-term debt respectively, while in May 1997 its Moody's long-term rating improved from Baa1 to A3.



## Share price performance

The San Paolo share price improved in step with the 81.5% rise in the banking-sector stockmarket index during 1997, which significantly outperformed the corresponding increase in the general index (59.0%).

The performance of the Bank's shares in large measure reflected positive market responses to both the privatization operation and the subsequent reorganization announcement.

The upturn accelerated towards the end of the year, boosted by the prospect of a merger with other leading banks and financial institutions. Transaction volumes rose in step with the share price, and averaged 2.3 million shares per day, compared with around 700,000 during 1996.

The price has continued to rise in line with banking shares as a whole during early 1998. It climbed 20.4% by February 27, having peaked at 22,049 lire on February 5.

*Official closing prices (in lire)*

	High	Low	Average for year
1992 (from April 2)	12,240	9,000	10,612
1993	12,150	8,867	10,374
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 (through February 27)	22,049	17,269	19,373

*Performance against indexes*

	2/27/98 (lire)	12/31/97 (lire)	12/31/96 (lire)	Change (%) 2/27/98-12/31/97	Change (%) 12/31/97-12/31/96
San Paolo shares	20,430	16,973	9,349	20.4	81.5
General index (MIBTEL)	19,890	16,806	10,571	18.4	59.0
Banking index (Current Banking MIB; base: 12/31/97 = 100)	1,290	1,000	514	29.0	94.6

## Share ownership

### Privatization

The Bank's privatization in May 1997 brought fundamental changes to its shareholder base.

The first stage of this process involved establishing a stable nucleus of shareholders with interests of over 2%, who provided certain undertakings to the Bank's parent company, Sanpaolo Bank Holding. The key commitments were to refrain from increasing their respective holdings beyond 5%, from exercising more than 5% of their voting rights, from selling their holdings, and from forming syndicates or otherwise engaging in block-voting arrangements. The shareholders in question include: Banco Santander, which increased an existing 3.8% interest to 6.8%; IMI 5%, up from 1.8%; the IFI-IFIL Group, 5%; Monte dei Paschi di Siena, 3%; Reale Mutua Assicurazioni, 3%; Kredietbank (Belgium), 2%. Compagnia di San Paolo reduced its holding (via Sanpaolo Bank Holding) from 65.6% to 20.5%; under the agreements with the shareholders comprising the 'stable nucleus', it undertook to restrict to 5% its exercise of voting rights on resolutions to appoint directors or approve financial statements (no such restriction applies to other resolutions). Other significant shareholders include INA (1%), HDI-Hannover in Germany, and the Dexia Group.

Demand was high among savers and institutional investors alike for the shares comprising the Public Offer. Applications were received for a total of 760 million shares, an approximately three-fold oversubscription of the 253 million on offer. On completion of the operation, some 52% of San Paolo's capital was in the hands of a widespread investing public, and thus eligible for trading on the open market.

The Bank's capital comprised 815,992,852 shares as of the end of 1997.  
The principal interests as of that date are listed below:

	%
Sanpaolo Bank Holding (a)	20.5
Banco Santander	6.8
IMI	5.0
IFI-IFIL	5.0
Monte dei Paschi di Siena	3.0
Reale Mutua Assicurazione	3.0
Kredietbank	2.0
Dexia Group	1.0
HDI-Hannover Group	1.0
INA	1.0
Others	51.7
Total	100.0

(a) This 20.54% interest is now held by Compagnia di San Paolo Srl, a wholly-owned subsidiary of Compagnia di San Paolo, following a partial spin-off from Sanpaolo Bank Holding completed in early 1998.

## Significant events after the year-end

### General background

The performance of the international economy is apparently conditioned by the prospects for recovery in Japan and developments in the continuing crisis in South-East Asia. The more recent views of the leading economic forecasting agencies in the latter connection are less than optimistic, although the prospects for long-term growth are brightened by reasonably healthy fundamentals.

Japanese economic policy is crucial to hopes of an imminent turnaround in the fortunes of the region, which looks a remote prospect in the absence of a decidedly expansive budget in Japan - needed anyway to prevent a further decline in that country's internal demand and output levels. Some observers are still forecasting growth in the Japanese economy during 1998 at around 0.2%, although the latest assessments reflect a more pessimistic view.

The economic prospects of the USA and Europe are boosted by the downward trend in import prices and the increasing probability of another round of interest-rate cuts. The IMF's forecasts for 1998 growth rates are 2.4% and 2.7% respectively, basically matching the predictions of other agencies. In the case of Europe, the rate mentioned should be accompanied over the next few months by inflation pegged on average at below 2%, helped by easing oil prices.

No significant changes are expected in the labour markets of either the Anglo-Saxon countries or continental Europe. The former are enjoying record employment levels, while the latter are showing little sign of improvement, in Germany or elsewhere.

The slightly better growth rates across Europe accompany monetary policies dominated by the impending introduction of the single currency, together with stabilization of prices. Market expectations of the post-convergence short-term interest rates of those countries seeking participation in monetary union from the outset now favour estimates in the region of 4%, a downward revision of the forecast in the latter part of last year.

The Italian economy is expected to improve, despite the absence of better news on the employment front. Growth is forecast at over 2%, mainly on the strength of the gross demand figures for capital goods, which show the benefit of consistently low interest rates in both money and real terms. While export performance is forecast as similar to last year's, imports should slow.

On the consumer prices front, there was apparently a slight rise in the inflation rate during February. Any effect on the full-year rate should be neutralized during the next few months, given the likely trend in international prices combined with rising productivity and slowing growth in private-sector wages. The forecast for the full-year inflation rate is around 2%.

Consistent with the guidelines in the long-range national plan 1998-2000, this year's budgetary policy will seek to build on the successes of 1997, while pleasing many by a slight easing of the tax burden.

The introduction of monetary union will be facilitated if the various exchange rates approximate their central parities. Italian monetary policy will thus be designed to create the conditions for further cutting of short-term interest rates, in the process of alignment with the other major European countries.

### **The Bank: key events, performance to date and outlook**

*Changes in equity investments* Certain transactions affecting substantial equity interests were finalized in early 1998, including divestments aimed at rationalizing the portfolio, and acquisition of additional holdings in companies operating in sectors of strategic relevance to the Group.

*Divestment of Sotim Srl  
(formerly Situr Srl), including  
Euke Srl's 17.7% interest* An agreement for the sale of Sotim Srl (formerly Situr Srl), a holding company whose real-estate and vacation-trade group includes Valtur SpA, was signed at the end of January. The purchaser is Fin.Cab SpA, a Patti Group holding company.

The agreement resulted from an auction launched during the second half of 1997 in collaboration with an external advisor, and also covers settlement of all the Sotim/Valtur Group's debts to the Bank. The sale is scheduled for completion by the end of April.

The end-1997 carrying values of this equity interest and the amounts due from the group mentioned have been adjusted to reflect the terms now agreed. A provision has also been made for the Bank's exposure under a guarantee to the purchaser regarding any post-sale emergence of undisclosed liabilities.

*Divestment of the 32% interest  
in Ruegg Bank AG* San Paolo acquired its holding in Ruegg Bank AG, a Swiss banking subsidiary of the Hambros Group, in the first half of the '90s. The investment decision contemplated synergies with Hambros in the international Private Banking sector.

In the event, the Hambros Group subsequently sold its interest in Ruegg to Société Générale, as part of a general run-down of its banking asset base. San

Paolo followed suit, selling its minority interest to the same purchaser, at the end of 1997. The transaction was finalized at the beginning of March, and generated a total gain - to be recognized in the 1998 statement of income - of 23 billion lire.

*Acquisition of the remaining interest in Sanpaolo Fondi SpA*

An agreement has been reached to purchase the remaining 4% interest in Sanpaolo Fondi SpA from the Hambros Group. This follows the acquisition during 1997 of SAI's 17.65% interest, which raised the Bank's holding to around 96%.

The outlay is estimated at 5 billion lire, an investment which reflects both the strategic importance of the subsidiary and the dependence of its revenue prospects on the Bank's distribution capability.

*Finconsumo SpA: joint acquisition with the Santander Group*

In early 1998, the Bank acquired joint control with the Santander Group of Finconsumo SpA, a consumer-credit company. Reasons for the move included the strategic importance of the expanding consumer-credit sector. The Bank's investment amounted to around 20 billion lire, on a 30% interest which added to an existing holding of 20%.

Finconsumo enjoys a substantial and rapidly-growing market share, as well as excellent profitability evidenced by an estimated RoE for 1997 onwards of 26%. San Paolo's expectations of healthy returns on this investment are also based on the track record of the Santander Group in the sector concerned, as well as the Bank's considerable potential in terms of market penetration and distribution.

*Two-year operating plan 1998-99*

Although of largely extraneous origins, the erosion of margins during 1997 has prompted the Bank to plan a series of medium-term measures designed to create value for the shareholder, as well as improving profitability as rapidly as possible. The former aim arises from the privatization decision, combined with the related strategy of seeking market opportunities for higher added-value business.

The plan identifies, describes and analyses the steps in a program which affects all the key areas of San Paolo's banking business, setting a range of both financial and qualitative objectives. The former are largely concerned with raising volumes, maximizing revenues and cutting costs. The qualitative criteria are designed to raise standards significantly both in growth areas and in those of potential weakness; examples include finance, loan granting/collection procedures, and information systems.

The combined effect of the various measures should be a significant improvement in the revenue/cost ratio, by the end of next year.

*Performance during January  
and February 1998*

During the first two months of 1998, the level of customer funds entrusted to the Bank maintained the rising trend of last year, while lending levels began to recover.

The year-on-year rise in the level of total deposits exceeded 12% (against 11.6% during 1997), the net effect of a 27.5% increase and 3.7% reduction in indirect and direct deposits respectively. The downturn in the latter sector was entirely confined to term deposits.

Indirect business benefited from exponential growth in managed savings - evidenced by an inflow of over 9,500 billion lire in two short months - which occurred entirely in the mutual funds segment. Year-on-year, aggregate fund assets shot up by over 70%. A new feature associated with the increase in subscriptions was a sharp rise in fund-based asset-management business, by more than 4,000 billion lire during the period. This represents a significant opportunity for the fund managers, in terms of directing savers - within the constraints of the risk profile set by the client - towards higher added-value funds.

The shift in the composition of direct deposit funds in favour of the short term continued in early 1998; the year-on-year growth in demand deposits exceeded 6%. A reduction of over 3,700 billion lire in the medium/long-term segment included early redemptions of bonds and subordinated loans totalling some 3,000 billion lire. The latter decline was offset, however, by redirection to the savings management area.

The rate of growth in lending apparently began to catch up with the industry average. The levels consolidated those at end-1997, reflecting a steady performance based on import-export financing, routine overdraft lending and other commercial business. On a year-on-year comparison, medium/long-term lending was muted, still affected by the exceptional repayments marking the last ten months of the previous year.

The forecasts of a moderate increase in non-performing loans and problem loans before writedowns were borne out during the period, in terms of reclassifications into these categories. The overall growth rate slowed however, the effect of recoveries against problem accounts.

The Bank's results for the first two months of 1998 indicate a significant reversal of the adverse trend apparent last year. Erosion of the interest margin amounted to 1.5%, a considerable improvement on 1997 derived from a stable spread between rates charged and paid to customers, combined with a slight upturn in the level of normally-performing loans (reflecting a much lower level of reclassifications as non-performing than at the end of last year). Year-on-year, net interest and other banking income was 10% up, benefiting from a

jump of over 40% in net commissions from services; commissions on sales of shares in mutual funds totalled 110 billion lire, compared with 48 billion lire in the same period of last year. Gains on financial transactions were also higher in easier market conditions; partly due to exceptional income, the total exceeded that in the corresponding period of 1997 by about 14%.

The ratio of commissions to personnel costs for the period amounted to 74.1%, reflecting the growth in the former and a further decline in the payroll. Given this conjunction, the improvement in this indicator is set to accelerate in future years.

### *Outlook*

The prospects for 1998 look bright, both in terms of the various business margins and of the bottom line.

Savings management is the driving force of a forecast level of income from services which should easily neutralize the effects on 'net interest and other banking income' of further expected decreases (at a much slower rate than in 1997) in the interest margin and in gains on financial transactions. Operating income is also expected to improve significantly, as revenues rise and costs decline; the latter process will be boosted by planned measures to curb personnel costs. The scale of recent years' writedowns against the loans portfolio implies a return to normal levels of such adjustments in the present year.

### *Integration programs*

The ongoing radical restructuring of the international finance sector is creating the basic conditions for effective responses to globalization of markets, technological advance and, in the case of Europe, the introduction of a single currency. Against this background and in common with certain other leading Italian banks, San Paolo is embarking on a strategic path marked by various forms of business concentration, leading to the creation of an organization equipped in terms of size and skills to deal effectively with the increasingly fierce competition which will characterize the new European market.

Recent developments have included the early stages of a concentration process which will marry expansion with a balanced rise in revenues. The twin aims are to open up new avenues for growth and innovation, while prioritizing the higher added-value business streams in order to maximize value to the shareholder.

Istituto Mobiliare Italiano SpA (IMI), one of the stable nucleus of shareholders in the privatized San Paolo, has been selected as the ideal partner for an early merger, which would pave the way for the further aggregations needed to achieve the above-defined objectives most effectively.



On February 6, the Bank's board formally resolved on a joint exercise with IMI to draw up a business, financial and corporate-structure plan as the basis of a merger between the two banks. IMI's board passed a similar resolution five days later.

The plan was drawn up during March, and awaits clearance by the respective boards and the supervisory bodies, to be followed by submission for approval to Extraordinary Meetings of the shareholders of the two banks. It is planned to complete the merger by the end of this year.

The merged enterprise will lead in the Italian banking market, and rank among the major sector operators at international level. It will combine a large commercial bank with a prestigious finance house. San Paolo will contribute the nationwide grassroots presence represented by its distribution network, and a high-profile operation in retail banking - notably oriented toward the personal and medium/small business segment. IMI's complementary investment-banking business streams are in financial services and medium/long-term lending, while it also deploys a highly effective sales network, marked by the quality of its products, in the personal financial services segment. The opportunities for synergy are clearly many, notably in the fields of asset management, banking-channel insurance business, Private Banking, investment banking for the medium-sized concern, and financial support for public-sector agencies.

Turin, March 23, 1998

The Board of Directors



## **Amendment of art. 22 of the Articles of Association; transfer of the statutory reserve to the extraordinary reserve**

Shareholders,  
The following proposed amendment to Art. 22 will remove the obligation to transfer part of reported net income to the Statutory Reserve.

Such a practice now has little relevance, in the light of the Bank's present financial structure, reflected in capital adequacy ratios which exceed the Bank of Italy thresholds by wide margins.

The proposed text of the Article is quoted below, side-by-side with the existing text.

### **Existing test**

Art. 22

The Company's financial year is the calendar year.

10% of each year's net income as disclosed by the financial statements must be transferred to the Legal Reserve, except that no such transfer is required where the Reserve stands at or above 20% of capital; a further transfer of not less than 10% of net income must be made to the Statutory Reserve.

Where no transfer to the Legal Reserve is required, the transfer to the Statutory Reserve must amount to at least 20% of net income.

The allocation of remaining income, as dividend and/or in the form of other transfers to reserves, is determined by the shareholders in general meeting, on the basis of proposals submitted by the Board of Directors.

The shareholders' resolution approving the dividend also fixes the related basis and timing of payment.

Dividends not claimed within five years of the first date on which they become payable are forfeited to the Company and credited to reserves. Interim dividends may be paid, subject to compliance with the relevant legislation as regards timing, method, procedures and otherwise.

### **Proposed test**

Art. 22

The Company's financial year is the calendar year.

10% of each year's net income as disclosed by the financial statements must be transferred to the Legal Reserve, except that no such transfer is required where the Reserve stands at or above 20% of capital.

The allocation of remaining income, as dividend and/or in the form of other transfers to reserves, is determined by the shareholders in general meeting, on the basis of proposals submitted by the Board of Directors.

The shareholders' resolution approving the dividend also fixes the related basis and timing of payment.

Dividends not claimed within five years of the first date on which they become payable are forfeited to the Company and credited to reserves. Interim dividends may be paid, subject to compliance with the relevant legislation as regards timing, method, procedures and otherwise.

We accordingly propose to transfer to the Extraordinary Reserve the provisions currently accumulated in the Statutory Reserve, amounting to Lire 65,924,793,032.

Turin, February 27, 1998

The Board of Directors

## **Charging of substitute tax on reserves under decree 467/97 to the reserve created under art. 7.3 of law 218/90**

Shareholders,  
We propose to charge substitute tax under art. 1 of Decree 467/97 to the reserve created under art. 7.3 of Law 218/90 (the 'Amato Law')

The charging of the tax in question to equity reserves is permitted under Decree 467/97, and is consistent with the Bank's treatment of the capital tax imposed by Law 461/92.

You are accordingly invited to approve the charging of substitute tax under art. 1 of Decree 467/97, amounting to 14,311,237,798 lire, against the reserve created under art. 7.3 of Law 218/90, the adjustment to be effected in relation to 1997, the year to which the tax relates.

Turin, February 27, 1998

The Board of Directors

## Proposal to approve the financial statements and allocate distributable the extraordinary reserve

Shareholders,  
The attached 1997 financial statements of the Bank, comprising the balance sheet, statement of income, explanatory notes and attachments, and accompanied by our report on operations, are submitted for your approval.

We propose to distribute the sum of 89,759,213,720 lire from the Extraordinary Reserve as increased by transfer from the Statutory Reserve, to the holders of the 815,992,852 ordinary shares comprising capital, a distribution of 110 lire per share.

This distribution attracts a tax credit of 58.73% under Decree 467/97, and will become payable on June 22, 1998. The amount of the distribution attributable to any Treasury shares held by the Bank as of that date will remain in the Extraordinary Reserve.

Our proposal reflects the absence of further need for the reserve in question, given that the Bank's equity as adjusted for the purposes of supervision by the Bank of Italy, and the associated capital adequacy ratio, are more than adequate, together with the satisfactory business performance recorded in early 1998.

Revised shareholders' equity as the end of 1997 is analyzed below, assuming: approval by the shareholders in Extraordinary Meeting (prior to approval of the financial statements) of the proposals to transfer the Statutory Reserve to the Extraordinary Reserve, and to charge substitute tax under Decree 467/97 to the Reserve created under art. 7.3 of Law 218/90; together with approval of the present proposal.

	Capital and reserves as of 12/31/97 (a)	Movements in reserves	Distribution of the Extraordinary Reserve	Revised shareholders' equity as of 12/31/97
Capital	8,159,928,520,000	-	-	8,159,928,520,000
Additional paid-in capital	275,000,000,000	-	-	275,000,000,000
Legal reserve	205,960,097,916	-	-	205,960,097,916
Reserve for own shares	200,000,000,000	-	-	200,000,000,000
Statutory reserve	65,924,793,032	-65,924,793,032	-	-
Extraordinary reserve	27,417,678,679	+65,924,793,032	-89,759,213,720	3,583,257,991
Reserve under art. 7.3, Law 218/90	671,338,721,149	-14,311,237,798	-	657,027,483,351
Reserve under art. 13.6, Decree 124/93	977,896,365	-	-	977,896,365
	9,606,547,707,141	-14,311,237,798	-89,759,213,720	9,502,477,255,623

(a) After the provision for the year in accordance with art. 7.3 of Law 218/90.

Turin, March 23, 1998

The Board of Directors

## Independent auditing of the annual financial statements and review of the interim financial statements for the three years 1998-2000

Shareholders,  
The appointment of Arthur Andersen SpA as Independent Auditors, pursuant to art. 2 of Presidential Decree 136 of 3.31.75, expires with approval of the 1997 financial statements.

The rules relevant to the present case under the legislation permit re-appointment of existing auditors without the need for competitive tendering. In the light of the extensive knowledge of the Bank's accounting, organizational and control procedures acquired by the present firm, we have accordingly invited Arthur Andersen SpA. to make a formal proposal for renewal of their appointment.

We also asked the auditors to include their quotation for auditing the foreign branches, and for limited review of the interim financial statements (in accordance with CONSOB Recommendations 97001574 of 2.20.97 and 10867 of 7.31.97), in addition to auditing the respective financial statements of the Bank and Group. This request was made with a view to improving coordination of auditing activities and containing the relevant costs.

The present re-appointment for the three years 1998-2000 will be the second renewal and consequently the last, by virtue of Presidential Decree 136/75 which permits a maximum of nine years. The quotation submitted by Arthur Andersen SpA totals 2,070 million lire plus VAT, and is analysed below:

	Man hours	Amount (lire)
Annual financial statements:		
Bank	4,350	680,000,000
Group	750	120,000,000
Foreign branches	4,000	845,000,000
	9,100	1,645,000,000
Interim financial statements (limited review):		
Bank	1,100	200,000,000
Group	250	50,000,000
Foreign branches	900	175,000,000
	2,250	425,000,000
Total	11,350	2,070,000,000

The audit fees in respect of the annual and interim financial statements of the foreign branches are detailed below by branch:

*Annual financial statements*

Branch	Audit type	Man hours	Fees in local currency	Fees in lire
Athens	Complete	250	DRM 4,000,000	25,000,000
Brussels	Complete	260	BEF 1,300,000	61,800,000
London	Complete	1,050	LGS 105,000	304,500,000
New York (1)	Complete	840	USD 115,000	198,800,000
Singapore	Complete	660	SGD 44,000	47,700,000
Tokyo	Complete	250	YEN 6,500,000	88,000,000
Vienna	Complete	180	ATS 220,000	30,600,000
Amsterdam	Limited	210	NLG 40,000	34,800,000
Frankfurt (2)	Limited	300	DEM 55,000	53,900,000
<i>Rounding</i>				-100,000
<b>Total</b>		<b>4,000</b>		<b>845,000,000</b>

(1) Including the Nassau branch.

(2) Including the Munich branch.

*Interim financial statements (limited review)*

Branch	Man hours	Fees in local currency	Fees in lire
London	380	LGS 35,000	101,400,000
New York (1)	270	USD 35,000	60,500,000
Singapore	250	SGD 15,000	16,300,000
<i>Rounding</i>			-3,200,000
<b>Total</b>	<b>900</b>		<b>175,000,000</b>

(1) Including the Nassau branch.

The fees have been fixed on a basis which complies with CONSOB Communication No. 96003556 of 4.18.96. They reflect present rates of charge, and are consequently subject to adjustment in line with the ISTAT cost-of-living index (or the corresponding local indexes, in the cases of the foreign branches). The fees do not include the compulsory contribution (currently 4%) to CONSOB, or the related traveling and similar expenses; in the case of the audit work to be performed in Italy; expenses relating to the annual financial statements are estimated at 38 million lire, and to the interim financial statements at 20 million lire.



For completeness, the present auditing arrangements made independently by the subsidiaries are summarized below, together with the fees incurred by each company:

Subsidiary	Auditing firm	Term of appointment	Annual man hours	1997 fees
<i>Direct</i>				
Crediop SpA	Arthur Andersen	1996-1997	950	L. 158,000,000
Banque Sanpaolo SA	BDO Gendrot - Calan	1995-2000	n.a.	FRF 482,298
	Ramolino & Associès		n.a.	FRF 462,992
Sanpaolo Bank SA	Arthur Andersen	1997	80-90 days	Flux 4,500,000
Sanpaolo Ireland Ltd	KPMG	1997	n.a.	IRL L. 12,000
Sanpaolo Fondi SpA	Arthur Andersen	1996-1998	4,410	L. 668,000,000
Intersim SpA	Arthur Andersen	1995-1997	320	L. 52,700,000
Sanpaolo Asset Management SpA	Deloitte & Touche	1996-1998	300	L. 39,000,000
Sanpaolo Fiduciaria SpA	Arthur Andersen	1996-1998	240	L. 30,000,000
Sanpaolo Invest SIM SpA	Arthur Andersen	1996-1998	280	L. 54,000,000
Sanpaolo Leasint SpA	KPMG	1997	720	L. 98,000,000
Sanpaolo Vita SpA	Arthur Andersen	1997-1999	350	L. 48,500,000
Sanpaolo Riscossioni Genova SpA	Arthur Andersen	1995-1997	350	L. 50,000,000
Sanpaolo Riscossioni Prato SpA	Arthur Andersen	1997-1999	230	L. 32,000,000
Sanpaolo US Financial Co	Arthur Andersen	1996-1997	60	\$ 8,000
<i>Indirect</i>				
Sanpaolo Bank AG	Treuhand GmbH	1997	390	ATS 500,000
Crediop Overseas Bank Ltd	Arthur Andersen	1997	175	L. 49,000,000
Crediop BV	Arthur Andersen	1997	n.a.	NGL 5,300
Sanpaolo Gestion Internationale SA	Arthur Andersen	1997	20	L. 3,000,000

You are accordingly invited to approve the appointment, on the basis and terms set out above, of Arthur Andersen SpA (Registered Office in Milan) as Independent Auditors for the three years 1998-2000, pursuant to art. 2 of Presidential Decree 136 of 3.31.75, such appointment to comprise auditing of the respective annual and interim financial statements of the Bank and Group (including auditing of the foreign branches via the firm's international organization); in the case of the interim financial statements, the work to be performed will consist of a limited review.

Turin, March 23, 1998

The Board of Directors

## **Appointment of directors and statutory auditors**

Shareholders,  
Today's Meeting marks expiry of the terms in office of the Board of Directors and the Board of Statutory Auditors.

We thank the shareholders for their confidence during our term. In accordance with the relevant legislation and provisions of the Articles of Association, you are invited to appoint both the boards mentioned, together with their respective Chairmen, and to fix the respective emoluments.

Turin, March 23, 1998

The Board of Directors

## Report of the Board of Statutory Auditors on the financial statements as of December 31, 1997, pursuant to article 2429 of the Italian Civil Code

The 1997 financial statements, presented for approval by the shareholders and submitted to us within the legal framework, were prepared as required by Decree No. 87 dated January 27, 1992 and the Bank of Italy's regulations dated January 16, 1995.

The financial statements comprise the balance sheet, the statement of income and the explanatory notes, accompanied by the report on operations and are summarized below:

BALANCE SHEET		<i>lire</i>
Assets		214,762,925,876,030
Liabilities		205,170,689,406,687
Shareholders' equity		9,592,236,469,343
Guarantees		23,669,754,354,633
Commitments		34,815,311,719,265

STATEMENT OF INCOME		<i>lire</i>
Revenues		17,377,322,943,402
Costs		17,324,686,992,333
Net income for the year		52,635,951,069
Provision to reserve (Article 7.3 of Law 218/90)		52,635,951,069
Distributable net income		-

The obligatory formats for the balance sheet and statement of income present 1997 information on a comparable basis with that of 1996. The 1996 data have not been adjusted because the spinoff of the public sector lending business on January 31, 1997 had only a limited impact on the total figures.

The report on operations presented by the Board of Directors provides a full and complete description of the Bank's financial and operating position, both in relation to 1997 and to events which took place after the end of that year. In particular, the report on operations includes the reclassified balance sheet and statement of income for 1997 together with the comparable figures for 1996. The report on operations contains the information required by Consob recommendations 97001574 of February 20, 1997 and 98015375 of February 27, 1998.

The accounting policies adopted by the Board of Directors are consistent with those adopted in the previous year with the exception of the following which are reported in detail in the introduction to the Explanatory notes with their effects on the balance sheet and the income statement:

- the introduction of continuous daily average cost in place of LIFO in annual layers for the valuation of dealing securities;
- the application of current exchange rates instead of historical exchange rates to financial fixed assets represented by funds held by foreign branches and foreign shareholdings (excluding certain interests expressed in non-convertible currencies);
- recognition of deferred taxation, following international accounting standard IAS 12 (revised in 1996), with the result that the financial statements contain prepaid taxes relating to timing differences (between the tax value and the accounting value of assets and liabilities). These are accounted for in 1997 and will be cancelled in future years;
- the establishment from 1997 of an amount charged to the reserve for risks and charges according to mathematical and actuarial principles to allow for staff long-term bonuses.

We agree with the accounting principles which are summarized below:

- loans are valued at their estimated realizable value, determined following a detailed review of both specific and general risks associated with the various forms of lending; the relative writedowns are deducted from the balance sheet asset value;
- investment securities are valued at cost, as adjusted by accrued issue discounts and accrued dealing discounts. Such securities are written down to reflect any lasting deterioration in the solvency of the issuers and the ability of the countries in which they are resident to repay their debts;
- dealing securities not included in complex financial portfolios are at the lower of cost, as determined by continuous daily average cost and accrued issue discounts, or market value;
- derivative contracts which hedge specific risks, whether on- or off-balance sheet, are valued on a basis consistent with the hedged assets and liabilities and, in particular, contracts which hedge dealing securities are stated at the lower of cost or market while contracts hedging deposits, loans and investment securities are valued at cost;

- securities and derivatives held in complex financial portfolios - consisting of a series of specific and non-specific derivatives, organized in “books” and managed in a specific way to meet specific financial objectives - are valued at market;
- equity investments are valued at cost, including previous revaluations at the time of the Bank’s conversion into a limited company and as a result of merger and they are written down to reflect any permanent losses in value;
- tangible fixed assets are valued at cost, including revaluations and net of depreciation, calculated on a straight line basis over their residual useful lives;
- intangible fixed assets are valued at cost less amortization. In particular, the costs of capital issues and increases in capital and other deferred charges are written into the balance sheet with our agreement and are amortized, on a straight line basis, over five years;
- goodwill paid to acquire the business activities of Sanpaolo Factoring in 1993 is amortized, with our agreement, on a straight line basis, over five years;
- differences arising on the merger of Banca Provinciale Lombarda and Banco Lariano (at the end of 1993) and of Crediop (in 1995) net of the amount allocated to their assets, are amortized with our agreement on a straight line basis. We agree that amortization is accounted for over 10 years in the case of Banca Provinciale Lombarda and Banco Lariano and over five years in the case of Crediop and is therefore correlated with the goodwill of the merged banks as determined by expert appraisals at the time of the respective mergers;
- costs incurred to purchase software or produced by third parties are generally amortized on a straight line basis over three years taking account of the expected residual useful life;
- the tax on shareholders’ equity levied according to Decree 394/92, as converted into Law 461/92, will be deducted from reserves (article 7.3 of Law 218/90) as allowed by law and as resolved at the extraordinary shareholders’ meeting held on April 30, 1996.

Provision to the special reserve pursuant to article 7.3 of Law 218/90, discussed in the explanatory notes in the section on provisions recorded solely for tax purposes, was determined as equal to the net profit for the year.

In 1997, special provisions were made for property assets to be disposed of and, at the end of the year, the expected losses were realized.

Disclosures required by article 10 of Law 72/83 are provided in the attachment to the financial statements.

The financial statements accord with the accounting books and records, kept according to legal obligations and company statutes, and we have been able to check them at regular periods; we have also examined their compliance with statutory, fiscal and social security requirements as well as the adequacy and effectiveness of the systems of internal control and accounting administration.

In the performance of our duties we have taken account, among other things, of the rules of conduct for Boards of Statutory Auditors established by the Italian Accounting Profession.

We attended the meetings of the Board of Directors and the Executive Committee which were held according to legal obligations and company statutes. Pursuant to Consob recommendation of February 20, 1997, we note that in the course of the year the Board of Directors met 16 times and the Executive Committee 30 times.

The report on operations, submitted to us by the Board of Directors according to legal requirements, has been prepared and made public in the manner prescribed by Consob.

In view of the preceding considerations and having also considered the contents of the auditors' report issued by Arthur Andersen SpA, we agree with the proposal to approve the financial statements for 1997. The proposal of the Board of Directors to make a distribution from special reserves conforms with legal obligations and company statutes and is consonant with the financial results of the Bank.

The proposal of the Board of Directors to the extraordinary meeting of shareholders to revise article 22 of the Articles of Association, with the transfer to the special reserve of amounts placed in the statutory reserve, as well as the charging of the substitute tax to the adjustment reserves according to article 7.3 of Law 218/90, agree with legal obligations and company statutes.

The proposal to appoint Arthur Andersen SpA to audit the annual financial statements, according to article 2 of Presidential Decree 136 of March 31, 1975, and to audit the half-year financial statements for the three years from 1998 to 2000 conforms with the recommendations of Consob concerning both content and principles of remuneration.

In accordance with the Consob recommendation of February 20, 1997, we confirm that the Bank, with the prior approval of this Board, has appointed Arthur Andersen SpA to carry out professional services, in addition to those

of auditing the financial statements, for remuneration amounting in total to 2,522 million lire of which 1,100 million lire relates to activities undertaken abroad by foreign offices of the Arthur Andersen organization.

We inform you that one shareholder of the company, EFIN Srl, represented by the Managing Director Mr. Caradonna, wrote on March 23, 1998 to the Board of Statutory Auditors and, for information, to the Board of Directors and the auditors Arthur Andersen SpA, with a formal complaint pursuant to article 2408 of the Civil Code to ask the Board of Statutory Auditors to check on non-performing and problem loans and to analyze “the principles adopted and followed in the approval of loans to individual clients, on the control procedures followed and on the responsibilities of those advancing the loans and of those assessing any deterioration in the asset quality”.

The complaint compares the figure published in the press release of February 27, 1998, issued by the Bank (in which it is made clear that “the fall [in net income] can be attributed to the provisions against loans and participations, reflected in gross provisions of more than 2,300 billion lire”) with the statement made of page 14 of the Half Year Results (in which it is made clear that provisions and net adjustments amounted to 614 billion lire) and argues that “the evidenced provisions against loans and participations” for more than 2,300 billion lire “contradict the information given in the Half Year Results.” Such a difference - argues the complainant - ought to justify the special attention requested of the Board of Statutory Auditors which should also pay attention the financial statements of 1995 and 1996.

The Board of Statutory Auditors has examined the proof copy of this annual report, together with the explanatory notes and the accompanying report on operations, approved by the Board of Directors on March 23, 1998, which contains information clearly not known to the shareholder, EFIN Srl, at the time of the complaint. The Board of Statutory Auditors therefore makes it clear that the facts and the information required by the shareholder are properly given in these documents as well as those in the annual and half year reports of previous years.

The Board of Statutory Auditors has furthermore made it clear that, following expert analysis, as well as on the basis of detailed supporting documentation provided by the Board of Directors, concerning movements in and the valuation of the loan portfolio and shareholdings at December 31, 1996 and June 30 and December 31, 1997 there have not been any irregularities either in management procedures or in valuations. However, the Board of Statutory Auditors considers that, beyond the information provided by the Board of Directors which clearly offers the appropriate clarification, it would be useful to explain the following to the shareholder:

The Board of Statutory Auditors has also considered it appropriate to compare the composition of the writeoffs, writedowns and writebacks of

loans and shareholdings in 1997, with to the results of 1996 and to the first half of 1997; it has also examined the loan portfolio, gross and net, at December 31, 1996 and June 30 and December 31, 1997 as well as movements in the loan portfolio in the first and second semester of 1997.

The results of the analysis are given below.

### **A) Analysis of writeoffs, writedowns and writebacks of loans and shareholdings.**

The amount of 2,313 billion lire mentioned in the press release to which the complainant refers represents the gross amount of the adjustments to loans and financial fixed assets and provisions for risks and charges; this amount does not include writebacks and cash inflows from loans and financial fixed assets in the course of the year which amounted to 616 billion lire. The *net amount* is therefore 1,697 billion lire as reported on page 43 of the report on operations and, in greater detail, on pages 51 and 52.

The figure reported on page 42 of the Interim Report is 667 billion lire which is the amount net of adjustments and provisions. The difference is therefore not that stated by the complainant but substantially reduced.

In the report on operations and the explanatory notes, furthermore, it is stated that in the total figure of 1,697 billion lire are included, among other items, specific writedowns of 1,139 billion lire, writedowns of performing loans of 200 billion lire in case of inherent risk and losses of 211 billion lire from sales of which 139 billion lire refer to the sale of a portfolio of more than 1,400 construction loans which were sold at the end of the year.

Taking into consideration the writedowns of performing loans (200 billion lire) and the losses from the sale of construction loans (139 billion lire), the total adjustments for 1997 (including adjustment on shareholdings, largely in the property sector) amounted to 1,358 billion lire (1,697 billion lire less 339 billion lire) and differ from those posted at June 30, 1997 (667 billion lire) by 691 billion lire which therefore represents the amount of the net adjustments posted in the second half of the year.

Taking further account of the data in the financial statements of December 31, 1996, it can be seen that the effect of the net adjustments and provisions in those statements was 1,161 billion lire. Compared to the adjustments and provisions in the financial statements of December 31, 1997, there was an increase due to inherent risk and based on previous experience.

### **B) Loan portfolio, gross and net, at December 31, 1996 and June 30 and December 31, 1997.**

In the report on operations (page 68), it is stated that net non-performing



loans grew by 21.5% or around 780 billion lire compared to the end of 1996 nearly all of which was attributable to construction lending.

The interim report (page 51) states that “net non-performing loans grew by 8% or around 300 billion lire compared to the end of 1996 all of which attributable to construction lending”.

In the explanatory notes (pages 162-163), there is stated the movement of total adjustments in non-performing loans of 2,799 billion lire, with net non-performing loans at 4,399 billion lire, or 4.4% of loans to customers compared to 3.7% at the end of December 1996. At the end of June 1997, net non-performing loans amounted to 3,912 billion lire.

If non-performing loans and problem loans are considered together, they increased by a gross amount of around 300 billion lire, net of adjustments with respect to 1996. This increase appears inherent given previous experience.

On the basis of these figures, the Board of Statutory Auditors considers that the information given does not justify the complaint of contradiction between the financial statements of the first half and those of the full year of 1997 regarding provisions and adjustments to loans and participations, the loan portfolio and the relative composition and movement between non-performing and problem loans.

The adjustments and writedowns posted are explained in the report on operations (page 42) where it is stated that the adjustments have been made necessary mainly as a result of a further deterioration of the total credit exposure of the Bank. This is related to negative developments in the construction sector as a result of worsened market conditions and to further difficulties in debt restructuring plans of the companies concerned.

In particular, the Board of Statutory Auditors notes that the Board of Directors has made known that it has initiated a series of actions directed to timely monitoring of developments in the construction sector and that these actions have included further appraisals up to October 1997 on the value of property collateral to guarantee loans or shareholdings with a view to marking the residual value at market prices and in adopting more strict principles of evaluating loans at risk and, in particular, those in the construction sector:

In this connection, the Board of Statutory Auditors, following its official remit, has been able to certify:

a) that further appraisals have been made in October 1997 on residual property values;

b) that the Board of Directors has taken account of the results of these appraisals in applying adjustments on shareholdings and loans compared to the first half of 1997;

c) that the “more strict principles of evaluating loans at risk and, in particular, those in the construction sector” have been translated into practice and that they have further reduced the margin of discretion in the classification of loans at risk.

Further to the above considerations, the Board of Statutory Auditors has made available to shareholders the appropriate information and valuations so that the Shareholders' Meeting may make its own decision on the complaint.

Turin, April 4, 1998

The Board of Statutory Auditors

## Report of the independent auditors

Pursuant to article 4 of Presidential Decree 136 of March 31, 1975

*(Translation from the original issued in Italian)*

To the Shareholders of  
Istituto Bancario San Paolo di Torino SpA:

1. We have audited the financial statements of ISTITUTO BANCARIO SAN PAOLO DI TORINO SPA ("Istituto") as of and for the year ended December 31, 1997. 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, reference should be made to our auditors' report dated April 2, 1997. 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 57.8% of total investments and 0.9% 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 SpA at December 31, 1997.
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) Pursuant to article 7.3 of Law No. 218/90, in order to secure the relevant tax benefits, the Istituto has charged a provision of 52,636 million lire against 1997 income, crediting such amount to a special reserve included in shareholders' equity. This had the effect of reducing distributable net income for the year by 24,634 million lire net of the related tax effect.
  - b) The tax on shareholders' equity, which amounts to approximately 82 billion lire, will be charged against shareholders' equity when paid, as permitted by Decree No. 394/92, converted into Law No. 461/92.

c) In the preparation of the financial statements as of and for the year ended December 31, 1997, the Istituto has modified certain accounting criteria with respect to those used in the preceding year. In particular, the method of determining the cost of short-term securities was changed from LIFO (calculated on the basis of the average cost for the year for net increases) to moving average, head office accounts held by foreign branches and investments stated in foreign currencies have been translated at current exchange rates (instead of historic exchange rates) and a reserve has been provided to cover the costs related to long-term service payments to employees.

The reasons for these changes and the related effects on the balance sheet and statement of income are illustrated in detail in the explanatory notes.

d) On the basis of the requirements of International Accounting Standard IAS 12 (revised in 1996) related to accounting for deferred tax assets and liabilities, the Istituto has recorded in the financial statements a deferred tax asset (amounting to Lire 286 billion) on the temporary differences between the book and tax values of assets and liabilities. This asset accrued substantially in 1997 as a result of the provision for risks and charges and valuation adjustments of receivables, deductible for tax purposes in future years, together with the rendering tax deductible the amortization of differences deriving from mergers recorded in the financial statements as a result of the payment of the "substitute tax" ("imposta sostitutiva"). The adoption of the same accounting principle in the preparation of the financial statements for 1996 would not have had a material effect at that date.

e) On February 6, 1998, the Board of Directors of the Istituto formally approved the preparation together with Istituto Mobiliare Italiano SpA of a business, financial and shareholding plan aimed at the intergration of the two Banks. This project should receive the approval of the respective Boards of Directors and Extraordinary Shareholders' Meetings of both Banks.

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 March 31, 1998.

ARTHUR ANDERSEN SpA  
s/Giulio Lubatti - Partner

Turin, March 31, 1998

## Financial statements

## Balance sheet

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Assets	12/31/97	12/31/96
10. Cash and deposits with central banks and post offices	737,981,972,351	721,986,679,414
20. Treasury bills and similar bills eligible for refinancing with central banks	12,511,445,534,625	15,619,888,888,926
30. Due from banks	49,077,694,814,544	54,538,479,960,684
a) repayable on demand	7,211,265,583,705	6,884,545,800,771
b) other deposits	41,866,429,230,839	47,653,934,159,913
40. Loans to customers	99,502,143,153,753	99,176,925,672,241
including:		
– loans using public funds	115,625,666,039	123,671,638,463
50. Bonds and other debt securities	20,081,266,760,864	20,661,595,643,183
a) public entities	13,282,913,222,997	12,966,333,681,702
b) banks	5,158,957,121,274	6,506,275,967,792
including:		
– own bonds	1,238,952,603,564	1,420,607,454,345
c) financial institutions	564,235,905,987	360,452,456,627
including:		
– own bonds	–	–
d) other issuers	1,075,160,510,606	828,533,537,062
60. Shares, quotas and other equities	1,410,037,586,995	1,008,683,282,402
70. Equity investments	629,875,271,591	640,356,142,825
80. Investments in Group companies	2,765,192,059,437	3,100,428,788,969
90. Intangible fixed assets	407,282,707,747	456,806,157,910
including:		
– start-up costs	4,791,305	268,006,912
– goodwill	–	459,600,000
100. Tangible fixed assets	2,276,253,380,719	2,532,900,358,835
130. Other assets	14,781,400,369,590	14,023,441,855,848
140. Accrued income and prepaid expenses	10,582,352,263,814	10,099,431,040,932
a) accrued income	10,160,117,576,125	9,809,528,415,660
b) prepaid expenses	422,234,687,689	289,902,625,272
including:		
– discounts on bond issues	14,595,994,402	20,730,175,057
<b>Total assets</b>	<b>214,762,925,876,030</b>	<b>222,580,924,472,169</b>

<b>Liabilities and shareholders' equity</b>	12/31/97	12/31/96
10. Due to banks	46,910,981,218,324	55,218,448,236,709
a) repayable on demand	7,338,733,426,082	7,264,921,047,078
b) time deposits or with notice period	39,572,247,792,242	47,953,527,189,631
20. Due to customers	73,857,889,158,131	66,813,476,522,827
a) repayable on demand	47,675,941,273,833	44,963,444,061,050
b) time deposits or with notice period	26,181,947,884,298	21,850,032,461,777
30. Securities issued	49,534,147,401,306	57,532,996,293,173
a) bonds	24,079,431,012,960	26,395,085,670,869
b) certificates of deposit	24,906,090,858,129	30,323,436,345,079
c) other securities	548,625,530,217	814,474,277,225
40. Public funds administered	119,111,536,756	121,122,905,711
50. Other liabilities	18,866,136,649,847	17,012,833,884,679
60. Accrued expenses and deferred income	11,284,104,599,603	11,246,971,450,494
a) accrued expenses	10,897,664,908,178	10,548,832,222,390
b) deferred income	386,439,691,425	698,139,228,104
70. Provision for termination indemnities	706,597,403,011	829,918,147,281
80. Provisions for risks and charges	684,198,210,642	766,680,768,084
a) pensions and similar commitments	-	-
b) taxation	294,192,620,195	440,799,630,782
c) other	390,005,590,447	325,881,137,302
90. Reserves for possible loan losses	-	-
110. Subordinated liabilities	3,207,523,229,067	3,178,340,652,170
120. Capital	8,159,928,520,000	8,159,928,520,000
130. Additional paid-in capital	275,000,000,000	275,000,000,000
140. Reserves	1,157,307,949,343	1,133,223,646,640
a) legal reserve	205,960,097,916	176,761,753,476
b) reserve for own shares	-	-
c) statutory reserves	65,924,793,032	36,572,575,001
d) other reserves	885,423,058,395	919,889,318,163
150. Revaluation reserves	-	-
170. Distributable net income	-	291,983,444,401
<b>Total liabilities and shareholders' equity</b>	<b>214,762,925,876,030</b>	<b>222,580,924,472,169</b>

<b>Guarantees and commitments</b>	12/31/97	12/31/96
10. Guarantees given	23,699,754,354,633	22,262,793,228,631
including:		
– acceptances	387,686,092,019	323,425,192,287
– other guarantees	23,312,068,262,614	21,939,368,036,344
20. Commitments	34,815,311,719,265	34,101,035,894,315
including:		
– repurchase agreements	-	-

## Statement of income

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	1997	1996
10. Interest income and similar revenues <i>including from:</i>	13,696,072,068,173	17,014,020,796,689
– loans to customers	8,076,153,513,690	10,013,928,981,117
– debt securities	2,830,917,806,668	3,571,308,320,521
20. Interest expense and similar charges <i>including on:</i>	-10,270,571,373,296	-13,129,966,452,785
– deposits from customers	-3,157,496,755,644	-3,791,827,473,769
– securities issued	-4,256,499,620,153	-5,564,271,878,665
30. Dividends and other revenues	346,952,470,052	94,670,850,534
a) from shares, quotas and other equities	93,067,871,851	21,285,951,456
b) from equity investments	60,810,382,526	9,960,284,717
c) from investments in Group companies	193,074,215,675	63,424,614,361
40. Commission income	1,660,752,198,909	1,182,325,435,047
50. Commission expense	-176,181,076,058	-150,086,638,764
60. Profits (losses) on financial transactions	230,602,547,382	969,442,486,332
70. Other operating income	325,210,710,485	281,100,273,087
80. Administrative costs	-3,918,984,383,163	-3,971,454,613,037
a) payroll	-2,620,746,799,589	-2,698,034,916,686
<i>including:</i>		
– wages and salaries	-1,799,094,358,117	-1,859,085,254,108
– social security charges	-704,028,752,697	-713,349,086,390
– termination indemnities	-117,623,688,775	-125,600,576,188
– pensions and similar commitments	-	-
b) other	-1,298,237,583,574	-1,273,419,696,351
90. Adjustments to intangible and tangible fixed assets	-371,491,278,682	-408,781,374,021
100. Provisions for risks and charges	-92,240,300,383	-40,000,000,000
110. Other operating expenses	-15,235,195,052	-17,346,033,404
120. Adjustments to loans and provisions for guarantees and commitments	-1,889,749,802,530	-1,317,157,688,238
130. Writeback of adjustments to loans and provisions for guarantees and commitments	608,919,267,773	559,273,980,642
140. Provisions to the reserve for possible loan losses	-	-
150. Adjustments to financial fixed assets	-330,910,346,693	-362,755,085,207
160. Writebacks of adjustments to financial fixed assets	7,141,750,700	-
<b>170. Income from operating     activities</b>	<b>-189,712,742,383</b>	<b>703,285,936,875</b>
180. Extraordinary income	501,671,929,928	113,232,078,165
190. Extraordinary expenses	-259,323,236,476	-39,378,417,118
<b>200. Extraordinary income, net</b>	<b>242,348,693,452</b>	<b>73,853,661,047</b>
220. Income taxes for the year	-	-260,000,000,000
<b>230. Net income for the year</b>	<b>52,635,951,069</b>	<b>517,139,597,922</b>
240. Provision to reserve (art. 7.3, Law 218/90)	-52,635,951,069	-225,156,153,521
<b>250. Distributable net income</b>	<b>-</b>	<b>291,983,444,401</b>



# Explanatory notes

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## Introduction - Background information

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- Form and content of financial statements
- Comparison with the 1996 financial statements
- Changes in accounting policies
- Audit of the financial statements
- Half-year report
- Consolidated financial statements
- Translation into English

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## Part A - Accounting policies

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- Section 1 - Description of accounting policies
- Section 2 - Adjustments and provisions recorded for fiscal purposes

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## Part B - Balance sheet

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## Part D - Other information

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## Introduction - Background information

### Form and content of financial statements

The Bank's financial statements for 1997 have been prepared pursuant to Decree 87 of January 27, 1992, which implemented EC Directive 86/635. The financial statements also take account of the requirements contained in the Bank of Italy regulations dated January 16, 1995, which replaced the instructions dated July 15, 1992.

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 fully reflect the transactions carried out in the year.

The explanatory notes contain all the information required by law, including that considered necessary in order to present a true and fair view of the financial and operating position. The tables required by the Bank of Italy are numbered in accordance with the regulations dated January 16, 1995.

The following schedules are attached to the financial statements:

- Statement of changes in shareholders' equity;
- Statement of cash flows;
- Key financial data of subsidiary companies and those subject to significant influence;
- List of convertible bonds (art. 2.b, Decree 137/75);
- Statement of revalued assets (art. 10.2, Law 72/83);
- 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 latest approved financial statements of subsidiary companies. The draft 1997 financial statements of these companies, to be presented for approval by the shareholders prior to April 30, 1998, or prepared by the respective Boards of Directors for subsequent approval, will also be lodged at the registered offices.

### Comparison with the 1996 financial statements

The financial statements include the corresponding 1996 data for comparative purposes. The results for the earlier year reflect those of the public-works financing business during the month of January

1996, i.e. prior to its transfer to Crediop on January 31. In view of the relatively minor contribution to the corresponding Bank totals of the revenues and costs concerned, there has been no restatement of the 1996 comparative data to reflect the change.

The following treatment of dividend income (relating to 1997 and the previous year) has been adopted in the reclassified statement of income, in the interests of disclosing the principal operating totals:

- as part of “profits on financial transactions” in the cases of dividends on shares retained at the London Branch to match holdings of derivatives linked to share-price performance or stockmarket indexes and in the cases of interim dividends from San Paolo Ireland Ltd. out of profits derived from cancellation of currency-swap agreements with the Parent Bank (reflecting revision of the policy for hedging exchange-rate exposures on foreign equity investments);
- as part of the interest margin, in the case of routine dividends from the companies representing the Bank's equity interests, and on shares included in the securities portfolio.

Again in relation to the reclassified statement of income, tax deferred following changes in accounting policy is reflected in full under “extraordinary income”, rather than being offset against income taxes for the year, partly in order to disclose the relationship of current taxes to the pre-tax result.

## **Changes in accounting policies**

**A**ccounting-policy changes affecting the 1997 financial statements are described below; in all other respects, the policies underlying the statements are the same as those adopted in the previous year.

### *Basis for determining the cost of dealing securities*

As in previous years, dealing securities are stated at the lower of cost and market value (except where they form part of structured portfolios). As from January 1, 1997, “cost” in this connection is determined on the basis of average cost on a daily basis, replacing the “LIFO in annual layers” method. The new basis is seen as more closely reflecting the realities of the Bank's securities-portfolio management activity.

The effect of the change on net income for 1997 was a benefit of 35 billion lire.

### *Assets and liabilities denominated in foreign currencies - financial fixed assets*

Under the relevant accounting policy applied through December 31, 1996, the endowment funds of the foreign branches and the equity investments in foreign companies, whose funding was denominated in Lire, were translated for accounting purposes at historical exchange rates, i.e. those ruling at the times of the original transactions, implying exposure to the risk deriving from fluctuations in the relevant exchange rates.

Appropriate holdings of foreign currency have been acquired to eliminate such exposure as regards currencies affected by the impending introduction of the single European currency, and to neutralize the risk attaching to the other currencies involved. These arrangements related to all relevant balances except those denominated in non-convertible currencies (the total of which is less than significant).

Translation of the relevant balances using current rates of exchange resulted in a gain of around 62 billion lire, which has been included in the 1997 statement of income among extraordinary items; the benefit to net income and shareholders' equity amounted to 29 billion lire.

*Reserve for taxation -  
deferred taxes*

Under the accounting policies of earlier years, recognition of deferred taxation was limited to any excess over prepaid taxes.

International Accounting Standard (IAS) no. 12, as revised during 1996, recommends that recognition of deferred tax assets and liabilities arising from timing differences should not be restricted on the basis of the expected timescale for reversal of such differences; in the case of pre-paid taxes, the deferred tax asset should be allowed for to the extent that expected future taxable income is sufficient to ensure their absorption. Although the Standard does not apply until 1998, it specifically envisages retrospective application (i.e. to 1997 or earlier years) on a voluntary basis.

The change in the Bank's accounting policy is in line with this recommendation and removes the restriction applied in earlier years, mentioned above. The change has been introduced in the interests of more meaningful reporting of the results and financial position, particularly in the light of the materiality of the item in 1997.

In accordance with a more cautious approach under a similar standard to be published shortly by the Italian Accounting Profession, the new policy restricts the recognition of prepaid taxes to the amount reasonably likely to be absorbed in later years, in the light of predicted future taxable income.

The principle of attributing costs and revenues to the periods to which they refer is among the reasons for deferring taxation, in the appropriate circumstances. This consideration applies with some force in the present case given the size of the necessary adjustment in 1997, which results from: lending writedowns exceeding 0.5% of the relevant asset value; provisions disallowed for tax purposes; and amounts written off fixed assets, whose allowability is delayed until later years. Failing to defer tax in appropriate cases results in unduly penalizing the result for the year (in which the timing differences arise) and unduly benefiting later years (whose results will reflect tax allowances relating to an earlier year).

New legislation on the taxation of gains on divestment of equity interests and of merger differences makes it likely that the relevant adjustments will be restricted in future to prepaid rather than deferred taxes.

Disclosing the overall balance of tax charges affected by timing differences facilitates the comparability of the financial statements: income taxes to be recognized in each year would essentially be ascertained by applying the basic tax rate to the pre-tax result.

The accounting-policy change has benefited net income and shareholders' equity, as reported in the 1997 financial statements, in the following ways:

- 5 billion lire relating to deferred taxation as of the previous year-end has been credited as extraordinary income;
- of the 286 billion lire in taxation deferred on the basis of timing differences arising in the year, 200 billion has been applied to eliminate the income taxes for the year; the balance of 86 billion has been treated as extraordinary income.

As of the end of 1997, prepaid taxes not recoverable before 2002 and prudently ignored amounted to around 95 billion lire.

*Reserves for risks and charges - obligations relating to employees' long-service bonuses*

Under a supplementary agreement covering managerial and clerical staff, an additional month's gross salary is payable on the employee's 25th and 35th anniversaries with the Bank.

Key aspects of this future obligation, recognition of which has been introduced with effect from 1997, are the fact that liability does not crystallize until occurrence of the relevant event (no cost is incurred if the anniversary concerned is not reached), and the consequent impossibility of accurately quantifying the future expense (the provisions have to be based on probability calculations). Factors prompting this prudent decision included changes to the regulatory framework in the pensions arena, and the likely scale and timing of the relevant cost in the light of the age distribution of the Bank's workforce.

While it is impossible to predict whether a particular employee will become entitled to the bonus, it is reasonably likely that some percentage of the workforce, which can be estimated from past experience, will fulfill the conditions. The accrued obligation is accordingly based on actuarial calculations of the type used in connection with pension plans and similar schemes.

The provision is derived as the constant annual sum which equates mathematically to the predicted future cash outflows; the reserve thus created represents coverage of the potential liability (calculated as 56,147 million lire on the basis of the present workforce).

The effect on 1997 net income and shareholders' equity of introducing the new policy, in place of the former cash basis, was a reduction of 9 billion lire.

#### **Audit of the financial statements**

**T**he 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 28, 1995, which appointed the above firm for the three-year period 1995-97.

#### **Half-year report**

**T**he report on operations during the first six months of 1997 was prepared by the Bank and made public within the timescale imposed by the legislation and on the basis prescribed by Consob.

The respective interim financial statements as of June 30, 1997 of the Bank and Group were reviewed by Arthur Andersen SpA in accordance with Consob Recommendation No. 97001574 of February 20, 1997.

#### **Consolidated financial statements**

**T**he consolidated financial statements, which are attached to the annual report of the Bank, have been prepared in conformity with Consob Resolution No. 6377 of July 28, 1992 and Resolution No. 9288 of June 14, 1995. They report consolidated net income and shareholders' equity of 167,808 million lire and 9,761,578 million lire, respectively.

#### **Translation into English**

**T**he financial statements have been translated into English from the original version in Italian. They have been prepared in accordance with the accounting principles established by the Italian law related to financial statements, which may not conform with generally accepted accounting principles in other countries.



## Part A - Accounting policies

### Section 1 - Description of accounting policies

The financial statements of the Bank are prepared in accordance with current legislation, and with reference to the accounting principles established by the Italian Accounting Profession.

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 31 December 1996 except as regards the changes set out in detail in the preceding section of these Notes.

### Loans, guarantees and commitments

#### *Loans*

The principal and interest elements of loans 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 nature of collection problems associated with the various forms of lending and the risk of default inherent in loans that appear to be performing normally. 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;
- loans subject to "country risk", being loans to borrowers resident in countries with debt-servicing difficulties, are valued on an overall basis by applying writedown percentages not lower than those specified by the Bank of Italy;
- performing loans, i.e. loans to borrowers who, at this time, do not present specific insolvency risks, are valued on an overall basis, except in relation to specific positions concerning certain companies under observation.

Restructured loans (i.e. those resulting from the combination of two or more earlier loans, or renegotiated at interest below market rates) are



assigned to risk categories according to the facts of each case, and are accordingly subjected to the respective valuation criteria applied within such categories. Future loss of interest is calculated in such cases on a basis which reflects the cost of capital.

Loans are written down by reducing the stated value of the related asset.

The original value of loans is reinstated when the reasons for any writedowns cease to apply.

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

#### *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 are held for the long term and 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 or 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*

Other securities, held for treasury and dealing purposes, are recorded at average cost calculated on a daily basis, and stated in the balance sheet at the lower of cost and market value; the latter is determined as follows:

- securities quoted in organized markets: the simple average of the prices struck during December;

- securities not quoted in organized markets: comparison with the fair value of quoted securities with similar characteristics.

Dealing securities included in complex financial portfolios, as defined below, are valued at market price consistent with the accounting treatment of the derivative contracts to which they are linked.

Securities hedged by specific derivative contracts are valued at the lower of cost or market value.

The original value of such securities is reinstated when the reasons for any writedowns cease to apply.

### *Off-balance sheet transactions*

The valuation of derivative contracts depends on whether they are held in complex financial portfolios or entered to hedge specific assets and liabilities, recorded in the financial statements or off-balance sheet.

Derivative contracts which form part of complex financial portfolios consist of a series of interrelated dealing securities and derivative contracts, held for dealing purposes or as general hedges, which are organized in “books” and coordinated to meet specific objectives. These derivatives are stated at market value.

Derivative contracts entered to hedge specific assets and liabilities, whether recorded in the financial statements or off-balance sheet, are stated on a consistent basis with the assets and liabilities which they hedge. In particular, derivatives which hedge dealing securities are valued at the lower of cost or their market value, while derivatives which hedge deposits, loans and investment securities are stated at cost.

The market value of derivative contracts is determined with reference to the respective quoted prices or, if unavailable, using objective criteria applied on a consistent basis throughout the Bank.

Gains and losses resulting from the valuation of derivatives, whether held for dealing or hedging purposes, are classified as profits (losses) on financial transactions.

Differentials and margins arising on dealing derivatives are also classified as profits (losses) on financial transactions. Differentials and margins arising on derivative contracts entered 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). Differentials and margins arising on derivative contracts entered to hedge loans, customer deposits and investment securities are treated as interest.

Dealing contracts still to be settled are valued using the policies applicable to securities held in the portfolio.

#### *Repurchase and similar agreements*

Repurchase agreements that require the holder to resell the securities acquired when the agreement matures are reflected as loans and payables in the financial statements. The related income or expense is recognized on an accruals basis.

#### *Securities lending and borrowed*

Securities loaned are reflected in the financial statements as the combination of two functionally-linked lending or borrowing transactions associated with deposit-taking or funding transactions. These transactions are essentially the same as repurchase agreements and the loaned securities therefore remain in the portfolio of the lender.

### **Equity investments**

Equity investments are stated at cost, as revalued in the past at the time of the transformation into a limited company and as a result of mergers. They are 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 difference between the book value of significant investments and the lower value of the Bank's share of their latest reported shareholders' equity represents both goodwill and the higher market value of their tangible fixed assets.

The original value of equity investments is reinstated when the reasons for any writedowns cease to apply.

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 transactions)**

Assets and liabilities denominated in foreign currencies, or in lire indexed to foreign exchange movements, are valued using the spot exchange rates applying at year-end. The same basis applies to financial fixed assets funded in foreign currencies, or in lire indexed to foreign exchange movements.

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 the original transactions.

Off-balance sheet transactions denominated in foreign currency are valued:

- using the spot exchange rates applying at year-end, in the case of spot transactions still to be settled or of operations that hedge spot positions;
- using the forward exchange rates applying at year-end, in the case of forward currency purchase/sale transactions;
- at market value, determined with reference to market prices or, if unavailable, using objective criteria applied on a consistent basis, in the case of off-balance sheet transactions.

The effect of the related adjustments is recorded in the statement of income. Differentials on transactions that hedge assets and liabilities are recorded as interest among "differentials from hedging transactions" on an accruals basis, consistent with the treatment of the interest relating to the hedged assets and liabilities.

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

#### **Tangible fixed assets**

Tangible fixed assets are stated at cost, as restated on the transformation of the Bank into a limited company, by applying revaluation laws in prior years, and at the time of mergers. The book value of tangible fixed assets is stated net of accumulated depreciation.

Operating assets are depreciated on a straight-line basis over their residual useful lives.

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 cost, net of accumulated amortization.

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 goodwill paid to acquire the business activities of Sanpaolo Factoring in 1993 is amortized on a straight-line basis over five years.

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 illustrated in expert appraisals prepared for the respective mergers.

**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.

**Payables**

Payables are stated at their nominal value.

**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 payroll agreements.

**Provisions for risks and charges**

*Taxation*

The provision for taxation covers income taxes for the year, including local taxes applicable to foreign branches, and taking account of deferred taxation and outstanding 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 art. 7.3 of Law 218/90.

Deferred taxation reflects timing differences as between the respective accounting and tax bases, which give rise to tax assets or liabilities; recognition is subject to a reasonable prospect of sufficient profits in future years. In accordance with International Accounting Standard (IAS) no. 12, deferred tax liabilities are defined as those arising from timing differences which shift

taxability to later years (e.g. deferred gains), while deferred tax assets result from timing differences which shift relief to later years (e.g. provisions and costs chargeable against later years' income; examples include provisions for lending losses that exceed 0.5% of the loans portfolio). An excess of deferred tax assets over deferred tax liabilities is offset against the tax charges for the year and included among accrued income and prepaid expenses (Caption 140b); where tax for the year is insufficient to cover the adjustment, the difference is credited as extraordinary income and appears in the balance sheet among "other assets" (Caption 130).

The extraordinary capital tax levied by Decree 394/92, as converted into Law 461/92, is deducted from distributable reserves at the time of payment, as permitted by current regulations, as an alternative to charging the amount against the statement of income. As resolved at the shareholders' meeting held on April 30, 1997, capital taxes are paid out of provisions recorded pursuant to art. 7.3 of Law 218/90.

Substitute tax under Decree 467/97 on reserves subject to grossing up for equalization tax purposes is charged against the reserve created under art. 7.3 of Law 218/90, as permitted by the rules and in accordance with a resolution of the shareholders in extraordinary meeting.

No taxation has been provided in relation to other reserves subject to deferred taxation since, at this time, 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, including repayments claimed by the receivers of bankrupt customers, as well as exposures under guarantees granted in connection with divested equity interests and possible claims by the Interbank Deposit Guarantee Fund.

The provision for other personnel charges comprises:

- provisions recorded in prior years in relation to the Bank's commitment to the independent supplementary pension fund to cover unfunded pension liabilities;
- provisions based on actuarial and similar calculations in relation to long-service bonuses payable after 25th and 35th years of employment at the Bank.

The provisions recorded reflect the best possible estimates based on available information.

**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 recorder for fiscal purposes**

#### **Adjustments recorded solely for fiscal purposes**

No adjustments have been recorded solely for fiscal purposes.

#### **Provisions recorded solely for fiscal purposes**

The special provision, 52,636 million lire, recorded pursuant to art. 7.3 of Law 218/90, basically represents the final amount relating to the mergers of Banca Provinciale Lombarda and Banco Lariano. Under the rules, the Bank will be permitted to spread the balance of the amount relating to the merger of Crediop and BNC, some 172,520 billion lire, over the next two years.

The provision in 1997 reduced distributable net income by 24,634 million lire, net of the tax effect. The full amount, 52,636 million lire, has been classified among shareholders' equity. The accumulated provisions now amount to 657,027 million lire, net of the portion used to pay the 1996 extraordinary capital tax levied under Law 461/92 and the substitute tax on reserves imposed by Decree 467/97.



## Part B - Balance sheet

### Section 1 Loans

The Bank's loan portfolio, summarized in asset captions 10, 30 and 40, net of adjustments, amounts to 149,317,820 million lire and is analyzed below by type of counterparty:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Cash and deposits with central banks and post offices (caption 10)	737,982	721,987	+2.2
Due from banks (caption 30)	49,077,695	54,538,480	-10.0
Loans to customers (caption 40)	99,502,143	99,176,926	+0.3
Total	149,317,820	154,437,393	-3.3

### Cash and deposits with central banks and post offices (caption 10)

Cash and other liquid funds totalling 737,982 million lire are analyzed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Cash	689,682	644,171	+7.1
Deposits with central banks	44,066	53,666	-17.9
Deposits with post offices	4,234	24,150	-82.5
Total	737,982	721,987	+2.2

### Due from banks (caption 30)

Amounts due from banks, 49,077,695 million lire, are analyzed below by type of counterparty and technical form:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Due from central banks			
– compulsory reserve	4,497,278	3,760,195	+19.6
– other	70,621	70,374	+0.4
Due from other banks			
– repurchase agreements and securities loaned	8,050,979	6,018,943	+33.8
– current accounts	1,903,768	833,996	+128.3
– deposits	32,416,610	42,247,428	-23.3
– loans	2,084,653	1,381,766	+50.9
– subordinated loans	36,457	35,640	+2.3
– other	17,329	190,138	-90.9
Total	49,077,695	54,538,480	-10.0

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Deposits with central banks	4,567,899	3,830,569	+19.2
b) Bills eligible for refinancing with central banks	-	-	
c) Repurchase agreements	8,009,811	5,935,603	+34.9
d) Securities loaned	41,168	83,340	-50.6

The compulsory reserve with the Bank of Italy identified above reflects the year-end position. The average annual rate of remuneration was 5%. The average level of the reserve during 1997 was 4,595,000 million lire, compared with 3,919,000 million lire in 1996.

**Loans to customers  
(caption 40)**

Loans to customers, 99,502,143 million lire, are analyzed below, by technical form:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Mortgage loans	24,097,133	24,745,587	-2.6
Current accounts	20,880,423	22,051,719	-5.3
Industrial loans	9,049,719	10,610,539	-14.7
Repurchase agreements and securities loaned	8,479,595	8,705,107	-2.6
Term loans to banks	6,842,521	4,905,829	+39.5
Import-export loans	4,987,922	3,839,284	+29.9
Non-performing loans	4,398,172	3,619,543	+21.5
Advances with recourse	4,052,005	4,022,197	+0.7
Discounted notes (including bills eligible for refinancing with central banks)	1,605,633	1,515,770	+5.9
Loans to craft industries	1,411,801	1,421,700	-0.7
Personal loans	866,557	884,854	-2.1
Factoring loans	343,047	666,891	-48.6
Subordinated loans	108,574	119,316	-9.0
Loans backed by pledged assets	46,866	45,358	+3.3
Other forms of repurchase agreement	1,120	1,842	-39.2
Other forms of finance not flowing through current accounts - Italian branches	6,637,498	7,362,361	-9.8
Other forms of finance not flowing through current accounts - foreign branches	5,693,557	4,659,029	+22.2
Total	99,502,143	99,176,926	+0.3

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Bills eligible for refinancing with central banks	407,311	312,607	+30.3
b) Repurchase agreements	8,300,490	8,601,113	-3.5
c) Securities loaned	179,105	103,994	+72.2

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Mortgages	27,592,890	28,530,693	-3.3
b) Pledged assets:			
1. cash deposits	359,179	566,284	-36.6
2. securities	1,366,680	2,116,534	-35.4
3. other instruments	56,431	12,494	+351.7
c) Guarantees given by:			
1. Governments	2,012,636	5,587,340	-64.0
2. other public entities	22,089	19,066	+15.9
3. banks	644,074	542,234	+18.8
4. other operators	13,596,911	13,261,748	+2.5
Total	45,650,890	50,636,393	-9.8

Loans guaranteed by securities include 9 positions, totalling 118,314 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 92,296 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 recorded at their estimated realizable 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.

	12/31/97 (L/mil)			12/31/96 (L/mil)		
	Gross value	Total adjustments	Net book value	Gross value	Total adjustments	Net book value
Non-performing loans	7,197,515	2,799,343	4,398,172	5,802,814	2,183,271	3,619,543
Problem loans	4,273,465	867,907	3,405,558	4,860,058	982,013	3,878,045
Loans exposed to country risk - customers	421,217	78,459	342,758	200,876	57,451	143,425
Performing loans	91,684,829	329,174	91,355,655	91,823,004	287,091	91,535,913
Total loans to customers	103,577,026	4,074,883	99,502,143	102,686,752	3,509,826	99,176,926
Loans exposed to country risk - banks	456,210	75,745	380,465	298,474	115,132	183,342
Total		4,150,628			3,624,958	

Movements during the year in the Bank's lending exposure, gross of the related adjustments, are set out below:

	Non-performing loans	Problem loans	Loans exposed to country risk - customers	Performing loans	Total loans to customers	Loans exposed to country risk - banks	Total
<i>millions of lire</i>							
Gross value as of January 1, 1997	5,802,814	4,860,058	200,876	91,823,004	102,686,752	298,474	
Movements during the year							
• debits to existing positions	628,519	767,363	294,014	2,669,766 (a)	4,359,662	196,203	4,555,865
• transfers from non-performing loans	-	190,901	-	52,951	243,852	-	243,852
• transfers from problem loans	1,726,689	-	-	328,743	2,055,432	-	2,055,432
• transfers from performing loans	1,062,120	2,001,529	-	-	3,063,649	336	3,063,985
• transfers to non-performing loans	-	-1,726,689	-	-1,062,120	-2,788,809	-	-2,788,809
• transfers to problem loans	-190,901	-	-	-2,001,529	-2,192,430	-	-2,192,430
• transfers to performing loans	-52,951	-328,743	-	-	-381,694	-	-381,694
• collections	-677,906	-1,277,459	-73,650	-	-2,029,015	-38,743	-2,067,758
Write-offs during the year							
• using adjustments to opening values following disposals and settlements	-209,615	-195,120	-14	-96,603	-501,352	-	-501,352
• using adjustments to opening values following bankruptcy proceedings	-388,672	-	-	-	-388,672	-7	-388,679
• charged to the statement of income following disposals and settlements	-163,397	-18,375	-9	-29,383	-211,164	-	-211,164
• charged to the statement of income following bankruptcy proceedings	-339,185	-	-	-	-339,185	-53	-339,238
Gross value as of December 31, 1997	7,197,515	4,273,465	421,217	91,684,829	103,577,026	456,210	

(a) Net debits and credits to existing positions.

Restructured loans and those currently being restructured at lower-than-market rates of interest amount to 1,595 billion lire and are classified in the various loan categories with reference to the degree of risk identified at year-end. The portions of these loans defined by the Bank of Italy as "restructured" amount to 71 billion lire of non-performing loans and 855 billion lire of problem loans. Such loans are adjusted to take account of future losses of interest determined on the basis of the cost of funding.

Total adjustments to loans during the year are detailed in the table below:

	millions of lire						
	Non-performing loans	Problem loans	Loans exposed to country risk - customers	Performing loans	Total loans to customers	Loans exposed to country risk - banks	Total
Total adjustments as of January 1, 1997	2,183,271	982,013	57,451	287,091	3,509,826	115,132	3,624,958
Uses during the year to cover losses	-598,287	-195,120	-14	-96,603	-890,024	-7	-890,031
Writeback of loans following collections:							
• principal	-16,188	-9,283	-3,946	-8,138	-37,555	-570	-38,125
• default interest	-48,996	-	-	-9,920	-58,916	-37,426	-96,342
Exchange differences	13,022	2,748	1,426	2,990	20,186	74	20,260
Transfers to or from other loan categories	407,394	-326,689	-	-80,705	-	-	-
Year-end valuations:							
• default interest written off	375,348	50,939	-	19,661	445,948	-	445,948
• writedowns	573,873	430,212	48,493	251,965	1,304,543	33,718	1,338,261
• writebacks (a)	-90,094	-66,913	-24,951	-37,167	-219,125	-35,176	-254,301
Total adjustments as of December 31, 1997	2,799,343	867,907	78,459	329,174	4,074,883	75,745	4,150,628

(a) Excluding the revaluation of loans previously written off amounting to 130,000 million lire. Were these revaluations to be taken into account, total writebacks would amount to 384,301 million lire.

The report on operations provides a detailed analysis of lending activities and the degree of risk inherent in the loan portfolio; the specific information requested by the Bank of Italy with regard to non-performing loans and default interest is provided below.

Adjustments to performing loans include 200,000 million lire of new general writedowns as of December 31, 1997 to cover the risk of default inherent in loans that appear to be performing normally. 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.

Non-performing loans (table 1.4 B.1.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Non-performing loans (net amount, including default interest)	4,398,172	3,619,543	+21.5

Default interest (table 1.5 B.1.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Non-performing loans (net amount)	-	-	-
b) Other loans (net amount)	-	-	-

Loans to customers and banks resident in nations exposed to country risk (net amount)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Russian Federation	311,784	230,941	+35.0
Brazil	123,289	15,460	+697.5
Korea	115,640	(*)	n.s.
Thailand	52,559	(*)	n.s.
Bermuda	22,430	6,505	+244.8
Cayman Islands	21,175	26,631	-20.5
Morocco	20,069	5,357	+274.6
Indonesia	16,246	(*)	n.s.
Argentina	13,741	16,019	-14.2
Philippines	7,476	(*)	n.s.
Other countries	18,814	25,854	+27.2
Total	723,223	326,767	+121.3

(\*) Not included among nations exposed to country risk in 1996.

### 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 II of these notes.

## Section 2 Securities

Securities owned by the Bank, reported in asset captions 20, 50 and 60, total 34,002,750 million lire, net of losses recorded at year-end, 37,010 million lire, and including writebacks of securities written down in prior years, 2,544 million lire, as detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Treasury bills and similar bills eligible for refinancing with central banks (caption 20)	12,511,445	15,619,890	-19.9
Bonds and other debt securities (caption 50)	20,081,267	20,661,595	-2.8
Shares, quotas and other equities (caption 60)	1,410,038	1,008,683	+39.8
Total	34,002,750	37,290,168	-8.8
of which:			
– investment securities	3,875,929	3,472,836	+11.6
– dealing securities	30,126,821	33,817,332	-10.9

### Investment securities

Investment securities, 3,875,929 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)

	12/31/97 (L/mil)		12/31/96 (L/mil)	
	Book value (a)	Market value (b)	Book value (a)	Market value (b)
I. Debt securities				
I.1 Government securities				
– quoted	3,526,540	3,625,642	3,222,258	3,418,530
– unquoted	-	-	-	-
I.2 other securities				
– quoted	59,712	61,293	29,095	29,963
– unquoted	289,677	292,302	221,483	222,223
2. Equities				
– quoted	-	-	-	-
– unquoted	-	-	-	-
Total	3,875,929	3,979,237	3,472,836	3,670,716

(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.

Comparison of the market and net book value of these investment securities reveals a net unrealized, unrecorded gain of 56,983 million lire on securities not hedged by derivative contracts and 46,325 million lire on securities hedged by interest rate swaps. The valuation of these derivatives reveals an unrealized loss of 44,629 million lire.

<i>Changes in investment securities during the year (table 2.2 B.I.)</i>	<i>millions of lire</i>
A. Opening balance	3,472,836
B. Increases	
B1. purchases	142,891
B2. writebacks	2,062
B3. transfers from dealing portfolio	2,589,506
B4. other changes	29,242
C. Decreases	
C1. sales	27,940
C2. redemptions	256,966
C3. adjustments	14,023
including:	
permanent writedowns	14,023
C4. transfers to dealing portfolio	2,000,403
C5. other changes	61,276
D. Closing balance	3,875,929

Subcaptions B4. "Increases - other changes" and C5. "Decreases - other changes" are detailed as follows:

<i>B4. "Increases - other changes"</i>	<i>millions of lire</i>
Net dealing income	5,940
Exchange differences	11,919
Accrued issue discounts	11,383
Total other changes	29,242

<i>C4. "Decreases - other changes"</i>	<i>millions of lire</i>
Exchange differences	-
Accrued dealing discounts	61,276
Total other changes	61,276

Transfers during the year from the investment to the dealing portfolio, 2,000,403 million lire, and from the dealing to the investment portfolio, 2,589,506 million lire, relate to Italian Government fixed-income securities. Such transfers were specifically authorized by decision of the Executive Committee on April 28, 1997, as part of the facility approved by the Board of Directors on August 31, 1995. These securities were transferred at cost following a review of the investment portion held to hedge interest rate risks associated with long-term domestic funding. In particular, it was considered suitable that the maturities of the securities be consistent with those of the funding covered. Had the market value of the securities at the time of transfer been determined using the policies adopted in connection with dealing securities, no losses would have emerged and unrealized gains would have amounted to 56,004 million lire.



The sales indicated in subcaption C1. relate to convertible bonds sold for 27,940 million lire resulting in 5,940 million lire of realized gains. This transaction was authorized by the Board of Directors on December 19, 1997.

At the same meeting, the Board of Directors decided to raise the limits of the investment portfolio, previously fixed as the lower of 10% of total securities owned and the amount available for investment. The purpose of the revision is to enable fresh investment in securities deriving from the conversion of loans by countries considered at risk, as well as to hedge interest rate risks associated with the related forms of funding. Accordingly, the limits have been fixed as the lower of:

- 15% of total securities owned;
- the Bank's compulsory deposits.

The book value of fixed-income investment securities, indicated below according to type, is higher than their redemption value on maturity by 49,136 million lire, due to issue and dealing discounts that will be recorded on an accruals basis in the statement of income. This balance reflects gains and losses on redemption value with respect to book value of 36,617 million lire and 85,753 million lire, respectively.

	<i>millions of lire</i>	
	Book value	Redemption value
Government securities		
– quoted	3,526,540	3,454,825
Other securities		
– quoted	59,712	58,766
– unquoted	289,677	313,202
Total	3,875,929	3,826,793

The adjustments reported in subcaption C3. were required to write down the carrying value of securities deriving from the conversion of loans to the Russian Federation and Macedonia by applying the percentages prescribed by the Bank of Italy.

### **Dealing securities**

These securities, held for treasury and dealing purposes, amount to 30,126,821 million lire, and comprise:

- 20,536,468 million lire belonging to complex financial portfolios, as defined in the accounting policies discussed in part A, section I of these notes;
- 833,587 million lire hedged by specific derivative contracts (asset swaps);
- 8,756,766 million lire not linked to derivative contracts.

Dealing securities (table 2.3 B.I.)

	12/31/97 (L/mil)		12/31/96 (L/mil)	
	Book value (a)	Market value (b)	Book value (a)	Market value (b)
1. Debt securities				
1.1 Government securities				
– quoted	18,665,933	18,680,517	22,643,162	22,739,152
– unquoted	4,369	4,469	743,854	744,132
1.2 other securities				
– quoted	3,444,088	3,458,814	2,796,603	2,870,891
– unquoted	6,602,393	6,611,341	6,625,030	6,632,032
2. Equities				
– quoted	1,408,302	1,422,291	889,005	890,215
– unquoted	1,736	1,736	119,678	119,678
Total	30,126,821	30,179,168	33,817,332	33,996,100

(a) After year-end writedowns and writebacks.

(b) The market value of quoted securities not linked to derivative contracts is determined with reference to the simple average of prices during December.

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 73,621 million lire, gross of the tax effect.

As identified in the table above, there are unrecorded, unrealized gains on dealing securities of 52,347 million lire, in addition to unrecorded, unrealized net gains of 3,058 million lire arising from the valuation of unsettled transactions.

Unrealized losses of 22,986 million lire and writebacks of 482 million lire on dealing securities are reflected in the statement of income, as are losses of 786 million lire and writebacks of 387 million lire in relation to unsettled transactions.

The valuation of complex financial portfolios identified losses and revaluations reflected in the statement of income of 11,331 million lire and 86,048 million lire, respectively, while the valuation of asset swaps identified losses and writebacks reflected in the statement of income of 2,029 million lire and 3,631 million lire, as well as unrecorded, unrealized gains of 4,765 million lire.

These valuations are summarized below:

	millions of lire		
	Unrealized recognized losses	Recognized valuations and writebacks	Unrecorded unrealized gains
Securities not linked to derivative contracts	22,986	482	52,347
Securities to be received and delivered	786	387	3,058
Complex financial portfolios	11,331	86,048	-
Asset swap contracts	2,029	3,631	4,765
Total	37,132	90,548	60,170

Own bonds held for dealing purposes amount to 1,238,953 million lire.

<i>Changes in dealing securities during the year (table 2.4 B.I.)</i>	<i>millions of lire</i>
A. Opening balance	33,817,332
B. Increases	
B1. purchases	
– debt securities	
– government securities	532,392,720
– other securities	70,659,275
– equities	13,392,901
B2. writebacks and revaluations	482
B3. transfers from investment portfolio	2,000,403
B4. other changes	1,659,901
C. Decreases	
C1. sales and redemptions	
– debt securities	
– government securities	538,365,327
– other securities	68,883,341
– equities	13,904,862
C2. adjustments	22,987
C3. transfers to investment portfolio	2,589,506
C5. other changes	30,170
D. Closing balance	30,126,821

Subcaptions B4. "Increases - other changes" and C5. "Decreases - other changes" are detailed as follows:

<i>B4. "Increases - other changes"</i>	<i>millions of lire</i>
Exchange differences	880,635
Net dealing income	659,567
Accrued issue discounts	19,701
Transfers from equity investment portfolio	99,998
Total other changes	1,659,901

<i>C4. "Decreases - other changes"</i>	<i>millions of lire</i>
Exchange differences	30,170
Total other changes	30,170

#### **Other information relating to securities**

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

### Section 3

#### Equity investments

Equity investments, reported in asset captions 70 and 80, amount to 3,395,067 million lire, stated net of writedowns recorded at year-end, 316,887 million lire, and writebacks of investments written down in prior years, 5,080 million lire, as detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Equity investments (caption 70)	629,875	640,356	-1.6
Investments in Group companies (caption 80)	2,765,192	3,100,429	-10.8
Total	3,395,067	3,740,785	-9.2
of which:			
– significant investments	3,123,082	3,370,618	-7.3
– other holdings	271,985	370,167	-26.5

#### 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:

Significant investments (table 3.1 B.I.)

millions of lire

Name of company	Registered offices	Activity	Shareholders' equity (a)	Net income (loss)	Percentage ownership	Book value
<i>A. Subsidiary companies</i>						
Apokè Six Srl	Milan	non-finance	3,503	-6,103	100.00	-
Apokè Two Srl (in liquidation)	Milan	non-finance	-11,805	(b) 580	94.67	-
Banque Sanpaolo SA	Paris	lending	803,914	38,441	100.00	742,786
Crediop Finance Plc	London	finance	583	-	100.00	445
Crediop SpA	Rome	lending	927,866	66,684	60.00	523,500
Euke Srl (in liquidation)	Milan	holding	14,776	-3	100.00	14,575
Gedit SA	Luxembourg	holding	-479	-538	90.00	-
Intersim SpA	Milan	stockbroking	34,673	20,083	100.00	31,602
Prospettive 2001 SpA	Milan	non-finance	29,794	-8,579	63.75	16,000
Sanpaolo Asset Management Sim SpA	Milan	trust management	23,112	953	95.88	21,610
Sanpaolo Bank SA	Luxembourg	lending	76,616	5,616	100.00	79,008
Sanpaolo Fiduciaria SpA	Turin	trust management	2,602	118	100.00	2,350
Sanpaolo Fondi SpA	Turin	mutual funds	34,496	9,002	96.04	76,469
Sanpaolo Immobiliare SpA	Turin	finance	5,783	-39,222	100.00	5,783
Sanpaolo Invest Sim SpA	Rome	sales network management	41,626	14,538	100.00	13,343
Sanpaolo Ireland Ltd	Dublin	finance	767,547	109,614	100.00	754,192
Sanpaolo Leasint SpA	Milan	leasing	111,665	7,222	100.00	105,257
Sanpaolo Riscossioni Genova SpA	Genoa	tax collection	6,502	2,134	100.00	7,794
Sanpaolo Riscossioni Prato SpA	Prato	tax collection	3,420	1,617	100.00	5,132
Sanpaolo Us Financial Co.	Wilmington	finance	124	7	100.00	2
Sanpaolo Us Holding Co.(in liquidation)	Wilmington	finance	8,576	-2,683	100.00	8,146
Sanpaolo Vermögensverwaltung GmbH	Vienna	operating	1,264	1,205	99.00	78
Sanpaolo Vita SpA	Milan	insurance	111,203	10,293	100.00	334,143
Sep SpA	Turin	services	3,022	194	80.00	2,400
Sotim Srl	Milan	non-finance	25,695	-1,615	82.30	20,575
Spb 1650 Van Ness Corp.	Los Angeles	operating	-	-	100.00	-
Spb Delta Towers Llc	New York	operating	2	-	100.00	2
Total						2,765,192

(a) Excluding net income due for distribution.

(b) Net income from ordinary operations as of December 31, 1997.

Continued

Name of company	Registered offices	Activity	Shareholders' equity (a)	Net income (loss)	Percentage ownership	Book value
<i>B. Companies subject to significant influence</i>						
Banaco SA (b)	Antananarivo	lending	-15,845	-15,342	22.00	-
Banca Italo Romena SpA	Rome	lending	27,621	-2,657	20.00	4,600
Bnc Assicurazioni SpA	Rome	insurance	316,327	-	30.00	98,240
Consorzio Usas	Turin	services	688	1	20.00	133
Esatri SpA	Milan	tax collection	54,033	18,515	31.50	8,187
Finconsumo SpA	Turin	finance	40,300	9,929	20.00	5,136
Galileo Holding SpA	Venice	holding	-2,590	-25,010	21.52	-
Gedeam I.G. Inc. SA (b)	Luxembourg	holding	359,887	14,686	49.26	175,388
Inter Europa Bank RT	Budapest	lending	89,785	15,771	30.05	43,900
Ruegg Bank AG	Zurich	lending	67,565	9,878	32.00	22,306
Total						357,890

(a) Excluding net income due for distribution.

(b) Financial statements as of December 31, 1996.

In accordance with the change in the accounting policy applied for the recording of financial fixed assets, as described in the introduction to these notes, in 1997, equity investments are translated at current exchange rates, determining a net loss of 40,488 million lire included among extraordinary items.

As described in part A, section I of these notes, the difference between the book value of significant investments and the lower value of the Bank's share of their latest reported shareholders' equity generally represents both 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, 1997, 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 Riscossioni Prato, Sanpaolo Riscossioni Genova, Sanpaolo Vita, Bnc Assicurazioni, Inter Europa Bank and Ruegg 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.
- Gedit was formed in 1996 in the context of the Situr group reorganization. The negative equity resulting from its financial statements as of

December 31, 1997 should be offset by the effect of unrealized gains associated with its subsidiaries.

- 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 investment in Banaco, a lending institution in Madagascar controlled by a local public entity, was acquired for one lira in the context of an exchange of investments, which took place at the end of June 1997 between the Bank and Sanpaolo Holding. The company's negative equity should be offset in the short term following the restructuring of its debt as part of an extensive reorganization of the company fostered by an international body.

## Other equity investments

Other equity investments held by the Bank are listed below:

			<i>millions of lire</i>
Name and location of registered offices	Activity	Percentage ownership	Book value
Abete Sviluppo SpA - Milan	non-finance	9.71	5,000
Agricola Investimenti SpA - Bergamo	non-finance	4.44	-
Alfa Stamp Srl - Turin	non-finance	9.57	14
Alleanza Cooperativa Torinese - Turin	non-finance	1.27	-
Banca d'Italia - Rome	lending	1.83	106,414
Banca Mediocredito SpA - Turin	lending	1.11	8,153
Banco del Desarrollo SA - Santiago	lending	16.52	52,400
Banksiel SpA - Milan	services	7.00	5,475
Bergamo Esattorie SpA - Bergamo	finance	11.35	139
Biat SA - Tunis	lending	8.42	15,200
Bic Liguria SpA - Genoa	finance	1.39	102
Bnl GmbH & Co. KG - Berlin	non-finance	0.08	313
Borsa Italiana SpA - Milan	non-finance	3.00	1,935
Cassa di Compensazione e Garanzia SpA - Rome	non-finance	4.55	2,500
Cedel International SA - Luxembourg	lending	0.93	5,810
Centrale dei Bilanci Srl - Turin	non-finance	5.00	488
Centro Sviluppo SpA - Aosta	finance	5.00	25
Centro Tessile Cotoniero SpA - Busto Arsizio	non-finance	2.00	35
Città degli Studi SpA - Biella	non-finance	1.36	145
Coceme Sicilia Srl (bankrupt) - Canicattì	non-finance	7.13	-
Cogetra SpA - Prato	non-finance	2.18	-
Consorzio Bancario Sir SpA (in liquidation) - Rome	non-finance	4.77	143
Consorzio Ci Mark - Turin	non-finance	12.50	5
Consorzio Fidipiemonte - Turin	finance	9.72	700
Cotonificio Olcese Veneziano SpA - Milan	non-finance	3.67	2,095
Crif SpA - Bologna	non-finance	3.86	251
Deutsche Borse AG - Frankfurt	non-finance	0.16	201
Dulevo SpA (bankrupt) - Parma	non-finance	16.30	-
Ec Bic Piemonte SpA - Turin	finance	10.24	-

*Continued*

Name and location of registered offices	Activity	Percentage ownership	Book value
Eccs - Brussels	non-finance	0.01	-
Ervet SpA - Bologna	finance	2.18	485
Etce - London	finance	10.00	87
Eurofly SpA - Turin	non-finance	10.00	643
Eurofondo SCpA - Rome	finance	15.00	23
Euros Cefor & Istinform Consulting SpA - Milan	non-finance	0.94	162
Evoluzione '94 SpA - Milan	non-finance	5.99	-
F.lli Marzoli & C. SpA - Bergamo	non-finance	7.62	4,000
Fata Group SpA - Turin	non-finance	13.17	6,953
Feic SpA - Rome	finance	17.24	-
Fiat Serene SpA - Turin	non-finance	5.00	2,500
Fidi Toscana SpA - Florence	finance	0.46	320
Fime SpA (in liquidation) - Rome	finance	1.29	-
Finagra SpA - Rome	finance	0.70	489
Finligure SpA (bankrupt) - Genoa	finance	3.28	-
Finlombarda Leasing SpA (in liquidation) - Milan	finance	14.00	350
Finlombarda SpA - Milan	finance	1.17	156
Finpuglia SpA - Bari	finance	0.15	31
Fomara SpA - Turin	non-finance	0.07	-
Friulia SpA - Trieste	finance	0.52	504
Gepafin SpA - Perugia	finance	1.00	10
Giraglia Immobiliare SpA - Milan	non-finance	8.06	-
Iebb SpA - Rome	non-finance	7.77	200
Imc - Budapest	non-finance	5.68	-
Immobiliare Collegno SpA - Turin	non-finance	10.00	-
Impresa Castelli SpA - Milan	non-finance	3.14	-
Ingc (in liquidation) - Rome	finance	5.00	-
Istd SpA - Milan	non-finance	1.50	22
La Centrale del Latte di Alessandria e Asti SpA - Alessandria	non-finance	0.84	2
Lch Ltd - London	non-finance	0.60	867
Leader Asti SCrl - Asti	non-finance	1.49	1
Liffe Plc - London	non-finance	0.26	798
Ligurcapital SpA - Genoa	finance	10.50	630
Loseri SpA - Cremona	finance	18.40	421
Mediocredito Fondiario Centro Italia SpA - Ancona	lending	0.62	714
Meliorconsorzio SpA - Rome	lending	3.67	8,061
Metim N/O SpA - Turin	non-finance	2.73	100
Moneo SpA - Rome	non-finance	10.00	27
Monte Titoli SpA - Milan	non-finance	4.17	820
Montello SpA - Bergamo	non-finance	10.30	2,280
Nicco Uco F.S. Ltd - Calcutta	finance	2.61	274
Nomisma SpA - Bologna	non-finance	2.67	-
Pantecna SpA (bankrupt) - Albano Laziale	non-finance	15.50	-
Promoass Srl - Milan	non-finance	10.00	2
Rete Telematica Piemontese SpA - Turin	non-finance	10.00	289
Rimoldi Necchi Srl - Milan	non-finance	19.79	12,154
Safinvest SpA (in liquidation) - Busto Arsizio	non-finance	2.83	-
Saip SpA - Alessandria	non-finance	5.00	24
Sanità SpA - Rome	non-finance	2.31	2,308
Scs Stichting Creditors Support - Amsterdam	non-finance	0.94	45
Sefi SpA - Milan	non-finance	2.40	90
Servizi Interbancari SpA - Rome	finance	5.00	1,689
Sgr SpA - Rome	non-finance	9.48	-
Sia SpA - Milan	non-finance	0.62	130
Sib SpA - Milan	non-finance	9.20	773

Continued

Name and location of registered offices	Activity	Percentage ownership	Book value
Simest SpA - Rome	finance	0.38	990
Sint SpA - Rome	non-finance	2.77	1,220
Sitaf SpA - Turin	non-finance	7.24	8,309
Siteba SpA - Milan	non-finance	3.20	153
Società di Cooperaz. Agricola SpA (in liquidation) - Sanremo	non-finance	3.75	-
Società Regionale per l'Ambiente SpA - Genoa	non-finance	10.00	-
Sogesi SpA (in liquidation) - Palermo	finance	10.00	-
Sorecs SpA (in liquidation) - Vercelli	non-finance	2.00	-
Ssb SpA - Milan	non-finance	7.95	601
Sviluppumbria SpA - Perugia	finance	0.92	103
Swift - La Hulpe	non-finance	0.40	84
Tecnation SpA - Turin	non-finance	10.00	-
Tecnocittà Srl - Genoa	non-finance	12.00	-
Texilia SpA - Biella	non-finance	0.25	19
The Overseas Bankers Club - London	non-finance	0.10	-
Torino Parcheggi Srl - Turin	non-finance	0.29	-
Ubae SpA - Rome	lending	2.00	2,000
Unionfidi Liguria - Genoa	finance	15.24	100
Uno Holding SpA (in liquidation) - Milan	non-finance	3.15	-
Villa Erba SpA - Cernobbio	non-finance	4.57	1,429
Total			271,985

### Composition of investment portfolio

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Investment in banks			
1. quoted	-	-	
2. unquoted	1,345,294	1,589,349	-15.4
b) Investment in financial institutions			
1. quoted	-	-	
2. unquoted	1,032,125	817,260	+26.3
c) Other investments			
1. quoted	-	-	
2. unquoted	387,773	693,820	-44.1
Total	2,765,192	3,100,429	-10.8

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Investment in banks			
1. quoted	15,200	24,137	-37.0
2. unquoted	254,359	151,484	+67.9
b) Investment in financial institutions			
1. quoted	-	-	
2. unquoted	22,991	62,209	-63.0
c) Other investments			
1. quoted	2,095	83,650	-97.5
2. unquoted	335,230	318,876	+5.1
Total	629,875	640,356	-1.6



## Changes during the year in the investment portfolio

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

millions of lire

A. Opening balance	3,100,429
B. Increases	
B1. purchases	792,640
B2. writebacks	-
B3. revaluations	-
B4. other changes	383,847
C. Decreases	
C1. sales	655,972
C2. adjustments	249,063
including:	
permanent writedowns	249,063
C3. other changes	606,689
D. Closing balance	2,765,192
E. Total revaluations	-
F. Total adjustments	612,828

Subcaptions B4. "Increases - other changes" and C3. "Decreases - other changes" are detailed below:

B4. "Increases - other changes"

millions of lire

Gains on disposals	149,318
Translation effect	63,618
Waiver by the Bank of loans to Apokè Six Srl	110,620
Waiver by the Bank of loans to Apokè Two Srl (in liquidation)	60,291
Total	383,847

C3. "Decreases - other changes"

millions of lire

Losses on disposals	31,673
Translation effect	71,715
Reclassification of Bnc Assicurazioni SpA to caption 70 "Equity investments"	327,468
Partial liquidation of Sanpaolo US Holding Co.	77,916
Partial liquidation of Crediop Finance Plc	55,519
Liquidation of Spf Promotio Sim SpA	40,000
Partial liquidation of Sanpaolo Fin SpA	2,280
Revision of acquisition cost of Banco Sanpaolo SA	118
Total	606,689

Other equity investments (table 3.6.2 B.I.)

millions of lire

A. Opening balance	640,356
B. Increases	
B1. purchases	157,040
B2. writebacks	5,080
B3. revaluations	-
B4. other changes	378,687
C. Decreases	
C1. sales	374,619
C2. adjustments	67,824
including:	
permanent writedowns	67,824
C3. other changes	108,845
D. Closing balance	629,875
E. Total revaluations	212,913
F. Total adjustments	143,015

## B4. "Increases - other changes"

millions of lire

Gains on disposals	44,891
Translation effect	5,948
Reclassification of Bnc Assicurazioni SpA to caption 70 "Equity investments"	327,468
Permasteelisa SpA stock dividend	380
<b>Total</b>	<b>378,687</b>

## C.3 "Decreases - other changes"

millions of lire

Losses on disposals	8,418
Translation effect	5
Transfer to dealing portfolio	99,998
Partial liquidation of Finlombarda Leasing SpA	350
Partial liquidation of Società Regionale per l'Ambiente Srl	74
<b>Total</b>	<b>108,845</b>

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.

Changes in the investment portfolio during the year are detailed below:

millions of lire

Name of company	Opening balance	Purchases and sub- scriptions	Sales	Adjustments (-) and writebacks (+)	Gains/ losses on disposals	Translation effect	Other changes	Closing balance
<i>Investments in Group companies (caption 80)</i>								
Apokè Six Srl	-	20	-	-110,640	-	-	110,620	-
Apokè Two Srl (in liquidation)	-	-	-	-60,291	-	-	60,291	-
Banco Sanpaolo SA	226,614	-	174,797	-	-20,217	-31,482	-118	-
Banque Sanpaolo SA	431,696	351,324	-	-	-	-40,234	-	742,786
Bnc Assicurazioni SpA	327,468	-	-	-	-	-(b)	-327,468	-
Crediop Finance Plc (in liquidation)	44,508	-	-	-	11,456	-	-55,519	445
Crediop SpA	872,500	-	480,000	-	131,000	-	-	523,500
Euke Srl (in liquidation)	19,086	-	-	-4,511	-	-	-	14,575
Gedit SA	56	1,293	-	-1,349	-	-	-	-
Prospettive 2001 SpA	-	24,459	-	-8,459	-	-	-	16,000
Sanpaolo Asset Managem. Sim SpA	4,360	17,250	-	-	-	-	-	21,610
Sanpaolo Bank SA	58,540	-	-	-	-	20,468	-	79,008
Sanpaolo Fin SpA	2,560	-	(a) 1,175	-	895	-	-2,280	-
Sanpaolo Fondi SpA	51,675	24,794	-	-	-	-	-	76,469
Sanpaolo Immobiliare SpA	45,006	-	-	-39,222	-	-	-	5,784
Sanpaolo Ireland Plc	372,846	339,000	-	-	-	42,346	-	754,192
Sanpaolo Us Financial Co.	2	-	-	-	-	-	-	2
Sanpaolo Us Holding Co. (in liquid.)	79,292	-	-	-	5,967	803	-77,916	8,146
Sanpaolo Vita SpA	309,143	25,000	-	-	-	-	-	334,143
Sotim Srl	35,665	9,500	-	-24,590	-	-	-	20,575
Spb 1650 Van Ness Corp.	-	-	-	-	-	-	-	-
Spb Delta Towers Llc	2	-	-	-	-	-	-	2
Spf Promotio Sim SpA (in liquid.)	51,456	-	-	-	-11,456	-	-40,000	-

continued

Name of company	Opening balance	Purchases and sub- scriptions	Sales	Adjustments (-) and writebacks (+)	Gains/ losses on disposals	Translation effect	Other changes	Closing balance
<i>Other equity investments (caption 70)</i>								
Alfa Stamp Srl	-	14	-	-	-	-	-	14
Banco Ambrosiano Veneto SpA	24,137	-	-	-	-	-(c) -24,137	-	-
Banco del Desarrollo SA	-	(a) 52,400	-	-	-	-	-	52,400
Biat SA	-	(a) 15,200	-	-	-	-	-	15,200
Bnc Assicurazioni SpA	-	-	244,400	-	15,172	-(b) 327,468	-	98,240
Bnl GmBH & Co. KG	159	159	-	-	-	-5	-	313
Borsa Italiana SpA	-	1,935	-	-	-	-	-	1,935
Cbi Factor SpA	2,000	-	2,968	-	968	-	-	-
Cedel International SA	849	4,723	-	-	-	238	-	5,810
Coceme Sicilia Srl	10	-	-	-10	-	-	-	-
Cogetra SpA	13	-	-	-13	-	-	-	-
Consorzio Usas	33	100	-	-	-	-	-	133
Deutsche Borse AG	201	-	-	-	-	-	-	201
Ec Bic Piemonte SpA (in liquidation)	63	-	-	-63	-	-	-	-
Esatri SpA	3,587	-	-	4,600	-	-	-	8,187
Etce Londra	49	-	-	-	-	38	-	87
F.lli Marzoli & C. SpA	-	4,000	-	-	-	-	-	4,000
Feic SpA	149	-	-	-149	-	-	-	-
Fiat Serene SpA	1,818	682	-	-	-	-	-	2,500
Filse SpA	580	-	(a) 532	-	-48	-	-	-
Finaosta SpA	15,496	-(a) 16,400	-	-	904	-	-	-
Finlombarda Leasing SpA (in liquid.)	700	-	-	-	-	-	-350	350
Finpiemonte SpA	3,257	-	(a) 6,096	-	2,839	-	-	-
Galileo Holding SpA	-	21,315	-	-21,315	-	-	-	-
Gedeam I.G. Inc. SA	216,387	-	-	-41,000	-	-	-	175,387
Gft SpA	9,647	-	12,120	-	2,473	-	-	-
Icep Milano Srl	2	-	-	-	-2	-	-	-
Imc Budapest	124	-	-	-124	-	-	-	-
Impresa Castelli SpA	1,350	-	-	-1,350	-	-	-	-
Inter Europa Bank Rt	-	(a) 43,900	-	-	-	-	-	43,900
Ist. Centrale Banche Banchieri SpA	4,846	-	12,499	-	7,653	-	-	-
Lch Ltd	706	-	-	-	-	161	-	867
Liffe Plc	506	110	-	-	-	182	-	798
Ligurcapital SpA	539	91	-	-	-	-	-	630
Lingotto Srl	3,480	-	(a) 2,200	-	-1,280	-	-	-
Lingotto Uffici SpA	36,000	-(a) 29,000	-	-	-7,000	-	-	-
Locat SpA	20,085	-	28,530	-	8,445	-	-	-
Mediaset SpA	69,400	-	-	-	-	-(c) -69,400	-	-
Mediocredito Lombardo SpA	813	-	2,032	-	1,219	-	-	-
Montello SpA	2,333	-	800	480	267	-	-	2,280
Nicco Uco F.S. Ltd	-	(a) 274	-	-	-	-	-	274
Nomisma Spa	227	96	-	-323	-	-	-	-
Permasteelisa SpA	4,004	-	4,300	-	-84	-	380	-
Ruegg Bank AG	17,034	-	-	-	-	5,272	-	22,306
Sanità SpA	-	2,308	-	-	-	-	-	2,308
Sci SpA	-	6,459	-	-	-	-(c) -6,459	-	-
Scs Stichting Creditors Support	45	-	-	-	-	-	-	45
Serleasing SpA	2,886	-	4,219	-	1,333	-	-	-
Sgr SpA	2,793	-	-	-2,793	-	-	-	-
Sint SpA	600	854	234	-	-	-	-	1,220
Sitel SpA	9	-	5	-	-4	-	-	-
Società Coop. Agricola SpA (in liquidation)	78	-	-	-78	-	-	-	-

continued

Name of company	Balance opening	Purchases and sub- scriptions	Sales	Adjustments (-) and writebacks (+)	Gains/ losses on disposals	Translation effect	Other changes	Closing balance
Società Regionale per l'Ambiente Srl	97	-	-	-23	-	-	-74	-
Sogetel SpA	10	-	66	-	56	-	-	-
Sorecs SpA (in liquidation)	21	-	-	-21	-	-	-	-
Stampal SpA	3,000	-	3,884	-	884	-	-	-
Swift	95	-	541	-	473	57	-	84
Tecnation SpA	133	-	-	-133	-	-	-	-
Tecnocittà Srl	-	420	-	-420	-	-	-	-
Tekfin SpA (in liquidation)	1,588	-	3,793	-	2,205	-	-	-
Torino Parcheggi Srl	10	-	-	-10	-	-	-	-
Ubae SpA	-	(a) 2,000	-	-	-	-	-	2,000
Total		949,680	1,030,591	-311,807	154,118(d)	-2,156	-104,962	

(a) Exchange of equity investments between the Bank and Sanpaolo Holding.

(b) Reclassification of equity investment to appropriate caption.

(c) Transfers to dealing portfolio.

(d) Net gains and losses on disposal of financial fixed assets, 194,210 million lire and 40,092 million lire, respectively.

**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 Banking Group, as defined pursuant to article 4 of 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.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Assets			
1. due from banks	1,821,690	2,853,929	-36.2
of which:			
- subordinated	35,897	35,079	+2.3
2. due from financial institutions	3,314,268	2,916,691	+13.6
of which:			
- subordinated	-	-	-
3. due from other customers	343,528	627,333	-45.2
of which:			
- subordinated	-	-	-
4. bonds and other debt securities	585,970	1,133,641	-48.3
of which:			
- subordinated	8,568	171,358	-95.0
Total assets	6,065,456	7,531,594	-19.5
b) Liabilities			
1. due to banks	2,386,013	1,748,874	+36.4
2. due to financial institutions	2,083,019	2,631,886	-20.9
3. due to other customers	16,530	39,560	-58.2
4. securities issued	-	-	-
5. subordinated liabilities	-	-	-
Total liabilities	4,485,562	4,420,320	+1.5
c) Guarantees and commitments			
1. guarantees given	3,792,566	4,914,572	-22.8
2. commitments	128,656	307,576	-58.2
Total guarantees and commitments	3,921,222	5,222,148	-24.9

Amounts due to and from investments (non-Group companies) (table 3.3 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Assets			
1. due from banks (*)	4,785,530	4,905,566	-2.4
of which:			
– subordinated	560	560	-
2. due from financial institutions	536,018	908,269	-41.0
of which:			
– subordinated	-	-	-
3. due from other customers	261,540	316,227	-17.3
of which:			
– subordinated	-	-	-
4. bonds and other debt securities	12,773	62,894	-79.7
of which:			
– subordinated	-	-	-
Total assets	5,595,861	6,192,956	-9.6
b) Liabilities			
1. due to banks (**)	2,324,236	6,168,454	-62.3
2. due to financial institutions	159,242	259,608	-38.7
3. due to other customers	104,331	185,910	-43.9
4. securities issued	-	-	-
5. subordinated liabilities	-	-	-
Total liabilities	2,587,809	6,613,972	-60.9
c) Guarantees and commitments			
1. guarantees given	500,511	579,617	-13.6
2. commitments	-	29,584	n.s.
Total guarantees and commitments	500,511	609,201	-17.8

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

(\*\*) Including repurchase agreements 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, including the period prior to the transformation into a limited company, is set out in an attachment to the financial statements. Transactions between significant investments and the Bank are summarized in the report on operations, while the key financial data of these companies is set out in an attachment.

#### Section 4

##### Tangible and intangible fixed assets

The Bank's tangible and intangible fixed assets, reported in asset captions 100 and 90, amount to 2,683,536 million lire, net of accumulated depreciation, amortization and writedowns totalling 2,364,237 million lire, of which 371,491 million lire represents the charge for the year. They comprise the following:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Tangible fixed assets (caption 100)	2,276,253	2,532,900	-10.1
Intangible fixed assets (caption 90)	407,283	456,806	-10.8
Total	2,683,536	2,989,706	-10.2

##### Tangible fixed assets (caption 100)

Tangible fixed assets amount to 2,276,253 million lire, net of accumulated depreciation and writedowns totalling 1,969,573 million lire, of which 240,797 million lire represents the charge for the year. They comprise the following:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Property			
– operating	1,974,821	2,259,805	-12.6
– non-operating	173,109	137,239	+26.1
– undergoing renovation	7,097	5,909	+20.1
Furniture and installations			
– vehicles	510	218	+133.9
– office furniture and machines	34,119	37,211	-8.3
– electronic machines	54,847	59,992	-8.6
– general and specific installations	31,750	32,526	-2.4
Total	2,276,253	2,532,900	-10.1

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

millions of lire

A. Opening balance	2,532,900
B. Increases	
B1. purchases	96,697
B2. writebacks	-
B3. revaluations	-
B4. other changes	12,452
C. Decreases	
C1. sales	120,748
C2. adjustments	
a) depreciation	195,334
b) permanent writedowns	45,463
C3. other changes	4,251
D. Closing balance	2,276,253
E. Total revaluations	2,180,624
F. Total adjustments	
a) accumulated depreciation	1,908,426
b) permanent writedowns	61,147

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

	<i>millions of lire</i>	
	Property	Furniture and installations
Opening balance	2,402,953	129,947
Increases		
– purchases	260	96,437
– other changes		
– incremental costs	9,189	-
– gains on disposals	1,070	1,413
– exchange differences	82	698
Decreases		
– sales	119,390	1,358
– adjustments		
– depreciation	89,448	105,886
– permanent writedowns	45,463	-
– other changes		
– losses on disposals	4,179	25
– exchange differences	47	-
Closing balance	2,155,027	121,226
Total revaluations	2,180,624	-
Total adjustments		
– accumulated depreciation	812,515	1,095,911
– permanent writedowns	61,147	-

Total revaluations and adjustments identified in the above table comprise all the revaluations and adjustments recorded over time in relation to tangible fixed assets held at year-end.

Advances paid for the purchase of tangible fixed assets totalled 120 million lire at year-end.

#### **Intangible fixed assets (caption 90)**

Intangible fixed assets amount to 407,283 million lire, net of accumulated amortization totalling 394,664 million lire, of which 130,694 million lire represents the charge for the year. They comprise the following:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Merger differences (goodwill of merged companies)	298,887	369,659	-19.1
Software	29,708	20,563	+44.5
Start-up and capital increase expenses	5	268	-98.1
Goodwill	-	460	n.s.
Other deferred charges	78,683	65,856	+19.5
Total	407,283	456,806	-10.8

A. Opening balance	456,806
B. Increases	
B1. purchases	81,003
B2. writebacks	-
B3. revaluations	-
B4. other changes	8,811
C. Decreases	
C1. sales	20
C2. adjustments	
a) amortization	130,694
b) permanent writedowns	-
C3. other changes	8,623
D. Closing balance	407,283
E. Total revaluations	-
F. Total adjustments	
a) accumulated amortization	394,664
b) permanent writedowns	-

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

	Start-up and capital increase expenses	Goodwill	Merger differences (goodwill of merged companies)	Software	Other deferred charges
Opening balance	268	460	369,659	20,563	65,856
Increases					
– purchases	-	-	-	27,491	53,512
– other changes:					
- transfer of internally-developed software from "Other deferred charges"	-	-	-	8,067	-
- exchange differences and other changes	-	-	-	91	653
Decreases					
– sales	-	-	-	20	-
– adjustments:					
- amortization	263	460	70,772	26,484	32,715
- permanent writedowns	-	-	-	-	-
– other changes:					
- transfer of internally-developed software to "Software"	-	-	-	-	8,067
- exchange differences and other changes	-	-	-	-	556
Closing balance	5	-	298,887	29,708	78,683
Total revaluations	-	-	-	-	-
Total adjustments					
– accumulated amortization	48	-	317,211	22,555	54,850
– permanent writedowns	-	-	-	-	-

The goodwill indicated above was paid on the acquisition of the business activities of Sanpaolo Factoring in 1993.

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 costs relate, in particular, to the acquisition of new programs to update operating network procedures.

Other deferred charges include leasehold improvements of 27,491 million lire.

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

Total adjustments identified in the table above comprise all the adjustments applicable to intangible fixed assets not fully amortized at year-end.

**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 in an attachment to the financial statements.

## Section 5

### Other assets



asset captions 130 and 140 total 25,363,752 million lire and comprise the following:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Other assets (caption 130)	14,781,400	14,023,442	+5.4
Accrued income and prepaid expenses (caption 140)	10,582,352	10,099,431	+4.8
Total	25,363,752	24,122,873	+5.1

### Other assets (caption 130)

Analysis of caption 130 "Other assets" (table 5.1 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Valuation of derivative transactions pertaining to complex financial portfolios	6,414,498	5,125,847	+25.1
Unprocessed transactions (a)	2,150,765	1,728,920	+24.4
Transactions by foreign branches	1,447,868	894,412	+61.9
Amounts in transit between branches (a)	1,326,037	3,045,398	-56.5
Due from tax authorities:	1,173,784	1,264,359	-7.2
– tax credits relating to prior years	544,717	754,602	-27.8
– tax withholdings overpaid during the year on bank interest income	377,868	142,694	+164.8
– taxes withheld during the year	150,600	314,461	-52.1
– taxes paid in advance on termination indemnities (Law 662/96)	51,897	-	n.s.
– prepaid current year direct taxes	48,702	52,602	-7.4
Effect of currency hedges, forex swap and cross-currency swap transactions	604,867	328,177	+84.3
Net effect of translating funds from international agencies using current rates, with the exchange risk borne by third parties	238,802	290,387	-17.8
Deposits with clearing-houses to secure derivative contracts	126,670	111,255	+13.9
Premiums paid on purchased options	110,044	182,440	-39.7
Checks and other instruments held	91,449	202,655	-54.9
Items relating to securities transactions	59,285	146,802	-59.6
Advance payment of current income taxes in excess of that due	86,000	-	n.s.
Other	951,331	702,790	+35.4
Total	14,781,400	14,023,442	+5.4

(a) Largely allocated at the beginning of 1998.

The above assets have not been written down since they are fully collectible.

In application of the new accounting policy regarding the determination of deferred taxation, which is explained in detail in the introduction to these notes, assets representing 1997 income taxes paid in advance are recorded in the balance sheet and the portion of such prepaid taxes in excess of income taxes for the year is booked as extraordinary income.

## Accrued income and prepaid expenses (caption 140)

Analysis of caption 140 "Accrued income and prepaid expenses" (table 5.2 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Accrued income			
– income from derivative contracts (a)	7,406,942	6,593,190	+12.3
– interest from loans to customers	1,214,948	1,374,126	-11.6
– interest on securities	975,833	1,233,911	-20.9
– bank interest	535,296	579,723	-7.7
– other income	27,099	28,578	-5.2
Prepaid expenses			
– current income taxes paid in advance	200,000	-	n.s.
– charges on derivative contracts	116,488	213,458	-45.4
– commission on placement of securities and mortgage loans	22,094	35,015	-36.9
– discounts on bond issues	14,596	20,730	-29.6
– other charges	69,056	20,700	+233.6
Total	10,582,352	10,099,431	+4.8

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

Prepaid expenses relating to 1997 taxes paid in advance are recorded in the financial statements in direct reduction of income taxes for the year to their entire extent.

Adjustments for accrued income and prepaid expenses (table 5.3 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Asset captions	-	-	-
b) Liability captions	-	-	-

Distribution of subordinated assets (table 5.4 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Due from banks	36,457	35,640	+2.3
b) Loans to customers	108,574	119,316	-9.0
c) Bonds and other debt securities	296,719	287,149	+3.3
Total	441,750	442,105	-0.1

## Section 6 Payables

Total deposits and other sources of funds, reported in liability captions 10, 20, 30 and 40, amount to 170,422,129 million lire and are detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Due to banks (caption 10)	46,910,981	55,218,448	-15.0
Due to customers (caption 20)	73,857,889	66,813,477	+10.5
Securities issued (caption 30)	49,534,147	57,532,996	-13.9
Public funds administered (caption 40)	119,112	121,123	-1.7
Total	170,422,129	179,686,044	-5.2

**Due to banks (caption 10)** Deposits taken from banks amount to 46,910,981 million lire analysed as follows:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Due to central banks			
– repurchase agreements and securities borrowed	2,235,624	5,937,975	-62.4
– other deposits from the Italian Exchange Office	1,517,834	437,879	+246.6
– other deposits from central banks	638,263	591,293	+7.9
– advances	29,848	57,769	-48.3
Due to other banks			
– deposits	32,318,581	37,739,723	-14.4
– repurchase agreements and securities borrowed	3,413,982	3,494,930	-2.3
– long-term loans from international bodies	3,094,863	3,305,558	-6.4
– current accounts	2,935,810	1,773,043	+65.6
– other items	17,366	23,366	-25.7
– other loans	708,810	1,856,912	-61.8
Total	46,910,981	55,218,448	-15.0

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Repurchase agreements	5,608,437	9,427,800	-40.5
b) Securities borrowed	41,169	5,105	+706.4

**Due to customers and securities issued** Funds obtained from customers, comprising deposits from customers and securities issued, amount to 123,392,036 million lire, as detailed below:  
(captions 20 and 30)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Due to customers			
– current accounts	50,848,556	45,987,066	+10.6
– repurchase agreements and securities borrowed	16,282,857	14,187,481	+14.8
– savings deposits	6,542,438	6,394,758	+2.3
– other	184,038	244,172	-24.6
Securities issued			
– bonds	24,079,431	26,395,086	-8.8
– certificates of deposit	24,906,090	30,323,436	-17.9
– bankers' drafts	519,871	768,433	-32.3
– other securities	28,755	46,041	-37.5
Total	123,392,036	124,346,473	-0.8

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Repurchase agreements	16,103,752	14,073,245	+14.4
b) Securities borrowed	179,105	114,236	+56.8

Securities issued comprise those due or ready for repayment totalling 14,827 million lire.

There have been no issues of bonds convertible into shares of the Bank or other companies, or similar securities, or beneficial interests in 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 assisted loans to customers, with the lending risk borne by the Bank. These funds, 119,112 million lire, are analyzed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Funds provided by the State	29,429	34,167	-13.9
Funds provided by regional public agencies	10,778	10,083	+6.9
Other funds	78,905	76,873	+2.6
Total	119,112	121,123	-1.7

**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 that do not adjust asset accounts, reported in liability captions 70 and 80, amount to 1,390,796 million lire and are detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Provision for termination indemnities (caption 70)	706,597	829,918	-14.9
Provisions for risks and charges (caption 80)			
– taxation (caption 80b)	294,193	440,800	-33.3
– other provisions (caption 80c)			
– provisions for guarantees and commitments	31,620	31,177	+1.4
– provisions for other risks and charges	179,000	125,300	+42.9
– provisions for other personnel charges	179,386	169,404	+5.9
Total	1,390,796	1,596,599	-12.9

### Provision for termination indemnities (caption 70)

<i>Changes in "Provision for termination indemnities" during the year</i>	<i>millions of lire</i>
Opening balance	829,918
– Increases	
– provisions	70,591
– transfers	1,293
Decreases	
– advances allowed under Law 297/82	167,171
– indemnities paid to employees leaving the Bank	28,026
– conferral of business segment	-
– transfers	-
– other changes	8
Closing balance	706,597

### Provisions for risks and charges (caption 80)

<i>Changes in "Taxation" during the year</i>	<i>millions of lire</i>
Opening balance	440,800
– Increases	
– provision for 1997 income taxes	200,000
– exchange differences	4,461
Decreases	
– payment of 1996 income taxes	346,068
– advance payment of 1996 income taxes	5,000
– exchange differences	-
Closing balance	294,193
of which:	
– current direct and indirect taxes	268,193
– fiscal disputes	26,000

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

The provision for the year includes the substitute tax levied under article 9 of Decree 358/97, which introduced the possibility of obtaining recognition for tax purposes of merger differences recorded as of 31 December 1996. This tax, 27%, (99,808 million lire) concerns merger differences (369,659 million lire) that were recorded as intangible fixed assets as of 31 December 1996 since they represent goodwill deriving from banks absorbed in prior years (Banca Provinciale Lombarda, Banco Lariano and Crediop).

No provision has been made for the capital tax levied under Decree 394/92, as converted into Law 461/92, since the levy of about 82 billion lire will be deducted from reserves during 1998 (as permitted by art. 4.2 bis of the above Decree, introduced by art. 62.11 of Decree 331/93, as converted into Law 427/93). As resolved by the shareholders' meeting held on 30 April 1996, capital taxes are paid out of provisions recorded pursuant to article 7.3 of Law 218/90.

The provision for the year does not include taxation payable under Decree 467/97 regarding the compulsory release, via payment of a substitute tax, of reserves subject to grossing up for equalization tax purposes on distribution. The tax category of the Bank's shareholders' equity means that part of the Bank's capital, 1,600,669 million lire, is subject to taxation at 2.2%. Considering that from that quota the tax-exempt amount resulting from the Bank's tax declaration, i.e. 950,157 million lire, is deductible, the substitute tax charge amounts to 14,312 million lire. As permitted by the regulations, the tax has been paid out of the reserve (art. 7.3, Law 218/90) as stated in the proposal to be submitted to the extraordinary shareholders' meeting that will take place prior to the approval of the annual accounts.

Fiscal disputes generally relate to inherent uncertainties in the legislation regarding normal operating issues and the various levels of tax court 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 court has essentially confirmed the approach taken by the Bank. Should all the claims from the tax commissions be accepted, the total charge would amount to less than 10 billion lire.

Including additional taxation under article 9 of Decree 358/97, current taxes amount to 268,193 million lire, which is less than the Bank's total outstanding tax credits. The balance, 26,000 million lire, will be used to cover outstanding and potential fiscal disputes. In regard to deferred taxation, on the basis of the new accounting treatment adopted in line with international

accounting principles, the Bank, which has a total of 381 billion lire of assets deriving from prepaid taxes, has recorded deferred tax assets amounting to 286 billion lire.

Such deferred tax assets are limited to the difference between the book value and the value for tax purposes of assets and liabilities which, as far as 1997 taxes are concerned, will be absorbed over the next four years. Accordingly, the unused balance of prepaid taxes amounts to around 95 billion lire.

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

*Analysis of caption 80c) "Provisions for risks and charges: other provisions" (table 7.3 B.I)* *millions of lire*

	Guarantees and commitments	Other risks and charges	Other personnel charges	Total
Opening balance	31,177	125,300	169,404	325,881
Increases				
– provisions	1,087	82,258	9,982	93,327
– exchange differences	37	-	-	37
Decreases				
– released to cover losses on guarantees given	681	-	-	681
– used to cover charges of a financial nature	-	28,558	-	28,558
Closing balance	31,620	179,000	179,386	390,006

Provisions for guarantees and commitments, 31,620 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, 179,000 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, 179,386 million lire, includes:

- 169,404 million lire to cover the Bank's commitment to the independent supplementary pension fund regarding unfunded pension liabilities;
- 9,000 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. The adequacy of the reserve to cover bonuses to eligible serving personnel was quantified as 56,147 million lire on the basis of independent assessments. The provision corresponds to the contribution required to maintain the level that, according to indications given by the actuary, permits the formation of the technical reserve required to cover charges connected with the time spread of



- payments to be incurred in future years;
- 982 million lire relating to likely costs to be incurred in connection with the personnel of the Bank's Frankfurt office and the renovation of the premises.

**Reserves for possible loan losses (caption 90)**

*Analysis of caption 90 "Reserves for possible loan losses" (table 7.1 B.I.)*

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Non-performing loans	-	-	-
Other loans	-	-	-

*Changes during the year in "Reserves for possible loan losses" (table 7.2 B.I.)*

*millions of lire*

A. Opening balance	-
B. Increases	
B1. provisions	-
B2. other changes	-
C. Decreases	
C1. releases	-
C2. other changes	-
D. Closing balance	-

## Section 8

### Capital, equity reserves and subordinated liabilities

Shareholders' equity, reported in liability captions 120, 130, 140, 150 and 170, amounts to 9,592,236 million lire, while subordinated liabilities, reported in caption 110, amount to 3,207,523 million lire, as detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Shareholders' equity			
– capital (caption 120)	8,159,929	8,159,929	-
– additional paid-in capital (caption 130)	275,000	275,000	-
– reserves (caption 140)			
– legal reserve	205,960	176,762	+16.5
– statutory reserve	65,924	36,572	+80.3
– extraordinary reserve	27,418	223,287	-87.7
– reserve for the purchase of own shares	200,000	-	n.s.
– reserve (art. 7.3, Law 218/90)	657,027	696,603	-5.7
– reserve (art. 13.6, Decree 124/93)	978	-	n.s.
– distributable net income (caption 170)	-	291,983	n.s.
Total shareholders' equity	9,592,236	9,860,136	-2.7
Subordinated liabilities (caption 110)	3,207,523	3,178,341	+0.9

#### Shareholders' equity Capital (caption 120)

Capital amounts to 8,159,928,520,000 lire, represented by 815,992,852 ordinary shares, all issued and fully paid, par value 10,000 lire each.

#### Reserve for the purchase of own shares

The shareholders' meeting held on 30 April 1997 authorized the establishment of a specific reserve for the purchase of own shares by transferring 200 billion lire from the extraordinary reserve. The amount of own shares that may be acquired in one or more tranches over an 18-month period from the date of the shareholders' resolution was set at a maximum of 80 million shares.

The same shareholders' meeting also authorized the disposal of such own shares at any time, in whole or in part, on one or more occasions. In the context of the above facility, as discussed in the report on operations, during the year the Bank acquired 952,000 own shares (with a nominal value of 9,520 million lire) for a total price of 11,611,548,132 lire, and subsequently sold 952,000 own shares (with a nominal value of 9,520 million lire) for a total of 12,873,187,250 lire. The Bank did not hold any own shares in the portfolio at year-end.

#### Reserve (art. 7.3, Law 218/90)

The level of the reserve (art. 7.3, Law 218/90) takes account of:

- the provision for the year, 52,636 million lire;
- payment of the capital tax levied under Law 461/92, 77,900 million lire, as resolved at the shareholders' meeting held on 30 April 1996;
- payment of the substitute tax levied under Decree 467/97, 14,312 million lire, which will be submitted for examination by the extraordinary shareholders' meeting preceding the approval of the annual accounts.

*Other information relating to shareholders' equity*

A statement of changes in shareholders' equity during the year is attached to these notes, together with an analysis of assets restated under monetary revaluation laws.

**Subordinated liabilities (caption 110)**

Loan	Book value as of 12/31/97 (L/mil)	Original currency value (in millions)	Interest rate	Issue date	Maturity date	Book value as of 12/31/96 (L/mil)
Notes in Luxembourg francs	47,587	1,000	7.75%	05/26/93	05/26/00	48,242
Notes in Luxembourg francs	47,587	1,000	7.625%	07/09/93	07/09/01	48,242
Notes in Luxembourg francs	47,587	1,000	9%	02/10/92	02/10/00	48,242
Notes in Luxembourg francs	104,691	2,200	9.375%	12/18/91	12/18/98	106,132
Notes in US dollars	291,145	165	floating	07/30/93	07/30/03	253,309
Notes in US dollars	156,568	89	floating	09/24/93	09/24/03	136,221
Notes in US dollars	166,243	94	floating	11/10/93	11/10/05	159,945
Notes in US dollars	211,103	120	floating	08/25/95	08/25/00	244,891
Notes in Canadian dollars	185,017	151	floating	11/10/93	11/10/03	174,619
Notes in Italian lire	699,996	700,000	10.4%	06/30/94	06/30/04	706,262
Notes in Eurolire	197,999	198,000	floating	07/06/95	07/06/00	199,771
Notes in Eurolire	52,000	52,000	floating	12/30/96	12/30/01	52,465
Subordinated loan in Italian lire	125,000	125,000	11.2%	06/01/95	06/01/05	125,000
Subordinated loan in Italian lire	130,000	130,000	floating	05/15/95	05/15/05	130,000
Subordinated loan in Italian lire	210,000	210,000	11.5%	07/01/95	07/01/00	210,000
Subordinated loan in Italian lire	290,000	290,000	floating	07/01/95	07/01/00	290,000
Subordinated loan in Italian lire	245,000	245,000	floating	08/01/95	08/01/00	245,000
<b>Total</b>	<b>3,207,523</b>					<b>3,178,341</b>

Subordinated liabilities not included in the calculation of capital for Bank of Italy monitoring purposes amount to 487,739 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, the following subordinated loans were partially repaid during the year:

	Amount in currency as of 12/31/96 <i>(in millions)</i>	Amount in currency as of 12/31/97 <i>(in millions)</i>	Amount repaid in currency <i>(in millions)</i>	Maturity date
Loan				
Notes in US dollars	104	94	10	10/11/05
Notes in US dollars	160	120	40	25/08/00
Notes in Canadian dollars	156	151	5	10/11/03

#### **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.

## Section 9

### Other Liabilities

liability captions 50 and 60 amount to 30,150,241 million lire and comprise the following:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Other liabilities (caption 50)	18,866,137	17,012,834	+10.9
Accrued expense and deferred income (caption 60)	11,284,104	11,246,971	+0.3
Total	30,150,241	28,259,805	+6.7

#### Other liabilities (caption 50)

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Valuation of derivative transactions pertaining to complex financial portfolios	5,843,944	4,930,574	+18.5
Items relating to securities transactions	4,305,213	2,842,628	+51.5
Amounts available for third parties	2,589,153	2,278,260	+13.6
Unprocessed transactions (a)	1,345,600	1,260,335	+6.8
Transactions involving foreign branches	1,114,414	515,641	+116.1
Amounts in transit with branches (a)	661,486	1,910,564	-65.4
Non-liquid balances from portfolio transactions	506,240	226,313	+123.7
Amounts due to employees	366,469	409,220	-10.4
Due to the tax authorities	214,697	621,036	-65.4
Value date adjustments	153,421	156,373	-1.9
Premiums collected on options sold	111,405	242,699	-54.1
Deposits guaranteeing agricultural and construction loans	95,550	139,924	-31.7
Other	1,558,545	1,479,267	+5.4
Total	18,866,137	17,012,834	+10.9

(a) Largely allocated at the beginning of 1998.

#### Accrued expense and deferred income (caption 60)

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Accrued expense			
– charges on derivative contracts (a)	7,591,911	6,710,019	+13.1
– interest on securities issued	2,378,985	2,878,424	-17.4
– interest on amounts due to banks	514,820	612,949	-16.0
– interest on amounts due to customers	252,774	207,685	+21.7
– payroll and other operating costs	158,759	129,347	+22.7
– other	415	10,408	-96.0
Deferred income			
– interest on discounted notes	170,105	169,245	+0.5
– income from derivative contracts	152,754	463,344	-67.0
– other	63,581	65,550	-3.0
Total	11,284,104	11,246,971	+0.3

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

Adjustments for accrued expense and deferred income (table 9.3 B.I.).

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Liability captions	-	-	-
b) Asset captions	-	-	-

## Section 10 Guarantees and commitments

Balance sheet captions 10 and 20, relating to the Bank's guarantees and commitments that involve lending risk, total 58,515,066 million lire and are detailed as follows:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Guarantees given (caption 10)	23,699,754	22,262,793	+6.5
Commitments (caption 20)	34,815,312	34,101,036	+2.1
Total	58,515,066	56,363,829	+3.8

### Guarantees given (caption 10)

*Analysis of caption 10 "Guarantees given" (table 10.1 B.I.)*

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Commercial guarantees	18,176,452	16,415,604	+10.7
b) Financial guarantees	5,497,073	5,815,149	-5.5
c) Assets lodged in guarantee	26,229	32,040	-18.1
Total	23,699,754	22,262,793	+6.5

Unsecured guarantees given by the Bank, together with assets lodged to guarantee third-party commitments, comprise the following:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Endorsements and sureties	16,162,805	16,650,141	-2.9
Documentary credits	852,713	600,371	+42.0
Acceptances	387,686	323,425	+19.9
Other	6,270,321	4,656,817	+34.6
Assets lodged in guarantee			
– securities	12,847	19,469	-34.0
– other	13,382	12,570	+6.5
Total	23,699,754	22,262,793	+6.5

### Commitments (caption 20)

*Analysis of caption 20 "Commitments" (table 10.2 B.I.)*

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Commitments to grant finance (certain to be called on)	16,956,316	16,709,324	+1.5
b) Commitments to grant finance (not certain to be called on)	17,858,996	17,391,712	+2.7
Total	34,815,312	34,101,036	+2.1

Firm commitments that may or may not be called upon are detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Undrawn lines of credit granted	12,078,261	10,049,536	+20.2
Deposits and loans to be made	7,765,459	8,014,225	-3.1
Purchase of securities	6,313,219	5,543,007	+13.9
Put options issued	5,066,890	5,527,795	-8.3
Mortgage loans to be disbursed	2,726,901	3,041,695	-10.3
Holders of former Crediop bonds transferred to the new Crediop SpA	430,632	1,505,114	-71.4
Membership of Interbank Deposit Guarantee Fund	109,151	244,078	-55.3
Other commitments certain to be called on	150,738	110,398	+36.5
Other commitments not certain to be called on	174,061	65,188	+167.0
Total	34,815,312	34,101,036	+2.1

### Assets lodged to guarantee the Bank's liabilities

(table 10.3 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Securities lodged with third parties to guarantee repurchase agreements	10,847,784	12,727,379	-14.8
Securities lodged to guarantee advances from central banks	459,936	352,391	+30.5
Securities lodged with the Bank of Italy to guarantee bankers' drafts	130,000	126,000	+3.2
Securities lodged with the clearing-house for the Italian futures exchange (MIF)	71,000	85,000	-16.5
Total	11,508,720	13,290,770	-13.4

### Unused lines of credit

The Bank has unused lines of credit, excluding operating limits, totalling 160,211 million lire, compared with total lines of credit of 238,952 million lire, as detailed below:

(table 10.4 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Central banks	110,211	231,013	-52.3
b) Other banks	50,000	50,000	-
Total	160,211	281,013	-43.0

## Forward transactions

Forward transactions, excluding outstanding dealing transactions between the Bank's head office and foreign branches and on behalf of third parties, total 646,867,964 million lire, as detailed below:

(table 10.5 B.I)

millions of lire

	Hedging	Dealing	Other	Total
1. Purchase/sale of				
1.1 securities				
– purchases	-	6,313,219	-	6,313,219
– sales	-	5,283,664	-	5,283,664
1.2 currency				
– currency against currency	34,296,602	8,742,867	-	43,039,469
– purchases against lire	55,190,160	8,144,527	-	63,334,687
– sales against lire	65,843,874	10,289,138	-	76,133,012
2. Deposits and loans				
– to be disbursed	-	-	7,765,459	7,765,459
– to be received	-	-	6,871,457	6,871,457
3. Derivative contracts				
3.1 with exchange of capital				
a) securities				
– purchases	-	10,656,920	-	10,656,920
– sales	-	11,409,795	-	11,409,795
b) currency				
– currency against currency	1,658,504	1,086,403	-	2,744,907
– purchases against lire	6,605,138	6,982,125	-	13,587,263
– sales against lire	2,123,479	7,183,658	-	9,307,137
c) other instruments				
– purchases	-	-	-	-
– sales	-	-	-	-
3.2 without exchange of capital				
a) currency				
– currency against currency	-	-	-	-
– purchases against lire	2,351,394	-	-	2,351,394
– sales against lire	55,371	-	-	55,371
b) other instruments				
– purchases	12,151,899	168,294,222	3,745,900	184,192,021
– sales	20,411,802	182,183,287	1,227,100	203,822,189
Total	200,688,223	426,569,825	19,609,916	646,867,964

Forward transactions outstanding at year-end between the Bank's head office and foreign branches total 64,488,316 million lire, as detailed below:

millions of lire

	Hedging	Dealing	Total
Derivative contracts with exchange of capital			
a) securities			
– purchases	-	53,620	53,620
– sales	-	53,620	53,620
b) currency			
– currency against currency	24,456	-	24,456
– purchases against lire	1,383,884	-	1,383,884
– sales against lire	299,500	1,084,384	1,383,884
Derivative contracts without exchange of capital			
b) other instruments			
– purchases	4,371,174	26,423,252	30,794,426
– sales	9,173,288	21,621,138	30,794,426
Total	15,252,302	49,236,014	64,488,316



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>millions of lire</i>			
	Interest rate related	Exchange rate related	Stockmarket index price	Other
OTC trading contracts				
- Forward (a)	56,217,792	27,176,532	-	-
- Swaps (b)	245,633,466	-	-	-
- Options purchased	22,286,821	7,000,198	-	-
- Options sold	25,642,611	7,618,639	-	-
Exchange traded contracts				
- Futures purchased	28,000	-	-	-
- Futures sold	6,111,000	-	13,200	-
- Options purchased	5,803,857	-	238,442	-
- Options sold	10,957,625	-	244,759	-
Total trading contracts	372,681,172	41,795,369	496,401	-
Total non-trading contracts	47,343,522	157,757,401	560,300	-
Total contracts	420,024,694	199,552,770	1,056,701	-

(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>millions of lire</i>			
	Interest rate related	Exchange rate related	Stockmarket index price	Other
Notional amounts	393,279,220	199,552,770	-	-
Market value of OTC trading contracts				
- positive	7,954,276	83,432	-	-
- negative	7,692,572	67,892	-	-
Add on	1,210,265	153,696	-	-
Market value of OTC non-trading contracts				
- positive	1,020,786	2,118,548	-	-
- negative	909,309	1,790,674	-	-
Add on	591,889	1,605,133	-	-

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 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*

	Up to 12 months	Between 1 and 5 years	Beyond 5 years
Interest rate related	198,845,353	146,990,993	47,442,874
Exchange rate related	195,848,492	3,686,793	17,485
Stockmarket index price	-	-	-
Other contracts	-	-	-

*Credit quality of OTC derivative contracts, by counterparty*

	Positive market value	Add on	Credit risk equivalent (a)
Governments and central banks	64,939	38,694	103,633
Banks	8,030,576	2,643,405	10,673,981
Other operators	3,081,527	878,884	3,960,411
Total	11,177,042	3,560,983	14,738,025

(a) Including credit risk equivalent on transactions with an original life not exceeding 14 days.

The above transactions are backed by secured guarantees totalling 231,693 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.)

	12/31/97	12/31/96	Change (%)
a) Amount (in millions of lire)	18,651,014	19,496,429	-4.3
b) Number	5	4	+25.0

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.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Governments	1,861,985	1,704,726	+9.2
b) Other public entities	785,392	885,221	-11.3
c) Non-financial businesses	48,865,117	47,994,522	+1.8
d) Financial institutions	20,192,600	20,787,101	-2.9
e) Family businesses	9,786,431	9,976,653	-1.9
f) Other operators	18,010,618	17,828,703	+1.0
Total	99,502,143	99,176,926	+0.3

#### 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.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Construction and public works	8,859,100	9,473,053	-6.5
b) Sales and distribution services	8,273,867	8,745,305	-5.4
c) Wholesale and retail trade	7,825,195	7,908,252	-1.1
d) Energy	2,553,760	2,372,424	+7.6
e) Textiles, leather and footwear, clothing	2,544,297	2,546,427	-0.1
f) Other sectors	22,249,168	21,940,182	+1.4
Total	52,305,387	52,985,643	-1.3

**Distribution of guarantees given, by category of counterparty**

Guarantees given by the Bank are classified as follows:

(table 11.4 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Governments	85	1,055	-91.9
b) Other public entities	283,756	303,304	-6.4
c) Banks	2,437,497	2,549,371	-4.4
d) Non-financial businesses	15,157,112	12,936,043	+17.2
e) Financial institutions	4,691,205	5,360,401	-12.5
f) Family businesses	401,227	458,224	-12.4
g) Other operators	728,872	654,395	+11.4
Total	23,699,754	22,262,793	+6.5

**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.)

millions of lire

	12/31/97				12/31/96			
	Italy	Other EU countries	Other countries	Total	Italy	Other EU countries	Other countries	Total
1. Assets								
1.1 due from banks	22,178,672	17,708,533	9,190,490	49,077,695	24,125,544	20,061,012	10,351,924	54,538,480
1.2 loans to customers	81,992,206	9,572,272	7,937,665	99,502,143	85,371,515	9,584,065	4,221,346	99,176,926
1.3 securities	27,229,791	2,474,041	4,298,918	34,002,750	31,482,963	3,217,810	2,589,395	37,290,168
Total	131,400,669	29,754,846	21,427,073	182,582,588	140,980,022	32,862,887	17,162,665	191,005,574
2. Liabilities								
2.1 due to banks	13,153,744	22,501,397	11,255,840	46,910,981	20,203,344	22,118,869	12,896,235	55,218,448
2.2 due to customers	59,732,288	5,469,387	8,656,214	73,857,889	53,668,602	5,146,345	7,998,530	66,813,477
2.3 securities issued	45,910,879	2,329,448	1,293,820	49,534,147	54,039,465	2,113,378	1,380,153	57,532,996
2.4 other accounts	1,119,112	2,207,523	-	3,326,635	1,121,123	2,178,341	-	3,299,464
Total	119,916,023	32,507,755	21,205,874	173,629,652	129,032,534	31,556,933	22,274,918	182,864,385
3. Guarantees and commitments	27,563,757	13,280,170	17,671,139	58,515,066	33,060,901	14,366,766	8,936,162	56,363,829

## Maturities of assets and liabilities

The residual maturities of assets and liabilities are detailed in the following table:

(table 11.6 B.I.)

millions of lire

	Specified duration						Unspecified duration		Total
	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		
1. Assets									
1.1 Treasury bonds eligible for refinancing	408,367	270,762	3,921,209	4,295,391	860,326	1,699,112	1,056,278	-	12,511,445
1.2 due from banks	7,574,214	27,809,961	8,385,061	508,615	10,030	81,918	206,178	4,501,718	49,077,695
1.3 loans to customers	24,403,716	29,493,212	7,991,652	8,317,930	10,847,657	5,293,722	7,665,362	5,488,892	99,502,143
1.4 bonds and other debt securities	471,691	632,262	3,830,481	8,445,277	1,565,270	2,484,532	2,651,754	-	20,081,267
1.5 off-balance sheet transactions	-	170,366,833	155,544,812	73,533,020	7,274,081	26,186,527	3,784,860	-	436,690,133
Total assets	32,857,988	228,573,030	179,673,215	95,100,233	20,557,364	35,745,811	15,364,432	9,990,610	617,862,683
2. Liabilities									
2.1 due to banks	8,700,940	26,779,282	8,767,792	1,196,147	844,873	447,948	173,999	-	46,910,981
2.2 due to customers	47,845,521	23,643,639	1,794,091	350,512	48,908	175,218	-	-	73,857,889
2.3 securities issued:									
– bonds	729,722	380,845	3,044,808	3,889,492	7,777,395	5,202,418	3,054,751	-	24,079,431
– certificates of deposit	228,828	8,054,267	10,436,402	5,298,697	834,896	53,000	-	-	24,906,090
– other securities	548,626	-	-	-	-	-	-	-	548,626
2.4 subordinated liabilities	-	-	104,691	352,761	996,102	824,996	928,973	-	3,207,523
2.5 off-balance sheet transactions	-	162,679,625	159,063,288	82,671,739	7,738,634	23,267,308	939,580	-	436,360,174
Total liabilities	58,053,637	221,537,658	183,211,072	93,759,348	18,240,808	29,970,888	5,097,303	-	609,870,714

## Assets and liabilities denominated in foreign currencies

The Bank's assets and liabilities denominated in foreign currencies are detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Assets			
1. due from banks	21,530,193	24,375,202	-11.7
2. loans to customers	22,286,557	18,478,420	+20.6
3. securities	10,809,560	9,676,236	+11.7
4. equity investments	1,612,319	1,449,792	+11.2
5. other accounts	117,828	112,449	+4.8
Total assets	56,356,457	54,092,099	+4.2
b) Liabilities			
1. due to banks	31,392,774	31,473,671	-0.3
2. due to customers	14,660,849	14,682,193	-0.1
3. securities issued	3,380,090	2,734,293	+23.6
4. other accounts	1,257,529	1,219,843	+3.1
Total liabilities	50,691,242	50,110,000	+1.2

The principal spot exchange rates, as of 31 December 1997, used to translate the Bank's foreign currency assets and liabilities are indicated below on a comparative basis with 31 December 1996 exchange rates:

	12/31/97	12/31/96	Change (%)
US dollar	1,759.19	1,530.57	+14.9
German mark	981.69	982.71	-0.1
French franc	293.44	291.32	+0.7
Swiss franc	1,209.90	1,131.58	+6.9
Pound sterling	2,913.04	2,583.91	+12.7
Japanese yen	13.576	13.206	+2.8
Spanish peseta	11.598	11.660	-0.5
Ecu	1,940.39	1,896.38	+2.3

## Section 12

### Administration and dealing on behalf of third parties

Pursuant to 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.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Purchases			
1. settled	5,218,000	3,750,250	+39.1
2. not settled	23,000	16,250	+41.5
Total purchases	5,241,000	3,766,500	+39.1
b) Sales			
1. settled	4,426,000	4,931,250	-10.2
2. not settled	21,400	107,250	-80.0
Total sales	4,447,400	5,038,500	-11.7

### Asset management

The total market value of portfolios managed on behalf of customers is detailed below:

(table 12.2 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Asset management	4,305,911	9,237,235	-53.4

The 50% reduction in the value of portfolios managed directly by the Bank on behalf of customers is largely due to the start-up of Sanpaolo Asset Management Sim SpA's operations during 1997. The company was set up for the purpose of centralizing the Group's entire asset management activities.

**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.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Third-party securities held on deposit	272,210,738	245,993,690	+10.7
b) Third-party securities deposited with third parties	170,300,433	158,016,540	+7.8
c) Portfolio securities deposited with third parties	18,835,972	15,113,657	+24.6

(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 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 16,358,921 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.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Debit adjustments			
1. current accounts	1,818,838	1,665,519	+9.2
2. central portfolio	686,779	837,719	-18.0
3. cash	-	-	-
4. other accounts	-	-	-
b) Credit adjustments			
1. current accounts	686,779	837,719	-18.0
2. transferors of notes and documents	1,818,838	1,665,519	+9.2
3. other accounts	-	-	-

**Guarantee Fund for small and medium-sized undertakings in Southern Italy (Law 341/95)**

By the Convention dated 21 December 1995 between the Italian Treasury and the Bank, as approved and activated by Decree of the Director-General of the Treasury dated 5 January 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 undertakings 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 31 December 1997, 3,387 requests with a total value of 2,308,727 million lire had been received, all in relation to the consolidation of short-term debt. In addition, 3,156 requests for loans amounting to 2,127,174 million lire have been processed, of which 2,111 have been



approved, totalling 1,445,183 million lire. In light of the operations processed to date, the overall amount committed by the Fund totals 865,598 million lire, including 680,562 million lire relating to guarantees given and 185,036 million lire for grants to be disbursed.

Movements in the Fund during the period from 1 January through 31 December 1997 are detailed below:

		<i>millions of lire</i>	
Income		Expenditure	
Assets of the Fund as of Dec. 31, 1996	757,850	One-off repayments	786
One-off commission income	20,174	Net grants disbursed during the year	38,272
Gross interest on the Bank's current account	162	Amounts paid to the tax authorities for withholdings on grants	1,336
Withholdings at 4% reimbursed	8	Tax withholdings at 4% on the Bank's current account	44
Repayment of grants	161	Operating expenses	724
		Total expenditure	41,162
		Assets of the Fund as of Dec. 31, 1997:	737,193
		• on the State Central Treasury current account	735,060
		• on the Bank's current account	2,133
Total income	778,355	Grand total	778,355
Debtors for guarantees given	680,562	Guarantees given	680,562
Debtors for commitments undertaken	185,036	Commitments undertaken	185,036

#### Other transactions

The Bank has also performed the following services for third parties:

(table 12.4 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Third-party portion of syndicated loans arranged by the Bank, without representation	1,865,045	1,357,030	+37.4

## Part C - Statement of income

### Section 1 Interest

Interest income and expenses and similar revenues and charges, detailed below, are reported in captions 10 and 20 of the statement of income:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Interest income and similar revenues (caption 10)	13,696,072	17,014,021	-19.5
Interest expenses and similar charges (caption 20)	10,270,571	13,129,966	-21.8

### Interest income and similar revenues (caption 10)

Analysis of caption 10 "Interest income and similar revenues" (table 1.1 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) On amounts due from banks including – deposits with central banks	2,781,114	3,418,052	-18.6
b) On loans to customers including – loans using public funds	237,208	231,679	+2.4
c) On debt securities	8,076,153	10,013,929	-19.4
d) Other interest income	257	292	-12.0
e) Net differential on hedging transactions	2,830,918	3,571,308	-20.7
	7,887	10,732	-26.5
Total	-	-	-
	13,696,072	17,014,021	-19.5

Detail of caption 10 "Interest income and similar revenues" (table 1.3 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) On assets denominated in foreign currency	2,191,478	2,097,540	+4.5

Interest income is calculated taking into account the rate reductions agreed on restructured loans to businesses and groups in a state of crisis; the adverse effect on interest, calculated with respect to the average prime rate on loans, is estimated to total 113,315 million lire, net of the tax effect.

Default interest amounting to 445,948 million lire has been prudently eliminated from the statement of income, since collection is considered unlikely.

Interest income includes 1,125,933 million lire relating to repurchase agreements.

## Interest expenses and similar charges (caption 20)

Analysis of caption 20 "Interest expenses and similar charges" (table 1.2 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) On amounts due to banks	2,637,837	3,229,747	-18.3
b) On amounts due to customers	3,105,563	3,723,843	-16.6
c) On securities issued	4,170,158	5,461,847	-23.6
including:			
– certificates of deposit	2,155,522	2,767,616	-22.1
d) On public funds administered	-	-	-
e) On subordinated liabilities	268,337	284,530	-5.7
f) Net differential on hedging transactions	88,676	429,999	-79.4
Total	10,270,571	13,129,966	-21.8

Detail of caption 20 "Interest expenses and similar charges" (table 1.4 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) On liabilities denominated in foreign currency	2,291,636	2,482,482	-7.7

Interest expenses includes the annual charge of 2,162 million lire relating to issue discounts on bonds and certificates of deposit. The caption also includes charges of 1,657,023 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

### Commissions

Commission income and expenses, detailed below, is reported in captions 40 and 50 of the statement of income:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Commission income (caption 40)	1,660,752	1,182,325	+40.5
Commission expenses (caption 50)	176,181	150,087	+17.4

#### Commission income (caption 40)

Analysis of caption 40 "Commission income" (table 2.1 B.I)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Guarantees given	73,230	83,324	-12.1
b) Collection and payment services	229,945	194,395	+18.3
c) Management, dealing and consultancy services			
1. dealing in securities	15,837	13,520	+17.1
2. dealing in currency	53,383	51,520	+3.6
3. asset management	43,952	35,362	+24.3
4. custody and administration of securities	31,963	36,577	-12.6
5. placement of securities (a)	557,075	187,067	+197.8
6. consultancy services	-	-	-
7. "door-to-door" sales of securities and financial products and services	-	-	-
8. acceptance of instructions	87,585	45,692	+91.7
d) Tax collection services	-	-	-
e) Other services	567,782	534,868	+6.2
Total	1,660,752	1,182,325	+40.5

(a) Commission received for the placement of securities also includes that relating to the placement of mutual funds and insurance products amounting, respectively, to 370,050 million lire and 48,771 million lire as of 31 December 1997, and 104,472 million lire and 21,262 million lire as of 31 December 1996.

Subcaption (e) "Other services" comprises, in particular:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Loans granted	208,704	201,453	+3.6
Deposits and current account overdrafts	163,909	158,842	+3.2
Current accounts	118,963	108,749	+9.4
Banking functions in relation to mutual funds deposited	38,091	15,003	+153.9
Loan-arrangement activities	5,961	13,153	-54.7
Other services - Italy	18,204	20,980	-13.2
Other services - foreign branches	13,950	16,688	-16.4
Total	567,782	534,868	+6.2

## Commission expenses (caption 50)

Analysis of caption 50 "Commission expenses" (table 2.2 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Collection and payment services	89,501	60,869	+47.0
b) Management and dealing services			
1. dealing in securities	17,725	6,315	+180.7
2. dealing in currency	4,755	6,025	-21.1
3. asset management	-	-	-
4. custody and administration of securities	8,145	5,785	+40.8
5. placement of securities	-	-	-
6. "door-to-door" sales of securities and financial products and services	-	-	-
c) Other services	56,055	71,093	-21.2
Total	176,181	150,087	+17.4

Subcaption (c) "Other services" comprises, in particular:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Intermediation on financing transactions	22,373	22,347	+0.1
Loans obtained	7,027	13,083	-46.3
Guarantees received	3,767	5,299	-28.9
Loan-arrangement activities	1,862	2,063	-9.7
Other services - Italy	13,217	22,476	-41.2
Other services - foreign branches	7,809	5,825	+34.1
Total	56,055	71,093	-21.2

### 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:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Profits (losses) on financial transactions (caption 60)	230,603	969,442	-76.2

### Profits (losses) on financial transactions (caption 60)

Such profits and losses include writebacks and revaluations of 90,548 million lire, writedowns of 37,132 million lire and the results of dealing transactions totalling 177,187 million lire. In particular:

Analysis of caption 60 "Profits (losses) on financial transactions" (table 3.1 B.1)

millions of lire

	Security transactions	Currency transactions	Other transactions	Total
A1. Revaluations	869 (a)	-	89,679 (d)	90,548
A2. Writedowns	-23,772 (b)	-	-13,360 (e)	-37,132
B. Other profits and losses	237,457	85,790 (c)	-146,060 (f)	177,187
Total	214,554	85,790	-69,741	230,603
of which:				
1. on government securities	-272,963			
2. on other debt securities	116,313			
3. on equities	536,193			
4. on security derivatives	-164,989			

a) Including 482 million lire of writebacks on securities and 387 million lire of writebacks on security transactions to be settled.

b) Including 22,986 million lire of writedowns of securities and 786 million lire on security transactions to be settled.

c) Income relating to currency derivatives, 133,355 million lire, net of losses on currency transactions, 47,565 million lire.

d) Including 86,048 million lire of revaluations on complex financial portfolios and 3,631 million lire of writebacks on asset swaps.

e) Losses of 11,331 million lire on complex financial portfolios and of 2,029 million lire on asset swaps.

f) Balance of profits and losses on dealing in derivatives, other than those on securities and foreign currency (IRS, CIRS, FRA and IRO).

This caption includes 353,029 million lire of charges on equity swaps, compared with 475,851 million lire of profits from dealing in equities.

**Section 4**  
**Administrative costs**

Administrative costs, detailed below, are reported in caption 80 of the statement of income:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Payroll costs (caption 80a)	2,620,747	2,698,035	-2.9
Other administrative costs (caption 80b)	1,298,238	1,273,420	+1.9
Total	3,918,985	3,971,455	-1.3

**Payroll costs (caption 80a)**

*Analysis of payroll costs*

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Wages and salaries	1,799,094	1,859,085	-3.2
Social security charges	704,029	713,349	-1.3
Termination indemnities			
- provision for termination indemnities	70,591	85,955	-17.9
- indemnities accrued and paid during the year	7,381	7,049	+4.7
- contribution to the Bank's pension fund	39,652	32,597	+21.6
Total	2,620,747	2,698,035	-2.9

*Average number of employees by category (table 4.1 B.I.)*

	12/31/97	12/31/96	Change (%)
a) Executives	181	192	-5.7
b) Managers	3,402	3,489	-2.5
c) Other employees	17,029	17,307	-1.6
Total	20,612	20,988	-1.8

## Other administrative costs (caption 80b)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Rental of premises	121,188	116,314	+4.2
Maintenance of operating assets	78,030	75,537	+3.3
Software maintenance and upgrades	53,669	66,171	-18.9
Postage and telegraph charges	51,776	48,667	+6.4
Consultancy services	42,042	37,915	+10.9
Data transmission charges	41,798	42,661	-2.0
Public utilities	40,764	38,670	+5.4
Advertising and entertainment	38,404	25,189	+52.5
Telephone	37,898	41,398	-8.5
Security services	37,455	36,110	+3.7
Equipment leasing charges	34,752	32,749	+6.1
Insurance premiums - banks and customers	31,085	21,674	+43.4
Legal and judiciary expenses	28,090	25,864	+8.6
Cleaning of premises	27,462	28,035	-2.0
Office supplies	26,981	28,976	-6.9
External data processing	22,918	23,694	-3.3
Maintenance of properties owned by the Bank	21,553	28,858	-25.3
Transport and counting of valuables	19,553	22,047	-11.3
Databank access charges	18,811	21,841	-13.9
Courier and transport services	14,197	14,456	-1.8
Investigation/commercial information costs	12,856	11,930	+7.8
Maintenance of leasehold premises	12,294	20,754	-40.8
Contributions and membership fees to trades unions and business associations	6,548	7,953	-17.7
Other expenses	32,136	28,703	+12.0
<b>Total</b>	<b>852,260</b>	<b>846,166</b>	<b>+0.7</b>
Indirect duties and taxes			
– stamp duties	203,277	200,994	+1.1
– non-recoverable VAT on purchases	157,812	151,595	+4.1
– taxes on stock exchange contracts	30,130	22,857	+31.8
– local property taxes	18,358	17,544	+4.6
– tax amnesty charge (Pres. Decree 601/73)	14,465	14,158	+2.2
– other	21,936	20,106	+9.1
<b>Total</b>	<b>445,978</b>	<b>427,254</b>	<b>+4.4</b>
<b>Total other administrative costs</b>	<b>1,298,238</b>	<b>1,273,420</b>	<b>+1.9</b>

Consultancy services include 2,558 million lire of fees paid to Arthur Andersen SpA for the audit of annual and half-year reports, as detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Statutory financial statements of the Bank	782	771	+1.4
Consolidated financial statements of the Group	49	49	-
Financial statements of foreign branches	917	835	+9.8
Half-year report of the Bank	430	-	n.s.
Half-year report of the Group	60	-	n.s.
Half-year financial statements of foreign branches	320	-	n.s.
<b>Total</b>	<b>2,558</b>	<b>1,655</b>	<b>+54.6</b>



## Section 5

### Adjustments writebacks and provisions

Adjustments and provisions, amounting to 2,684,391 million lire, are reported in captions 90, 100, 120, 140 and 150 of the statement of income, while writebacks, amounting to 616,061 million lire, are reported in captions 130 and 160, as detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Adjustments to intangible and tangible fixed assets (caption 90)	371,491	408,781	-9.1
Provisions for risks and charges (caption 100)	92,240	40,000	+130.6
Adjustments to loans and provisions for guarantees and commitments (caption 120)	1,889,750	1,317,158	+43.5
Writebacks of adjustments to loans and provisions for guarantees and commitments (caption 130)	608,919	559,274	+8.9
Provisions to the reserve for possible loan losses (caption 140)	-	-	-
Adjustments to financial fixed assets (caption 150)	330,910	362,755	-8.8
Writebacks of adjustments to financial fixed assets (caption 160)	7,142	-	n.s.

#### Adjustments to intangible and tangible fixed assets (caption 90)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Adjustments to intangible fixed assets			
– amortization of start-up and capital increase expenses	263	10,434	-97.5
– amortization of goodwill	460	459	+0.2
– amortization of merger differences representing the goodwill of merged banks	70,772	70,772	-
– amortization of software costs	26,484	23,075	+14.8
– amortization of other deferred charges	32,715	38,112	-14.2
Adjustments to tangible fixed assets			
– depreciation of property	89,448	95,025	-5.9
– permanent writedowns of property	45,463	60,608	-25.0
– depreciation of furniture and installations	105,886	110,296	-4.0
Total	371,491	408,781	-9.1

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, 92,240 million lire, recorded during the year, include 82,258 million lire designed to increase 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 9,000 million lire designed to cover long-service bonuses to the Bank's employees and 982 million lire of likely costs connected with the reorganization of the Bank's Frankfurt 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.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Adjustments to loans	1,888,663	1,316,911	+43.4
of which:			
– general adjustments for country risk	82,033	25,614	+220.3
– other general adjustments	200,850	23,535	+753.4
b) Provisions for guarantees and commitments	1,087	247	+340.1
of which:			
– general provisions for country risk	170	78	+117.9
– other general provisions	-	-	-
Total	1,889,750	1,317,158	+43.5

Adjustments to loans concern: writedowns with respect to their book value, 1,338,261 million lire; losses deriving from bankruptcy proceedings, 339,238 million lire; and losses on the sale of loans and settlements with customers, 211,164 million lire.

Provisions of 1,087 million lire relate to expected losses on guarantees. In addition to the above adjustments, default interest of 445,948 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)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Revaluation of loans previously written down	254,301	351,047	-27.6
Revaluation of loans previously written off	130,000	-	n.s.
Revaluation of provisions for guarantees and commitments	681	161	+323.0
Collection of default interest previously written down	96,342	129,067	-25.4
Collection of loans previously written off	89,470	40,930	+118.6
Collection of loan principal previously written down	38,125	38,069	+0.1
Total	608,919	559,274	+8.9

## Adjustments to financial fixed assets (caption 150) *Adjustments to investment securities*

Adjustments to investment securities, 14,023 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 Bank of Italy.

### *Adjustments to equity investments*

Adjustments to equity investments, 316,887 million lire, relate to the writedown of holdings in the following companies to take account of permanent losses in value:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Apoké Six Srl	110,640	34,042	+225.0
Apoké Two Srl (in liquidation)	60,291	35,728	+68.8
Gedeam I.G. SA	41,000	-	n.s.
Sanpaolo Immobiliare SpA	39,223	114,323	-65.7
Sotim Srl (ex Situr Srl)	24,590	7,824	+214.3
Galileo Holding SpA	21,314	2,169	+882.7
Prospettive 2001 SpA	8,459	-	n.s.
Euke Srl (in liquidation)	4,511	14,075	-68.0
Sgr SpA	2,792	-	n.s.
Impresa Castelli SpA	1,350	-	n.s.
Gedit SA	1,349	-	n.s.
Tecnocittà Srl	420	-	n.s.
Nomisma SpA	323	-	n.s.
Feic SpA	149	44	+238.6
Tecnation SpA	133	-	n.s.
Imc Budapest	125	-	n.s.
Società Cooperativa Agricola SpA	77	-	n.s.
Ec Bic Piemonte SpA	63	126	-50.0
Società regionale per l'Ambiente Srl	24	-	n.s.
Sorecs SpA (in liquidation)	21	-	n.s.
Cogetra SpA	13	-	n.s.
Coceme Sicilia Scrl	10	-	n.s.
Torino Parcheggio Srl	10	-	n.s.
Banco Sanpaolo SA	-	113,613	n.s.
Evoluzione '94 SpA	-	10,193	n.s.
Giraglia SpA	-	10,000	n.s.
Sci SpA	-	7,404	n.s.
Sanità SpA	-	4,459	n.s.
Agricola Investimenti SpA	-	4,376	n.s.
Fime SpA	-	2,337	n.s.
Gft SpA	-	772	n.s.
Immobiliare Collegno SpA	-	715	n.s.
Sanpaolo Formazione SpA (in liquidation)	-	11	n.s.
Total	316,887	362,211	-12.5

**Writebacks of adjustments to  
financial fixed assets  
(caption 160)**

*Writebacks of investment securities*

Writebacks of investment securities, 2,062 million lire, relate to unsecured securities issued at the time of debt restructuring by residents of countries at risk for which the Bank of Italy has reduced the percentage of expected losses. Such writebacks concern, in particular, securities issued by customers resident in Ecuador, Bulgaria, Albania and Croatia.

*Writebacks of equity investments*

Writebacks of equity investments, 5,080 million lire, relate to the revaluation of the holdings in Esatri SpA, 4,600 million lire, and Montello SpA, 480 million lire, which were written down to cover adverse income-earning trends but, in view of the prices agreed for the sale of the holdings, the reasons for the writedowns no longer apply.

**Section 6**  
**Other statement of income**  
**captions**

**S**tatement of income captions 30, 70, 110, 180, 190, 220 and 240, not discussed above, comprise:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Dividends and other revenues (caption 30)	346,952	94,671	+266.5
Other operating income (caption 70)	325,211	281,100	+15.7
Other operating expenses (caption 110)	15,235	17,346	-12.2
Extraordinary income (caption 180)	501,672	113,232	+343.0
Extraordinary charges (caption 190)	259,323	39,378	+558.5
Income taxes for the year (caption 220)	-	260,000	n.s.
Provision to reserve (art. 7.3, Law 218/90) (caption 240)	52,636	225,157	-76.6

**Dividends and other revenues (caption 30)**

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Shares, quotas and other equities			
– dividends	61,399	16,675	+268.2
– tax credits	31,668	4,611	+586.8
Equity investments			
– dividends			
– Sanpaolo Ireland Plc	127,033	-	n.s.
– Crediop SpA	42,931	-	n.s.
– Bnc Assicurazioni SpA	8,000	4,200	+90.5
– Spf Promotio Sim SpA	5,085	17,162	-70.4
– Intersim SpA	4,080	2,581	+58.1
– Sanpaolo Fondi SpA	3,253	5,465	-40.5
– Mediaset SpA	1,984	1,781	+11.4
– Sanpaolo Invest Sim SpA	1,600	1,360	+17.6
– Crediop Finance Plc	1,424	3,204	-55.6
– Esatri SpA	1,421	-	n.s.
– Banco Ambrosiano Veneto SpA	1,309	1,309	-
– Ruegg Bank AG	1,127	706	+59.6
– Sanpaolo Riscossioni Genova SpA	780	780	-
– Istituto Centrale Banche e Banchieri SpA	481	481	-
– Meliorconsorzio SpA	353	264	+33.7
– Sanpaolo Asset Management SIM SpA	264	193	+36.8
– Finaosta SpA	-	536	n.s.
– Serleasing SpA	-	340	n.s.
– Mediocredito di Roma SpA	-	224	n.s.
– Sanpaolo Vita SpA	-	6,800	n.s.
– other	10,376	996	+941.8
– tax credits	42,384	25,003	+69.5
Total	346,952	94,671	+266.5

**Other operating income (caption 70)**

(table 6.1 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Expenses recovered from customers			
– stamp duties	195,855	193,120	+1.4
– other taxes	40,149	32,620	+23.1
– other legal costs	18,218	17,431	+4.5
– other recoveries	4,961	4,491	+10.5
Reimbursement of services rendered to third parties	45,951	11,159	+311.8
Property rental income	11,812	13,791	-14.3
Income from merchant banking activities	318	3,491	-90.9
Other income	7,947	4,997	+59.0
Total	325,211	281,100	+15.7

**Other operating expenses (caption 110)***(table 6.2 B.I.)*

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Finance leasing charges	15,235	17,346	-12.2

**Extraordinary income (caption 180)***(table 6.3 B.I.)*

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Out-of-period income			
- income taxes for the year paid in advance	86,000	-	n.s.
- use of tax reserve and deferred taxation relating to prior years	5,000	-	n.s.
- collection of default interest previously considered recoverable	-	37,362	n.s.
- collection of interest relating to prior years	-	27,174	n.s.
- other out-of-period income	57,491	30,766	+86.9
Gains on			
- translation into foreign currency of endowment funds of foreign branches	117,192	-	n.s.
- translation into foreign currency of foreign equity investments	33,356	-	n.s.
- disposal of financial fixed assets - equity investments	194,210	10,078	n.s.
- disposal of financial fixed assets - investment securities	5,940	-	n.s.
- disposal of tangible fixed assets	2,483	7,852	-68.4
Total	501,672	113,232	+343.0

Gains on the disposal of financial fixed assets relate to equity investments and are detailed in part B, section 3 of these notes.

**Extraordinary expenses (caption 190)***(table 6.4 B.I.)*

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Charges connected with the Bank's commitment to the Interbank Deposit Guarantee Fund	73,723	-	n.s.
Settlements relating to legal disputes	25,292	18,402	+37.4
Extraordinary contribution to the Interbank Guarantee Fund	11,200	-	n.s.
Other out-of-period expenses	15,865	19,554	-18.9
Amounts not collectible	258	231	+11.7
Losses on			
- translation into foreign currency of foreign equity investments	73,844	-	n.s.
- disposal of financial fixed assets	40,091	352	n.s.
- translation into foreign currency of endowment funds of foreign branches	14,846	-	n.s.
- disposal of tangible fixed assets	4,204	839	+401.1
Total	259,323	39,378	+558.5

Losses on the disposal of financial fixed assets relate to equity investments and are detailed in part B, section 3 of these notes.

## Income taxes for the year (caption 220)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Corporate income taxes (IRPEG)	112,000	245,022	-54.3
Local income taxes (ILOR)	2,000	54,000	-96.3
Adjustment of deferred taxation and of charges regarding possible fiscal disputes	-60,714	-80,000	-24.1
Substitute taxation (art. 9, Decree 358/97)	99,808	-	n.s.
Local taxes applicable to foreign branches	46,906	40,978	+14.5
Total provisions	200,000	260,000	-23.1
Current year prepaid taxes rediscounted	-200,000	-	n.s.
Total	-	260,000	n.s.

The adjustment of deferred taxation and of charges regarding possible fiscal disputes essentially arose from the transformation of deferred taxation provided in prior years into current income taxes.

In accordance with the new accounting policy governing the determination of deferred taxation, which is described in detail in the introduction to these notes, 5 billion lire of deferred taxation provided in prior years has been reclassified to extraordinary income. In regard to 1997, prepaid taxes in excess of deductible timing differences with respect to taxable timing differences that will be absorbed over the next four accounting years have been used, for 200,000 million lire, to reduce income taxes for the year to their entire extent, while the surplus, 86,000 million lire, has been recorded among extraordinary income.

In regard to the determination of prepaid taxes recorded for 286,000 million lire: the principal taxable timing differences relate to accrued capital gains on fixed assets (65 billion lire); the principal deductible timing differences relate to adjustments to loans that will be deductible in future years (163 billion lire), to provisions that will be deductible in future years (93 billion lire), to writedowns of property and equity investments that will become deductible in future years (60 billion lire); and tax credits deriving from taxes paid by foreign branches in their countries of residence (30 billion lire).

It should be noted that total prepaid taxes as of 31 December 1997 amount to 381 billion lire, because 95 billion lire of prepaid taxes relate to timing differences on adjustments to loans, as yet not deducted, that will reverse from 2002 onwards.

The determination of current income taxes takes account of the provision for the year to the reserve established under article 7.3 of Law 218/90.

Income taxes for the year include substitute tax on merger differences payable under article 9 of Decree 358/97, while the substitute tax levied

under Decree 467/97 on reserves subject to grossing up for equalization tax purposes is paid out of the reserve established under article 7.3 of Law 218/90, as permitted by the relevant regulations and as resolved by the extraordinary shareholders' meeting preceding the approval of the annual accounts. Reference may also be made to the comments on the tax reserves in part B, section 7 of these notes.

**Provision to reserve (art. 7.3,  
Law 218/90) (caption 240)**

The provision to the special reserve established under article 7.3 of Law 218/90, 52,636 million lire, represents the residual amount deriving from the mergers of Banca Provinciale Lombarda and Banco Lariano, 52,290 million lire, together with 346 million lire relating to the mergers of Banca Nazionale delle Comunicazioni and Crediop. An amount of 172,520 million lire deriving from the latter two of the operations indicated above is still available and could be provided to the reserve during the next two financial years.

## 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.)

millions of lire

	12/31/97				12/31/96			
	Italy	Other EU countries	Other countries	Total	Italy	Other EU countries	Other countries	Total
Interest income and similar revenues	9,980,634	2,378,761	1,336,677	13,696,072	13,514,595	2,273,114	1,226,312	17,014,021
Dividends and other revenues	258,713	88,207	32	346,952	84,192	10,479	-	94,671
Commission income	1,610,188	32,922	17,642	1,660,752	1,135,220	29,635	17,470	1,182,325
Profits (losses) on financial transactions	209,834	13,837	6,932	230,603	866,761	76,468	26,213	969,442
Other operating income	324,074	1,025	112	325,211	279,607	1,443	50	281,100
Total revenues	12,383,443	2,514,752	1,361,395	16,259,590	15,880,375	2,391,139	1,270,045	19,541,559

### 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 1/91, is provided below:

(table 7.2 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Commission earned			
– dealing in securities on behalf of third parties	529	631	-16.2
– placement and distribution of securities, with or without prior subscriptions or commitments to purchase, or underwriting of issues	165,999	35,334	+369.8
– asset management via security transactions, with or without trust status	33,799	35,362	-4.4
– acceptance of instructions to buy or sell securities	94,441	45,692	+106.7
– consultancy in relation to securities	-	-	-
– soliciting the savings of the general public	-	-	-
Dealing volumes			
– dealing in securities on own account			
– shares	1.492.694	108.083	n.s.
– bonds	49.401.408	10.382.567	+375.8
– government securities	120.233.081	121.792.937	-1.3
Average monthly balance of assets managed			
– asset management via security transactions, with or without trust status	9.340.576	7.956.398	+17.4



**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:

*millions of lire*

	12/31/97			12/31/96		
	Group companies	Non-Group companies	Total	Group companies	Non-Group companies	Total
Income						
- interest income and similar revenues	276,206	290,448	566,654	451,110	388,421	839,531
- dividends and other revenues	225,734	28,150	253,884	63,425	9,600	73,025
- commission income	446,366	176	446,542	114,769	153	114,922
- other operating income	29,597	1,765	31,362	18,904	599	19,503
Total	977,903	320,539	1,298,442	648,208	398,773	1,046,981
Expenses						
- interest expense and similar charges	288,595	287,866	576,461	289,339	335,531	624,870
- commission expenses	19,765	657	20,422	11,762	365	12,127
- other operating expenses	20,059	-	20,059	31,809	14	31,823
Total	328,419	288,523	616,942	332,910	335,910	668,820

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 1.1 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Directors	2,019	1,987	+1.6
Statutory Auditors	514	508	+1.2

#### Loans and guarantees given

(table 1.2 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Directors	532,868	418,687	+27.3
Statutory Auditors	51	58	-12.1

The amounts indicated above include loans granted to and guarantees given by the Bank to the Directors and Statutory Auditors, 469 million lire, and to companies and banks identified pursuant to article 136 of the Consolidated Banking Act, 532,450 million lire, including the drawdown against credit lines granted to the latter.

### Section 2 Parent company

The Bank of Italy, by decisions dated 3 and 31 December 1997 on the basis of resolutions adopted by the shareholders' meeting of the Bank held on 30 April 1997, has authorized the transfer from Gruppo Bancario San Paolo S.p.A. (San Paolo Bank Holding S.p.A.) to Istituto Bancario San Paolo di Torino of the role and functions of the ultimate parent of the San Paolo Banking Group commencing on 31 December 1997.

#### 2.1 Name

Istituto Bancario San Paolo di Torino S.p.A.

#### 2.2 Registered offices

Piazza San Carlo, 156, 10121 Turin, Italy  
Registered banking group No. 1025/6

Turin, March 23, 1998

The Board of Directors





## Attachments



## Statement of changes in shareholders' equity

	<i>millions of lire</i>									
	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)	Net income for the year	Total
Shareholders' equity as of January 1, 1997	8,159,929	275,000	176,762	36,572	223,287	-	-	696,603	291,983	9,860,136
Allocation of 1996 net income										
• legal reserve	-	-	29,198	-	-	-	-	-	-29,198	-
• statutory reserve	-	-	-	29,198	-	-	-	-	-29,198	-
• extraordinary reserve	-	-	-	-	4,131	-	-	-	-4,131	-
• reserve (art. 13.6, Decree 124/93)	-	-	-	-	-	-	978	-	-978	-
• dividends paid	-	-	-	-	-	-	-	-	-228,478	-228,478
Provision to reserve (art. 7.3, Law 218/90)	-	-	-	-	-	-	-	52,636	-	52,636
Establishment of reserve for the purchase of own shares	-	-	-	-	-200,000	200,000	-	-	-	-
Use of reserve (art. 7.3, Law 218/90) to cover payment of substitute tax (Decree 467/97)	-	-	-	-	-	-	-	-14,312	-	-14,312
Use of reserve (art. 7.3, Law 218/90) to cover payment of capital taxes (Law 461/92)	-	-	-	-	-	-	-	-77,900	-	-77,900
Dividends (1991) from merged banks, as prescribed by art. 22, Arts. of Association	-	-	-	154	-	-	-	-	-	154
Distributable net income for 1997	-	-	-	-	-	-	-	-	-	-
Shareholders' equity as of December 31, 1997	8,159,929	275,000	205,960	65,924	27,418	200,000	978	657,027	-	9,592,236

## Statement of cash flows

billions of lire

### APPLICATION OF FUNDS

<b>Use of funds generated by operations</b>		<b>544</b>
Dividends paid	228	
Use of reserve (art. 7.3, Law 218/90) to cover payment of capital taxes (Law 461/92)	78	
Release of reserves to cover payment of substitute tax (art. 1, Decree 467/92)	14	
Use of reserve for termination indemnities	195	
Use of provisions for risks and charges	29	
<b>Increase in funds applied</b>		<b>3,359</b>
Cash and deposits with central banks	16	
Loans to customers	1,606	
Investment securities	415	
Intangible fixed assets	81	
Other assets	1,241	
<b>Decrease in funds taken</b>		<b>9,264</b>
Due to banks	8,307	
Due to customers and securities issued	957	
<b>Total</b>		<b>13,167</b>



**SOURCES OF FUNDS**

<b>Funds generated by operations</b>		<b>2,191</b>
Net income for the year	53	
Provision for termination indemnities	70	
Net adjustments to loans and provisions for guarantees and commitments	1,281	
Provisions for risks and charges	92	
Adjustments to tangible fixed assets	240	
Adjustments to intangible fixed assets	131	
Adjustments to financial fixed assets	324	
<b>Increase in funds taken</b>		<b>1,775</b>
Subordinated liabilities	29	
Other liabilities	1,746	
<b>Decrease in funds applied</b>		<b>9,201</b>
Due from banks	5,460	
Dealing securities	3,690	
Equity investments	34	
Tangible fixed assets	17	
<b>Total</b>		<b>13,167</b>

## Key financial data of subsidiary companies and of companies subject to significant influence

### Banks and financial institutions (Decree 87/92)

<i>millions of lire</i>					
BALANCE SHEET ASSETS	Loans	Securities	Equity investments	Other assets	Total
<i>Subsidiary companies</i>					
Banque Sanpaolo SA	6,905,408	1,487,364	189,116	433,493	9,015,381
Crediop Finance Plc (in liquidation)	-	-	-	583	583
Crediop SpA	31,957,791	1,077,583	210,390	1,917,655	35,163,419
Intersim SpA	93,374	48,046	1,956	61,932	205,308
Sanpaolo Asset Management Sim SpA	18,110	14,755	-	5,352	38,217
Sanpaolo Bank SA	2,647,098	97,324	15,505	48,422	2,808,349
Sanpaolo Fiduciaria SpA	984	2,775	-	401	4,160
Sanpaolo Fondi SpA	16,666	108,129	-	74,829	199,624
Sanpaolo Immobiliare SpA	380,942	145,090	-	27,204	553,236
Sanpaolo Invest Sim SpA	89,950	2,572	-	60,945	153,467
Sanpaolo Ireland Plc	1,191,673	478,243	94	127,390	1,797,400
Sanpaolo Leasing SpA	1,890,605	178,609	-	468,484	2,537,698
Sanpaolo Riscossioni Genova SpA	5,041	146	-	182,272	187,459
Sanpaolo Riscossioni Prato SpA	257	276	-	46,533	47,066
Sanpaolo Us Financial Co.	1,697,369	-	-	24,878	1,722,247
Sanpaolo Us Holding Co. (in liquidation)	1,755	-	-	11,429	13,184
Sanpaolo Vermögensverwaltung GmbH	546	623	86	12	1,267
Sanpaolo Vita SpA	27,155	2,597,476	148,049	46,797	2,819,477
Sep SpA	879	1,511	9	3,856	6,255
Spb I 650 Van Ness Corp.	-	-	-	-	-
Spb Delta Towers LLC	2	-	-	-	2
<i>Companies subject to significant influence</i>					
Banaco SA (a)	87,572	-	355	144,476	232,403
Banca Italo Romana SpA	255,754	10,958	3	6,405	273,120
Bnc Assicurazioni SpA (a)	57,850	682,768	3,223	273,531	1,017,372
Esatri SpA	1,606,874	28,673	-	199,930	1,835,477
Finconsumo SpA	686,351	-	-	52,348	738,699
Inter Europa Bank RT	708,871	147,573	6,480	95,560	958,484
Ruegg Bank AG (a)	196,646	37,589	3,598	14,282	252,115

(a) Financial statements as of December 31, 1996.

millions of lire

BALANCE SHEET LIABILITIES	Payables	Other liabilities	Subordinated liabilities	Shareholders' equity	Total
<i>Subsidiary companies</i>					
Banque Sanpaolo SA	7,886,134	325,333	-	803,914	9,015,381
Crediop Finance Plc (in liquidation)	-	-	-	583	583
Crediop SpA	31,804,408	2,071,135	320,000	967,876	35,163,419
Intersim SpA	70,953	80,603	-	53,752	205,308
Sanpaolo Asset Management Sim SpA	-	14,205	-	24,012	38,217
Sanpaolo Bank SA	2,654,527	35,973	35,897	81,952	2,808,349
Sanpaolo Fiduciaria SpA	195	1,363	-	2,602	4,160
Sanpaolo Fondi SpA	139,197	16,967	-	43,460	199,624
Sanpaolo Immobiliare SpA	533,195	14,258	-	5,783	553,236
Sanpaolo Invest Sim SpA	296	99,545	-	53,626	153,467
Sanpaolo Ireland Plc	898,932	35,886	-	862,582	1,797,400
Sanpaolo Leasing SpA	2,119,498	306,535	-	111,665	2,537,698
Sanpaolo Riscossioni Genova SpA	121,093	58,164	-	8,202	187,459
Sanpaolo Riscossioni Prato SpA	21,702	21,944	-	3,420	47,066
Sanpaolo Us Financial Co.	1,697,221	24,902	-	124	1,722,247
Sanpaolo Us Holding Co.(in liquidation)	4,000	608	-	8,576	13,184
Sanpaolo Vermögensverwaltung GmbH	-	3	-	1,264	1,267
Sanpaolo Vita SpA	2,701,886	6,388	-	111,203	2,819,477
Sep SpA	-	3,050	-	3,205	6,255
Spb I 650 Van Ness Corp.	-	-	-	-	-
Spb Delta Towers Llc	-	-	-	2	2
<i>Companies subject to significant influence</i>					
Banaco SA (a)	211,572	36,676	-	-15,845	232,403
Banca Italo Romena SpA	237,652	7,847	-	27,621	273,120
Bnc Assicurazioni SpA (a)	647,892	42,803	-	326,677	1,017,372
Esatri SpA	1,575,453	188,636	-	71,388	1,835,477
Finconsumo SpA	662,793	35,606	-	40,300	738,699
Inter Europa Bank RT	855,924	12,775	-	89,785	958,484
Ruegg Bank AG (a)	179,752	8,978	-	63,385	252,115

(a) Financial statements as of December 31, 1996.

millions of lire

STATEMENT OF INCOME	Income (loss) from operations	Extraordinary income (charges)	Net income (loss) for the year
<i>Subsidiary companies</i>			
Banque Sanpaolo SA	38,470	134	38,441
Crediop Finance Plc (in liquidation)	-	-	-
Crediop SpA	138,361	5,800	66,684
Intersim SpA	43,513	-33	20,083
Sanpaolo Asset Management Sim SpA	2,720	-21	953
Sanpaolo Bank SA	13,727	-13	5,616
Sanpaolo Fiduciaria SpA	547	-37	118
Sanpaolo Fondi SpA	20,210	-18	9,002
Sanpaolo Immobiliare SpA	-5,659	-33,563	-39,222
Sanpaolo Invest Sim SpA	57,548	-4,997	14,538
Sanpaolo Ireland Plc	122,635	-	110,463
Sanpaolo Leasing SpA	11,910	4,877	7,222
Sanpaolo Riscossioni Genova SpA	5,803	473	2,134
Sanpaolo Riscossioni Prato SpA	1,863	219	1,617
Sanpaolo Us Financial Co.	7	-	7
Sanpaolo Us Holding Co. (in liquidation)	-2,683	-	-2,683
Sanpaolo Vermögensverwaltung GmbH	1,207	-	1,205
Sanpaolo Vita SpA	27,946	35	10,293
Sep SpA	550	-14	194
Spb 1650 Van Ness Corp.	-	-	-
Spb Delta Towers Llc	-	-	-
<i>Companies subject to significant influence</i>			
Banaco SA (a)	-13,270	-1,888	-15,342
Banca Italo Romana SpA	-2,374	-44	-2,657
Bnc Assicurazioni SpA (a)	17,247	10,089	11,208
Esatri SpA	56,602	1,281	18,515
Finconsumo SpA	20,929	4,524	9,929
Inter Europa Bank RT	17,860	1,152	15,771
Ruegg Bank AG (a)	8,149	-	6,081

(a) Financial statements as of December 31, 1996.

## Other companies (Decree 127/91)

*millions of lire*

BALANCE SHEET - ASSETS	Due from shareholders	Fixed assets	Current assets	Accrued income and prepaid expenses	Total assets
Apokè Six Srl	-	205,958	9,822	5	215,785
Apokè Two Srl (in liquidation)	-	495	136,109	-	136,604
Consorzio Usas (a)	1	292	5,446	2,323	8,062
Euke Srl (in liquidation)	-	4,425	10,505	-	14,930
Galileo Holding SpA	-	42,414	1,072	-	43,486
Gedeam I.G. Inc. SA (a)	-	497,468	250,822	204	748,494
Gedit SA (a)	-	4,724	38	-	4,762
Prospettive 2001 SpA	-	8,013	173,571	201	181,785
Sotim Srl	-	78,423	100,713	-	179,136

(a) Financial statements as of December 31, 1996.

*millions of lire*

BALANCE SHEET - LIABILITIES	Shareholders' equity	Provisions for risks and charges and termination indemnities	Payables	Accrued expense and deferred income	Total liabilities and shareholders' equity
Apokè Six Srl	3,503	116,780	95,457	45	215,785
Apokè Two Srl (in liquidation)	-11,805	24,281	124,003	125	136,604
Consorzio Usas (a)	188	25	4,883	2,966	8,062
Euke Srl (in liquidation)	14,776	-	154	-	14,930
Galileo Holding SpA	-2,590	10,000	36,076	-	43,486
Gedeam I.G. Inc. SA (a)	359,887	22,363	366,244	-	748,494
Gedit SA (a)	-1,239	-	6,001	-	4,762
Prospettive 2001 SpA	29,794	-	151,991	-	181,785
Sotim Srl	25,695	67,920	85,424	97	179,136

(a) Financial statements as of December 31, 1996.

*millions of lire*

STATEMENT OF INCOME	Difference between value and cost of production	Financial income and expense	Adjustments to financial assets	Extra-ordinary income and expense	Net income (loss) for the year
Apokè Six Srl	-117,663	-1	-6,622	118,183	-6,103
Apokè Two Srl (in liquidation)	-1,034	2,194	-580	209,501	210,081
Consorzio Usas (a)	265	-203	-	-	29
Euke Srl (in liquidation)	-484	579	-	-11	-3
Galileo Holding SpA	-6,032	4,222	-	-23,200	-25,010
Gedeam I.G. Inc. SA (a)	-5,333	14,158	-	5,861	14,686
Gedit SA (a)	-1,068	-206	-25	-	-1,299
Prospettive 2001 SpA	-48	-8,533	-	2	-8,579
Sotim Srl	-2,749	3,639	-2,595	90	-1,615

(a) Financial statements as of December 31, 1996.

## Analysis of assets restated under revaluation laws

	Investment	L. 823/73 (a)	L.576/75 (a)	L. 72/83 (a)	Other	L. 218/90 (b)
Equity investments	3,182,154,003,351	-	753,500,000	-	-	154,118,827,677
Property	848,064,183,379	39,990,858,747	13,315,919,422 (c)	365,448,927,735	20,389,491,757 (a)	1,185,195,485,540
Total	4,030,218,186,730	39,990,858,747	14,069,419,422	365,448,927,735	20,389,491,757	1,339,314,313,217

(a) Revaluations recorded by the Bank in the years prior to its transformation into a limited company and those carried out by the merged banks in the years prior to their absorption.

(b) Additional value attributed to assets at the time of the transformation.

(c) Gross of the revaluation by 1,061,977,353 million lire of the related accumulated depreciation.

							<i>lire</i>
L. 408/90	L. 413/91	Mergers of B.P.L. and B. Lariano	Mergers of Crediop	Total revaluations	Gross book value		
–	–	–	58,041,000,000	212,913,327,677	3,395,067,331,028	Equity investments	
168,547,838,195	80,939,882,993	278,496,269,948	28,299,550,856	2,180,624,225,193	3,028,688,408,572	Property	
168,547,838,195	80,939,882,993	278,496,269,948	86,340,550,856	2,393,537,552,870	6,423,755,739,600	Totale	

## List of bonds convertible into shares

	Nominal value	Book value	Change with respect to 12/31/96	
	as of 12/31/97	as of 12/31/97	Nominal value	Book value
Banca Popolare di Brescia 6% 93/99	700,000	700,000	-	-
Banca Popolare di Milano 9% 93/99	-	-	-2,370,000	-2,370,000
Banca Popolare di Bergamo 7.5% 94/99	1,100,000	1,177,153	-	-
Cartiere Sottrici Binda TV 94/97	-	-	-1,957,755,660	-1,936,807,674
Cementeria Merone 8.50% 93/99	666,000	666,000	-	-
Costa Crociere 6,75% 94/00	6,858,000	6,860,231	6,858,000	6,860,231
Credito Valtellinese 7% 95/98	1,500,000	1,929,659	1,500,000	1,929,659
F.A.B. 7 % 92/97	-	-	10,000,000,000	10,000,000,000
Mediobanca Alleanza 4% 93/99	13,627,100	15,371,247	381,000	1,530,251
Mediobanca Italmobiliare 6% 93/99	2,772,000	2,441,594	-	-
Imm. Giraglia 6% 96/04	8,045,000,000	8,045,000,000	-	-
Banca Agricola Mantovana 7% 95/01	671,000	654,169	-	-
Mediobanca - Sai 6% 95/02	7,633,000	7,633,000	-	16,182
Saffa 9.25% 95/01	3,218,250	3,212,380	-	-
Imi - Cirio 10% 95/00	90,000,000	89,100,000	-	-
Credito Valtellinese 7% 95/98	1,500,000	1,929,659	-1,500,000	-1,555,159
Mediobanca Unicem ordinary 4.50% 94/00	330,988,000	332,146,458	-	48,953,125
Mediobanca Unicem savings 5.50% 94/00	207,739,000	208,627,666	-	29,598,196
Santavaleria fin 9.5% 94/98	-	-	-2,830,054,000	-2,830,054,000
Total	8,713,972,350	8,717,449,216	-14,782,940,660	-14,681,899,189



## List of properties owned by the bank

LOCATION	Sqm.	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	1,917,766,838	3,664,403,938
AGNADELLO Piazza della Chiesa 5	199	111,217,463	350,528,688	461,746,151	123,769,187	337,976,964
ALASSIO Via S.G. Bosco 2	1,233	448,169,585	6,132,926,126	6,581,095,711	1,644,766,146	4,936,329,565
ALBA Piazza Savona I	1,168	849,987,174	3,390,073,404	4,240,060,578	1,411,089,039	2,828,971,539
ALBA Via Cuneo ang. Vic. San Biagio	54	8,000,000	70,939,527	78,939,527	28,768,998	50,170,529
ALBENGA Ag. I Via Genova 86	70	73,662,856	275,195,158	348,858,014	58,689,888	290,168,126
ALBENGA Via Valle d'Aosta 6	1,400	5,532,930,190	-	5,532,930,190	987,514,481	4,545,415,709
ALBESE Via Vittorio Veneto 6/a	262	53,307,746	665,273,667	718,581,413	164,217,019	554,364,394
ALBINO Via Mazzini 182	982	2,180,000,000	950,800,000	3,130,800,000	505,842,588	2,624,957,412
ALESSANDRIA Ag. I Corso Roma 17/19	7,053	2,498,314,546	12,976,645,372	15,474,959,918	3,544,666,659	11,930,293,259
ALESSANDRIA P.zza Garibaldi	5,670	9,041,530,434	8,343,087,082	17,384,617,516	5,130,475,350	12,254,142,166
ALMENNO SAN BARTOLOMEO Via Martiri Liberta'	456	743,284,341	610,689,973	1,353,974,314	660,904,943	693,069,371
ALPIGNANO Via Mazzini 5	1,366	2,029,615,192	2,022,756,743	4,052,371,935	1,952,431,430	2,099,940,505
ANCONA Via Montebello 49/63	2,270	3,295,773,536	3,920,474,774	7,216,248,310	2,529,872,109	4,686,376,201
ANTEGNATE Via Muoni 13	356	11,881,055	481,937,921	493,818,976	137,547,390	356,271,586
ANTEY ST. ANDRE' Via Grandi Mulini S.S.40	94	59,701,700	175,099,446	234,801,146	80,595,879	154,205,267
AOSTA Ag. I Corso Battaglione Aosta 65	85	50,877,941	66,122,059	117,000,000	-	117,000,000
AOSTA Main branch P. Chanoux 38 / Via del Collegio	686	478,423,470	1,766,548,634	2,244,972,104	714,224,922	1,530,747,182
AOSTA Ag. I Corso Battaglione D'Aosta 65	3,409	3,296,802,031	11,412,592,675	14,709,394,706	3,730,288,041	10,979,106,665
AOSTA Via San M. di Corleans 51	113	4,084,128	221,915,872	226,000,000	56,000,000	170,000,000
APPIANO GENTILE Via Volta 14	278	205,008,113	581,928,090	786,936,203	183,278,269	603,657,934
ARCONATE Piazza Libertà I	660	113,401,906	1,351,145,446	1,464,547,352	340,629,292	1,123,918,060
ARCONATE Via Roma	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	189,867,343	457,186,345
AREGNO Via Lungotelo di Destra 6	118	40,021,213	189,404,674	229,425,887	65,202,158	164,223,729
ARLUNO Piazza Pozzobonelli 24	815	116,562,033	896,096,914	1,012,658,947	171,434,073	841,224,874
ARONA Corso Repubblica I	1,021	883,688,375	3,026,310,007	3,909,998,382	1,314,233,877	2,595,764,505
ARQUATA SCRIVIA Via Libarna 21 I	490	287,558,658	777,414,821	1,064,973,479	330,270,208	734,703,271
ARZANO Via Rimini 4	488	1,084,885,128	680,315,200	1,765,200,328	770,711,870	994,488,458
ASTI Via C. Battisti 3 / C.Dante 6	1,792	3,057,517,549	5,590,926,370	8,648,443,919	2,477,557,146	6,170,886,773
AVELLINO Via Guarini 40 / Via De Conciliis 14	1,034	2,998,216,053	664,717,743	3,662,933,796	769,696,054	2,893,237,742
AVIGLIANA Corso Torino 154/156	261	32,535,282	356,747,071	389,282,353	70,399,080	318,883,273
AVIGLIANA Ag. Corso Torino 158	1,439	1,913,992,671	3,552,989,312	5,466,981,983	2,470,619,358	2,996,362,625
AZZANELLO Via A. Valcarenghi 10	362	1,000,000	381,924,257	382,924,257	53,881,558	329,042,699
BARDONECCHIA Via Medail 53	508	303,895,827	1,601,003,841	1,904,899,668	660,663,118	1,244,236,550
BARI Ag. I Via Amendola 168/5	1,647	199,135,961	-	199,135,961	5,974,079	193,161,882
BARI Main branch Via A. Gimma ang. Via A.da Bari	2,866	4,607,916,800	15,401,887,714	20,009,804,514	7,619,079,023	12,390,725,491
BARI Via De Rossi 51-53	509	334,189,639	886,833,505	1,221,023,144	412,071,050	808,952,094
BELGIOIOSO Via XX Settembre 30	220	730,000,000	-	730,000,000	43,495,755	686,504,245
BELLAGIO Lungo Lario Manzoni 32/34	608	200,978,513	1,915,198,146	2,116,176,659	480,180,338	1,635,996,321
BERGAMO DP Center Via dei Caniana 2	15,038	27,956,592,279	41,910,872,518	69,867,464,797	37,867,464,797	32,000,000,000
BERGAMO Ag. I Via XX Settembre 83	1,712	1,394,668,915	10,287,214,564	11,681,883,479	5,411,883,479	6,270,000,000
BERGAMO Ag. 13 Main branch Via XX Sett. 57	3,113	851,955,923	15,347,652,886	16,199,608,809	5,033,011,623	11,166,597,186
BERGAMO Ag. 4 Via S. Bernardino 72/d	772	111,187,291	2,425,939,574	2,537,126,865	686,456,518	1,850,670,347
BERGAMO Ag. 5 Via Suardi 85/87	1,060	899,021,994	2,387,497,378	3,286,519,372	941,053,174	2,345,466,198
BERGAMO Ag. 6 Via Statuto 18	339	89,505,575	1,027,573,260	1,117,078,835	259,091,224	857,987,611
BERGAMO Main branch Via Camozzi / P. Cavour	8,166	18,147,629,545	27,689,760,818	45,837,390,363	10,611,155,496	35,226,234,867
BERGAMO Via G. Sora 4 D.G.	6,487	406,679,261	26,753,507,780	27,160,187,041	9,160,187,041	18,000,000,000

(\*) Laws 823 of 12/19/73; 576 of 12/2/75; 72 of 3/19/83; 218 of 7/30/90; 408 of 12/29/90; 413 of 12/30/91; other.

continued

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
BERGAMO Via Sthendal 21/Via Campagnola	6,645	230,000,000	-	230,000,000	13,800,000	216,200,000
BIELLA - land (Occhieppo and Camburzano)		1,201,000	-	1,201,000	-	1,201,000
BIELLA Ag. I Via Cottolengo	475	843,545,888	107,704,518	951,250,406	214,846,041	736,404,365
BIELLA Via G. Marconi	2,443	516,362,509	5,822,063,894	6,338,426,403	1,224,148,789	5,114,277,614
BISTAGNO Corso Italia 46	386	62,511,163	566,861,696	629,372,859	191,699,807	437,673,052
BOLLATE Via Vittorio Veneto 2	801	580,856,952	2,127,027,017	2,707,883,969	607,974,779	2,099,909,190
BOLOGNA Via dei Mille 2	2,844	6,480,900,065	16,305,602,083	22,786,502,148	8,286,233,728	14,500,268,420
BOLOGNA Via Rizzoli 20	1,616	1,572,068,284	9,427,931,716	11,000,000,000	1,986,455,162	9,013,544,838
BOLZANO -Via Vanga, 6	30	55,123,934	-	55,123,934	-	55,123,934
BONATE SOTTO Via V. Veneto 57/b	846	125,320,499	1,262,730,036	1,388,050,535	218,765,083	1,169,285,452
BORDIGHERA Corso Italia 92	832	2,907,312,500	580,732,131	3,488,044,631	901,510,171	2,586,534,460
BORGHETTO LODIGIANO Piazza Dalla Chiesa 1/a	618	6,233,062	951,180,658	957,413,720	125,789,896	831,623,824
BORGHETTO S.S. Via IV Novembre 8	580	195,351,610	2,299,502,846	2,494,854,456	626,488,725	1,868,365,731
BORGO SAN DALMAZZO Corso Barale 26	1,643	1,906,164,000	1,521,127,133	3,427,291,133	833,463,598	2,593,827,535
BORGO SAN GIACOMO Via Ferrari 5	524	1,200,000	745,752,196	746,952,196	115,844,952	631,107,244
BORGOFRANCO D'IVREA Via Aosta 28	481	266,815,034	758,550,071	1,025,365,105	251,948,918	773,416,187
BORGONE DI SUSÀ Via A. Abegg 5 bis	565	189,337,201	846,173,549	1,035,510,750	354,563,118	680,947,632
BORGOSIA Viale Carlo Fasso' 2	2,435	2,177,111,486	5,087,542,807	7,264,654,293	2,673,128,856	4,591,525,437
BOSCOMARENGO Via Roma 6 bis	479	518,802,230	219,102,780	737,905,010	258,478,039	479,426,971
BOSCOREALE Via S.Ten.Cirillo 12/ Via S.Felice 2	627	895,279,600	612,941,332	1,508,220,932	566,921,023	941,299,909
BOSISIO PARINI Piazza Parini 12	462	800,156,000	301,627,656	1,101,783,656	300,686,066	801,097,590
BRA Via Principi di Piemonte 32	1,143	470,387,566	3,251,535,348	3,721,922,914	922,297,156	2,799,625,758
BRANDIZZO Via Torino 196	612	359,822,210	1,197,216,745	1,557,038,955	451,809,140	1,105,229,815
BREMBIO Via Garibaldi 10	289	500,000	391,448,710	391,948,710	70,452,329	321,496,381
BRESCIA Pza Garibaldi 5 /Via Tartaglia	2,647	9,839,647,590	-	9,839,647,590	1,753,068,159	8,086,579,431
BRESCIA Ag. I Main branch Via Gramsci 26	3,531	1,226,946,300	18,597,637,757	19,824,584,057	5,393,064,857	14,431,519,200
BRIGA NOVARESE Via Borgomanero 19/21	729	324,754,414	1,185,792,534	1,510,546,948	549,368,146	961,178,802
BRONI Piazza Garibaldi ang. Via Cavour	827	1,079,996,635	2,843,890,745	3,923,887,380	1,095,951,087	2,827,936,293
BURAGO DI MOLGORA Via E.Toti 2/3	756	675,315,694	1,119,884,405	1,795,200,099	498,245,755	1,296,954,344
BUSTO ARSIZIO Ag. 2 Via Gavinana 8	526	693,754,571	613,226,955	1,306,981,526	368,980,957	938,000,569
BUSTO ARSIZIO Ag. 3 Via Torino 48	645	376,030,610	928,127,546	1,304,158,156	259,684,468	1,044,473,688
BUSTO ARSIZIO Ag. 4 Sacconago - P. Chiesa V. 6/b	577	130,698,873	1,114,778,510	1,245,477,383	274,995,170	970,482,213
BUSTO ARSIZIO Ag. 5 Borsano - Via Novara I	245	1,000,000	633,882,462	634,882,462	128,045,268	506,837,194
BUSTO ARSIZIO Piazza Manzoni/ Via Matteotti	1,329	4,633,793,319	-	4,633,793,319	277,973,800	4,355,819,519
BUSTO ARSIZIO Main branch Via Milano 14	7,907	898,820,307	20,511,676,347	21,410,496,654	4,449,372,441	16,961,124,213
BUSTO ARSIZIO Via Cairoli 6	432	1,500,000	196,500,000	198,000,000	12,166,471	185,833,529
BUSTO GAROLFO Piazza Lombardia 3	358	248,732,547	538,149,066	786,881,613	185,909,237	600,972,376
CABIALE Via A. Grandi 6	379	179,038,698	670,222,402	849,261,100	208,401,135	640,859,965
CAGLIARI Piazza Deffenu 4	4,403	8,591,477,204	13,545,213,437	22,136,690,641	6,664,563,733	15,472,126,908
CAGLIARI Via Paoli 31/33	743	1,275,652,892	724,347,108	2,000,000,000	360,000,000	1,640,000,000
CAGLIARI Via Paoli 33	10	11,206,052	1,793,948	13,000,000	2,340,000	10,660,000
CAIRO MONTENOTTE Piazza della Vittoria 24	712	251,410,066	1,698,025,125	1,949,435,191	461,951,829	1,487,483,362
CALOSSO Via R. Margherita 24/26	271	93,652,823	211,807,720	305,460,543	112,701,127	192,759,416
CALUSCO D'ADDA Via Marconi 36	1,008	678,487,679	1,523,717,509	2,202,205,188	438,179,237	1,764,025,951
CALUSO Via San Clemente I	437	226,034,813	727,195,772	953,230,585	272,376,645	680,853,940
CALVATONE Via Umberto I 83	230	14,507,930	372,660,970	387,168,900	106,545,866	280,623,034
CAMPOMORONE Via A. Gavino 110/d	655	323,623,853	1,718,231,869	2,041,855,722	648,607,166	1,393,248,556
CANDELO Via Mazzini ang. Via Moglia I	607	354,832,325	607,196,941	962,029,266	159,951,825	802,077,441

(\*) Laws 823 of 12/19/73; 576 of 12/2/75; 72 of 3/19/83; 218 of 7/30/90; 408 of 12/29/90; 413 of 12/30/91; other.

continued

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
CANELLI P.za A. d' Aosta 20/Via M. d'Azeglio 2	1,115	743,800,658	1,030,152,571	1,773,953,229	433,195,792	1,340,757,437
CANICATTI' Via Carlo Alberto 4/12	870	459,851,608	721,310,189	1,181,161,797	460,701,653	720,460,144
CANICATTI' Via Regina Margherita 2	1,000	229,485,290	2,087,599,597	2,317,084,887	793,907,994	1,523,176,893
CANTOIRA Via Roma 21	82	82,758,575	79,298,184	162,056,759	81,728,373	80,328,386
CANTU' Piazza degli Alpini 1	1,075	137,877,648	2,731,294,963	2,869,172,611	640,543,467	2,228,629,144
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	322,042,832	1,331,257,122
CARAGLIO P.za Garibaldi 10,ang. Via Roma	351	990,000,000	-	990,000,000	147,335,294	842,664,706
CARAMAGNA Via Luigi Ornato 37	627	2,216,541,580	332,524,738	2,549,066,318	452,615,080	2,096,451,238
CARESANA Corso Italia 32	232	14,146,912	241,280,384	255,427,296	61,592,223	193,835,073
CARIGNANO - land		65,019,010	48,080,990	113,100,000	-	113,100,000
CARIGNANO Via Umberto I 118	609	341,022,993	1,258,129,600	1,599,152,593	598,007,123	1,001,145,470
CARMAGNOLA Piazza Martiri della Libertà' 31	856	433,132,650	1,822,235,498	2,255,368,148	778,209,928	1,477,158,220
CARRU' Piazza Generale Perotti 11	368	78,286,610	729,834,626	808,121,236	265,710,279	542,410,957
CASALE MONFERRATO Via Magnocavallo 23	2,983	2,509,913,712	5,637,207,154	8,147,120,866	2,588,096,260	5,559,024,606
CASALMAGGIORE Via Cairoli 7	3,102	103,066,512	4,907,197,184	5,010,263,696	668,862,870	4,341,400,826
CASALPUSTERLENGO Via Garibaldi 22	477	197,928,404	941,681,525	1,139,609,929	326,165,411	813,444,518
CASAZZA Via della Pieve, 1	1,212	1,998,000,000	621,880,000	2,619,880,000	433,843,318	2,186,036,682
CASELLE LANDI Via IV Novembre 10	254	6,500,000	278,826,361	285,326,361	55,918,675	229,407,686
CASELLE TORINESE Via Courgné 86 bis	747	423,216,490	1,320,912,596	1,744,129,086	492,076,083	1,252,053,003
CASNIGO Piazza Caduti 7	435	97,254,730	590,978,855	688,233,585	144,951,078	543,282,507
CASOREZZO Piazza S. Giorgio 9	479	23,441,121	784,379,069	807,820,190	170,467,910	637,352,280
CASSINA DE' PECCHI Via Trento 2 ang. Via Venezia	1,283	1,352,868,965	3,839,768,667	5,192,637,632	1,909,326,230	3,283,311,402
CASTAGNOLE MONFERRATO Piazza Statuto 1/b	184	22,949,800	207,180,397	230,130,197	70,776,025	159,354,172
CASTEL GOFFREDO Piazza Gonzaga 3	590	1,000,000,000	706,500,000	1,706,500,000	476,743,824	1,229,756,176
CASTELLAMONTE Piazza Martiri della Libertà' 2	515	168,726,694	849,535,748	1,018,262,442	286,497,757	731,764,685
CASTELLANZA Via Matteotti 16/b	932	383,410,339	1,606,174,311	1,989,584,650	505,623,334	1,483,961,316
CASTELLEONE Via Cappi 4	915	2,164,000,000	501,327,894	2,665,327,894	708,394,624	1,956,933,270
CASTELNUOVO BOCCA D'ADDA V.Umberto I 1	447	2,003,000	555,583,620	557,586,620	77,635,886	479,950,734
CASTELNUOVO SCRIVIA Via Nino Bixio 15	910	568,044,190	1,024,036,189	1,592,080,379	577,452,389	1,014,627,990
CASTELVETRANO Piazza Matteotti 9/10	270	924,758,886	770,285,801	1,695,044,687	754,329,417	940,715,270
CASTIGLIONE D'ADDA Via Mons. Novasconi 21	617	11,500,000	786,893,315	798,393,315	82,582,831	715,810,484
CASTROFILIPPO Corso Umberto 42	408	46,512,289	408,801,769	455,314,058	165,306,164	290,007,894
CATANIA Corso Italia 91	2,250	5,909,515,340	4,946,128,293	10,855,643,633	1,657,930,640	9,197,712,993
CAVA MANARA Via Garibaldi 19	499	326,101,094	500,591,857	826,692,951	247,297,670	579,395,281
CAVENAGO D'ADDA Via G. Conti 6	378	480,000	459,242,882	459,722,882	65,623,235	394,099,647
CENTALLO Via Bonifanti 3/7	250	503,682,400	59,736,592	563,418,992	120,172,117	443,246,875
CERAMI Via Roma 88/90/92	110	136,832,589	222,639,938	359,472,527	156,842,355	202,630,172
CERCOLA Via Riccardi 129	1,188	2,134,357,917	569,761,876	2,704,119,793	829,868,047	1,874,251,746
CERMENATE Via G. da Cermenate / V.Matteotti 45	494	907,598,100	248,629,843	1,156,227,943	172,122,367	984,105,576
CERNOBBIO Via Dell' Orto 3	487	16,569,554	1,269,235,595	1,285,805,149	297,938,434	987,866,715
CERNUSCO SUL NAVIGLIO Piazza Ghezzi 5	959	1,903,745,387	2,658,752,401	4,562,497,788	1,726,308,471	2,836,189,317
CERRO MAGGIORE Via S. Bartolomeo 8	176	28,200,000	390,105,549	418,305,549	88,784,406	329,521,143
CESANA TORINESE Via Roma 14	471	153,277,910	694,183,105	847,461,015	259,718,665	587,742,350
CEVA Via Moretti 7	472	388,188,655	887,492,118	1,275,680,773	526,582,008	749,098,765
CHIARI Via della Battaglia 3/e	798	2,578,000,000	276,680,000	2,854,680,000	497,045,906	2,357,634,094
CHIAVARI Corso Dante 76	812	715,220,661	3,076,666,053	3,791,886,714	900,240,461	2,891,646,253
CHIERI Piazza Cavour 1	1,109	327,085,619	2,566,382,246	2,893,467,865	879,964,748	2,013,503,117

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continued

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
CHIERI Piazza Cavour 8	4,100	9,660,243,931	3,758,844,913	13,419,088,844	3,105,986,185	10,313,102,659
CHIGNOLO PO' Via Garibaldi 143	279	31,059,374	424,044,044	455,103,418	100,592,663	354,510,755
CHIVASSO Piazza A. Carletti 1/c	1,151	459,644,020	3,193,908,769	3,653,552,789	955,408,872	2,698,143,917
CIGLIANO Corso Umberto I 46	689	200,646,919	932,050,739	1,132,697,658	350,194,080	782,503,578
CILAVEGNA Via Garibaldi 5	359	84,514,810	490,730,498	575,245,308	178,334,089	396,911,219
CIRIE' Via San Ciriaco 25	1,898	2,331,752,526	3,968,023,069	6,299,775,595	1,239,935,491	5,059,840,104
CODOGNO Via Alberici 28	1,612	1,186,847,747	2,998,404,514	4,185,252,261	657,632,310	3,527,619,951
COGNE Via Grappein	212	371,471,569	311,232,302	682,703,871	254,998,431	427,705,440
COLLEGNO Via Manzoni 1	1,974	2,559,330,353	3,180,345,229	5,739,675,582	2,361,047,422	3,378,628,160
COMO Ag. 2 Via Milano 178	422	210,635,524	1,113,979,791	1,324,615,315	346,343,852	978,271,463
COMO Ag. 4 Albate / Via Canturina 186	340	720,720,895	325,447,375	1,046,168,270	262,416,563	783,751,707
COMO Ag. 5 Via Bellinzona 349	213	44,488,736	616,722,783	661,211,519	206,705,837	454,505,682
COMO Piazza Cavour 15	5,021	764,044,223	28,147,140,688	28,911,184,911	5,837,776,611	23,073,408,300
CORNAREDO Piazza Libertà 54	1,059	310,958,040	2,643,819,608	2,954,777,648	754,683,557	2,200,094,091
CORNAREDO Via Milano 95	412	79,505,296	897,117,830	976,623,126	219,021,128	757,601,998
CORSICO Ag. 1 Via Monti 31/b	845	4,520,477,000	-	4,520,477,000	671,488,636	3,848,988,364
CORSICO Via Caboto 41/43	2,250	4,485,390,589	6,242,962,412	10,728,353,001	3,954,178,932	6,774,174,069
COSSATO Via del Mercato 40	350	993,576,726	270,679,837	1,264,256,563	306,484,334	957,772,229
COSTIGLIOLE D'ASTI Piazza Umberto I 21	636	436,394,532	823,902,748	1,260,297,280	520,480,091	739,817,189
COURMAYEUR Cond. Soleil Fraz. Villair	144	20,612,630	1,076,169,723	1,096,782,353	376,782,353	720,000,000
COURMAYEUR Via M. Bianco 29/P. Brocherelle 3	685	440,964,090	4,478,892,761	4,919,856,851	1,119,393,193	3,800,463,658
CREMA Ag. 1 Viale De Gasperi 62	1,500	282,252,560	-	282,252,560	50,307,368	231,945,192
CREMA Piazza Duomo 1/Via dei Racchetti 1	1,106	307,586,790	2,711,187,122	3,018,773,912	750,178,210	2,268,595,702
CREMONA Fil. I C.so Garibaldi / Via Montello	715	536,150,344	2,754,260,942	3,290,411,286	960,275,867	2,330,135,419
CREMONA Fil. I C.so Garibaldi / Via Montello	1,720	1,804,980,158	2,114,754,846	3,919,735,004	1,797,611,354	2,122,123,650
CREMONA Main branch P. Cavour 1/Via Gramsci	4,251	798,086,875	10,982,529,490	11,780,616,365	3,129,152,431	8,651,463,934
CREMONA Via dei Tigli 3	204	125,254,050	121,290,760	246,544,810	115,293,843	131,250,967
CRESCENTINO Corso Roma 55/57	808	210,905,826	1,229,944,832	1,440,850,658	408,987,425	1,031,863,233
CUNEO Corso Giolitti ang. P.za Europa	2,370	2,509,123,469	8,826,059,120	11,335,182,589	3,774,770,283	7,560,412,306
CUORGNE' Via Ivrea 7	1,005	364,748,495	1,746,387,938	2,111,136,433	626,426,235	1,484,710,198
DAIRAGO Via XXV Aprile 52/c	383	100,956,136	794,999,023	895,955,159	217,475,222	678,479,937
DALMINE Via Betelli 11	1,601	1,479,201,209	2,791,749,470	4,270,950,679	709,237,233	3,561,713,446
DELIA Corso Umberto I 89/91	240	251,824,552	148,062,128	399,886,680	152,155,028	247,731,652
DOGLIANI P. Carlo Alberto 30/Via 31 Luglio 21	846	851,591,612	1,103,646,859	1,955,238,471	848,803,142	1,106,435,329
DOMODOSSOLA Piazza Matteotti 16/Via Gramsci	1,012	2,232,995,644	881,705,380	3,114,701,024	549,344,826	2,565,356,198
DONNAS Via Roma 36 (SS 26 Ivrea - AO)	1,280	598,396,368	2,096,984,556	2,695,380,924	1,033,544,792	1,661,836,132
DOSOLO Via XXIII Aprile 6	12	15,000,000	-	15,000,000	450,000	14,550,000
DOSOLO Via XXIII Aprile 6/8/10	187	4,948,105	298,420,786	303,368,891	65,168,548	238,200,343
ENDINE GAIANO Via Tonale 49	296	575,000	368,077,903	368,652,903	80,299,900	288,353,003
ENNA Piazza VI Dicembre	1,388	3,925,290,500	181,203,557	4,106,494,057	1,014,342,006	3,092,152,051
ERBA Corso XXV Aprile 64	1,549	1,235,322,922	3,830,056,591	5,065,379,513	1,305,290,060	3,760,089,453
ESTE Via Matteotti 49/51	650	2,635,897,630	-	2,635,897,630	455,691,565	2,180,206,065
FAGNANO OLONA Piazza XX Settembre 5	639	129,555,881	1,087,112,693	1,216,668,574	295,804,457	920,864,117
FALOPPIO Via Roma 4	150	323,996,000	-	323,996,000	37,541,169	286,454,831
FERRERA ERBOGNONE C.so della Repubblica 27	327	300,528,659	293,648,493	594,177,152	210,523,179	383,653,973
FINALE LIGURE Via Concezione 32	370	740,917,900	1,881,430,089	2,622,347,989	902,771,764	1,719,576,225
FINO MORNASCO Via Garibaldi 135	743	124,278,113	1,679,012,007	1,803,290,120	467,608,264	1,335,681,856
FIORANO AL SERIO Via Roma 11/B	777	240,437,640	1,347,858,325	1,588,295,965	267,318,009	1,320,977,956

(\*) Laws 823 of 12/19/73; 576 of 12/2/75; 72 of 3/19/83; 218 of 7/30/90; 408 of 12/29/90; 413 of 12/30/91; other.

continued

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
FLORENCE Piazza della Repubblica 4	1,765	323,971,956	10,676,028,044	11,000,000,000	2,671,787,157	8,328,212,843
FLORENCE Via dei Conti 3 ang. Via dell'Alloro	705	876,808,923	3,260,652,648	4,137,461,571	1,080,591,590	3,056,869,981
FOGGIA Piazza Puglia/via Bari 60	2,191	5,662,354,795	4,546,914,517	10,209,269,312	4,822,077,655	5,387,191,657
FONTANELLA Piazza Matteotti 18/via Lazzari 2	747	1,241,447,497	591,729,095	1,833,176,592	443,911,985	1,389,264,607
FORNO CANAVESE Via Truchetti 7	508	97,396,454	691,903,735	789,300,189	257,923,637	531,376,552
FOSSANO Via Roma 81/Via Cavour 1	2,451	881,678,420	4,781,893,968	5,663,572,388	1,407,610,786	4,255,961,602
FRESONARA Via Boscomarengo 5	126	140,000,000	128,376,471	268,376,471	111,128,969	157,247,502
FRESONARA Via Boscomarengo 5/A	100	135,439,972	-	135,439,972	16,173,126	119,266,846
GALLARATE Corso Sempione 9	2,431	5,112,670,800	1,219,713,106	6,332,383,906	1,327,109,035	5,005,274,871
GALLIATE Via L.da Vinci 21 ang. Via Volta	1,003	711,637,854	1,983,983,464	2,695,621,318	1,062,379,486	1,633,241,832
GAMBARA Piazza IV Novembre 5	410	2,000,000	520,895,222	522,895,222	95,040,498	427,854,724
GAMBOLO' Corso Umberto I 4	488	493,213,905	667,898,153	1,161,112,058	244,949,442	916,162,616
GARLASCO Corso Cavour 172	597	202,750,758	1,251,157,474	1,453,908,232	254,399,215	1,199,509,017
GATTINARA Piazza Italia 10/C.so Cavour 1	554	204,586,262	841,281,834	1,045,868,096	356,397,609	689,470,487
GENOA Ag. 1 Via A. Cantore 44 / Via Pedemonte	3,265	2,962,294,596	7,917,244,752	10,879,539,348	3,660,839,675	7,218,699,673
GENOA Ag. 2 ex V.G.B.Magnaghi 1 / V.Cecchi 60	630	1,145,538,522	3,362,400,863	4,507,939,385	1,420,258,184	3,087,681,201
GENOA Ag. 4 Viale Causa 2 / Via Alvaro 38	875	432,258,049	3,389,110,434	3,821,368,483	1,023,758,609	2,797,609,874
GENOA Ag. 5 Via F. Cavallotti 46/48r/13/4	583	759,580,998	1,582,225,589	2,341,806,587	764,635,383	1,577,171,204
GENOA Ag. 6 Via Cairoli 6	1,757	1,351,708,324	4,224,024,239	5,575,732,563	1,759,994,682	3,815,737,881
GENOA Ag. 7 Via Sestri 225/r / Via d'Andrade	1,096	664,753,464	2,882,478,860	3,547,232,324	1,247,953,293	2,299,279,031
GENOA Ag. 8 Via C. Camozzini 11/r / Via Cialdini	585	783,616,375	1,245,017,760	2,028,634,135	861,998,404	1,166,635,731
GENOA Ag. 10 Via Rossini 8 - Rivarolo	1,011	1,980,005,907	1,149,385,639	3,129,391,546	916,357,141	2,213,034,405
GENOA Main branch Via Fieschi 4	6,144	7,655,904,936	33,410,140,815	41,066,045,751	11,296,291,964	29,769,753,787
GENOA Via Dante ang. Via Fieschi	535	2,808,783,602	1,191,216,398	4,000,000,000	429,641,800	3,570,358,200
GENOA Via Gran Madre di Dio	142	138,467,200	509,461,696	647,928,896	222,652,531	425,276,365
GENOA Via XX Settembre ang. V.Frugoni	240	243,685,000	1,105,966,835	1,349,651,835	549,651,835	800,000,000
GIAVENO Piazza San Lorenzo 14	709	422,016,160	1,169,033,045	1,591,049,205	614,239,481	976,809,724
GORLE Via Don Mazza 1/B	600	488,943,223	1,022,427,688	1,511,370,911	407,417,822	1,103,953,089
GRASSOBBIO Via Roma 5/7	444	184,815,431	659,889,031	844,704,462	208,758,452	635,946,010
GRESSONEY ST. JEAN Strada Eyematten	255	28,739,096	477,705,211	506,444,307	135,224,986	371,219,321
GROMO Piazza Marconi 2	202	3,310,000	316,783,614	320,093,614	59,614,980	260,478,634
GRONTARDO Piazza Roma 11	376	252,700	453,960,786	454,213,486	52,045,641	402,167,845
GROPELLO CAIROLI Via Liberta' 108	585	741,982,086	756,108,096	1,498,090,182	440,043,004	1,058,047,178
GRUGLIASCO Viale Gramsci 108	99	8,431,300	343,526,492	351,957,792	40,722,229	311,235,563
GRUGLIASCO Viale Gramsci 78/80	1,170	1,408,575,601	2,814,881,507	4,223,457,108	1,453,523,432	2,769,933,676
IMPERIA Via Cascione 11 / Piazza Marconi 2	1,800	3,205,400,633	4,488,871,457	7,694,272,090	1,863,503,119	5,830,768,971
INCISA SCAPACCINO Via della Repubblica 3	393	56,594,580	405,945,982	462,540,562	167,067,136	295,473,426
INVERIGO Via Generale Cantore 52	268	13,400,000	507,895,841	521,295,841	135,701,616	385,594,225
IVREA Piazza Balla 7	4,510	9,479,611,189	6,213,700,874	15,693,312,063	3,256,830,099	12,436,481,964
IVREA Via Palestro 22	1,104	10,650,025	3,347,180,792	3,357,830,817	1,080,623,099	2,277,207,718
IVREA Vicolo Baratonio 3	30	25,000,000	18,250,000	43,250,000	18,686,617	24,563,383
LA SPEZIA Viale Italia 162	1,364	3,147,727,252	4,702,755,008	7,850,482,260	3,251,402,826	4,599,079,434
LAIGUEGLIA Via Roma 102	567	393,950,708	1,626,109,433	2,020,060,141	324,563,815	1,695,496,326
LAINATE Via Meda 1/A	761	449,049,313	1,317,069,772	1,766,119,085	374,242,500	1,391,876,585
LANDRIANO Via Rocca 6	292	161,433,348	572,953,327	734,386,675	228,617,946	505,768,729
LANZO INTELVI Piazza Novi 9	180	18,268,990	276,707,331	294,976,321	77,374,255	217,602,066
LANZO TORINESE Via Roma 6/a	638	136,078,327	1,226,145,186	1,362,223,513	372,738,854	989,484,659
LECCE Piazza Mazzini / Via N.Sauro	2,352	3,524,930,205	7,640,103,750	11,165,033,955	4,007,934,224	7,157,099,731

(\*) Laws 823 of 12/19/73; 576 of 12/2/75; 72 of 3/19/83; 218 of 7/30/90; 408 of 12/29/90; 413 of 12/30/91; other.

continued



LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
LECCO Corso Martiri Liberazione 37	3,282	7,299,300,000	4,544,689,724	11,843,989,724	3,658,075,787	8,185,913,937
LEGNAGO Via Fiume 10	763	1,911,149,051	203,519,894	2,114,668,944	368,262,587	1,746,406,357
LEGNANO Corso Italia 32	3,033	2,130,517,794	10,055,910,680	12,186,428,474	2,655,515,084	9,530,913,390
LEGNANO Ag. 1 Via Venegoni 51	477	388,634,064	830,413,222	1,219,047,286	363,680,915	855,366,371
LEGNANO Ag. 2 Via Monte Rosa / Via Battisti	586	445,162,000	773,800,924	1,218,962,924	323,169,564	895,793,360
LEGNANO Via Fornace (land)		1,165,500	16,834,500	18,000,000	-	18,000,000
LEGNANO Via Padre Secchi (land)		1,050,000	19,950,000	21,000,000	-	21,000,000
LENNO Via Statale Regina 91	366	101,971,105	815,302,826	917,273,931	161,802,946	755,470,985
LEONFORTE Corso Umberto 201/b	260	295,408,000	178,248,880	473,656,880	227,946,553	245,710,327
LIMBIATE Viale dei Mille 136	179	150,679,239	288,014,264	438,693,503	133,464,380	305,229,123
LIVORNO FERRARIS Via L. Giordano 72	435	208,202,800	751,667,307	959,870,107	241,116,495	718,753,612
LOANO Ag. 1 Via Aurelia 356	197	82,241,625	888,737,899	970,979,524	285,556,263	685,423,261
LOANO Ag. Corso Europa 1	839	512,507,228	3,848,358,996	4,360,866,224	1,113,889,295	3,246,976,929
LOANO Piazza V. Veneto/via Roma 52	327	43,581,838	1,325,542,713	1,369,124,551	689,124,551	680,000,000
LOCATE TRIULZI Via Giardino 2	678	1,024,475,943	1,021,004,104	2,045,480,047	579,002,449	1,466,477,598
LOCATE VARESIINO Via C. Battisti 38	480	778,447,210	421,695,356	1,200,142,566	266,518,343	933,624,223
LODI Main branch P.za Mercato 13/via Strepponi 2	3,237	1,085,899,346	6,270,464,514	7,356,363,860	1,445,593,621	5,910,770,239
LODI Via Madre Cabrini 10	423	492,903	485,507,097	486,000,000	-	486,000,000
LOMAZZO Piazza Stazione 2	639	15,081,491	1,319,784,196	1,334,865,687	301,905,169	1,032,960,518
LOMELLO Via Roma 6	404	90,000	511,254,276	511,344,276	110,577,860	400,766,416
LUCCA Piazza S. Martino 10	1,361	4,066,382,005	2,680,881,135	6,747,263,140	1,210,146,944	5,537,116,196
LURATE CACCIVIO Via Unione 2	794	119,979,851	1,185,797,216	1,305,777,067	309,606,468	996,170,599
MAGENTA Via Volta / Via Cavallari	759	1,520,816,960	322,432,057	1,843,249,017	325,553,425	1,517,695,592
MALEO Piazza XXV Aprile 5	417	4,095,306	460,010,534	464,105,840	45,567,511	418,538,329
MANDELLO DEL LARIO Piazza L. Manara	394	846,399,840	587,707,703	1,434,107,543	458,720,880	975,386,663
MANTUA Via Frattini 7	2,232	6,822,754,446	2,433,948,821	9,256,703,267	1,506,728,553	7,749,974,714
MANTUA Via Isabella d'Este 10	120	220,000,000	-	220,000,000	13,200,000	206,800,000
MAPELLO Via Bravi 3	556	205,941,121	808,938,221	1,014,879,342	234,540,836	780,338,506
MARANO Case Giarruso	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	752,606,267	1,594,282,550
MARIANO COMENSE Piazza Roma 45	266	1,060,748,995	89,883,332	1,150,632,327	216,610,070	934,022,257
MASLIANICO Via XX Settembre 59	95	70,736,517	99,136,770	169,873,287	40,183,618	129,689,669
MEDE Via Cavour 18	763	2,283,933,802	1,072,209,854	3,356,143,656	750,868,666	2,605,274,990
MEDIGLIA Frazione Triginto/Piazza Pertini 6	733	1,170,000,000	320,400,000	1,490,400,000	319,030,118	1,171,369,882
MELEGNANO Piazza Garibaldi 1	1,545	3,608,406,963	2,136,138,346	5,744,545,309	1,610,352,403	4,134,192,906
MELZO Via Magenta 2/10	1,440	1,646,960,449	2,947,332,599	4,594,293,048	1,300,012,774	3,294,280,274
MENAGGIO Via IV Novembre 38/40	1,021	63,892,611	1,664,740,301	1,728,632,912	383,627,772	1,345,005,140
MENFI Via della Vittoria 254	310	487,944,065	436,641,863	924,585,928	406,552,987	518,032,941
MERATE Viale Lombardia 2	1,248	895,728,291	1,909,968,346	2,805,696,637	821,429,561	1,984,267,076
MESERO Via S. Bernardo 8	291	82,087,289	478,376,887	560,464,176	139,724,006	420,740,170
MESTRE Corso del Popolo, 58	190	59,150,000	130,850,000	190,000,000	34,200,000	155,800,000
MESTRE Via Cappuccina, 11	502	187,074,518	1,112,925,482	1,300,000,000	234,000,000	1,066,000,000
MILAN Ag. 1 Via della Torre 40	42	67,198,800	174,200,300	241,399,100	106,399,100	135,000,000
MILAN Ag. 1 Viale Monza 118	1,000	560,524,644	5,891,436,957	6,451,961,601	1,295,510,550	5,156,451,051
MILAN Ag. 15 Via Domodossola 9/11	779	1,387,742,883	1,364,570,429	2,752,313,312	700,880,393	2,051,432,919
MILAN Ag. 16 Via Carducci 4	1,084	4,185,151,100	4,706,842,460	8,891,993,560	2,531,204,107	6,360,789,453
MILAN Ag. 19 Via Imbonati 35	660	2,548,280,754	219,167,668	2,767,448,422	440,190,111	2,327,258,311
MILAN Ag. 2 Via Moroni 9	1,101	2,096,418,505	5,270,673,121	7,367,091,626	2,319,241,637	5,047,849,989

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continued

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
MILAN Ag. 21 Via Ettore Ponti 30	574	997,992,480	777,147,749	1,775,140,229	414,333,011	1,360,807,218
MILAN Ag. 29 Viale Restelli 3	1,423	582,642,700	7,048,803,113	7,631,445,813	1,622,565,309	6,008,880,504
MILAN Ag. 3 Corso Sempione 67	911	321,881,681	5,067,140,082	5,389,021,763	1,819,670,604	3,569,351,159
MILAN Ag. 4 Viale Piceno 2 / Piazza Emilia	1,444	1,463,166,186	8,948,232,261	10,411,398,447	2,408,477,150	8,002,921,297
MILAN Ag. 5 Via Imbonati 64/a	1,447	748,840,053	6,743,662,127	7,492,502,180	1,761,585,162	5,730,917,018
MILAN Main branch Piazza Diaz 7	8,858	9,027,118,216	79,683,689,894	88,710,808,110	23,755,751,247	64,955,056,863
MILAN Main branch Corso di Porta Nuova	10,071	37,966,620,801	63,534,870,931	101,501,491,732	33,107,492,495	68,393,999,237
MILAN Main branch Via Broletto 9/11	4,980	1,834,824,505	65,187,699,250	67,022,523,755	13,567,670,805	53,454,852,950
MILAN Via Brera, 19	5,684	39,175,249,387	14,578,337,119	53,753,586,506	11,869,222,148	41,884,364,358
MILAN Via Carducci 5	4,364	2,903,290,500	12,979,195,303	15,882,485,803	2,132,290,148	13,750,195,655
MILAN Via Hoepli 10	6,669	2,384,461,773	59,707,015,766	62,091,477,539	22,691,507,307	39,399,970,232
MILAN Via Verdi 3	3,041	4,812,713,719	38,020,346,791	42,833,060,510	24,541,544,417	18,291,516,093
MOMBERCELLI Piazza Alfieri 27	291	65,126,862	293,958,995	359,085,857	133,292,857	225,793,000
MONCALIERI DP Center Corso Savona 58	48,048	53,976,386,721	73,779,699,501	127,756,086,222	35,996,659,709	91,759,426,513
MONCALIERI Via San Martino 34	1,634	1,245,377,237	4,861,468,543	6,106,845,780	2,063,313,111	4,043,532,669
MONCALVO Piazza Carlo Alberto 5	353	465,765,188	516,937,256	982,702,444	510,293,668	472,408,776
MONDOVI' Corso Statuto 22 / Via S.Amolfo	895	1,016,008,447	1,811,755,057	2,827,763,504	1,174,468,102	1,653,295,402
MONTAFIA Piazza C. Riccio 9	235	88,429,099	284,233,621	372,662,720	118,255,997	254,406,723
MONTALLEGRO Via della Vittoria 39	120	179,949,056	62,848,617	242,797,673	95,549,117	147,248,556
MONTEGROSSO D'ASTI Via XX Settembre 41	296	270,851,720	272,397,762	543,249,482	187,983,909	355,265,573
MONZA Via Cavallotti 6/8	6,285	7,406,572,663	20,725,516,208	28,132,088,871	6,226,969,949	21,905,118,922
MORTARA Corso Garibaldi 91	654	646,780,066	1,525,248,758	2,172,028,824	607,330,996	1,564,697,828
MORTARA Via Josti 26	1,158	1,137,620,957	3,073,208,254	4,210,829,211	1,057,706,193	3,153,123,018
MOTTA BALUFFI Via Matteotti 7	330	1,000,000	363,083,518	364,083,518	35,486,329	328,597,189
MOZZATE Via Varese 28	577	10,000,000	922,121,750	932,121,750	219,327,858	712,793,892
MOZZO Via Santa Lucia 1	1,103	3,588,100,500	771,219,500	4,359,320,000	770,802,329	3,588,517,671
MUGNANO Via Verdi ang. Via IV Martiri 10	550	620,931,260	1,081,270,992	1,702,202,252	603,730,905	1,098,471,347
NAPLES Piazza Garibaldi, 127	836	900,995,030	2,099,004,970	3,000,000,000	540,000,000	2,460,000,000
NAPLES Via Riviera di Chiaia 131	2,804	5,212,471,082	20,611,269,303	25,823,740,385	6,696,395,616	19,127,344,769
NERVIANO S.ILARIO MILANESE V.S. Antonio I	318	150,188,227	535,578,643	685,766,870	156,146,626	529,620,244
NIBIONNO Via Parini 2	346	10,000,000	573,617,926	583,617,926	135,052,673	448,565,253
NICHELINO Via Cagliari 23	310	188,875,000	-	188,875,000	11,332,500	177,542,500
NICHELINO Via Torino 3	1,110	435,090,645	2,373,128,925	2,808,219,570	1,378,219,570	1,430,000,000
NIZZA MONFERRATO Via Pio Corsi 77	1,037	423,394,100	1,946,487,263	2,369,881,363	751,059,959	1,618,821,404
NOLE CANAVESE Via Torino 46	362	117,572,010	691,886,162	809,458,172	258,492,688	550,965,484
NOVARA Ag. Largo Cavour	1,870	740,762,394	7,076,521,803	7,817,284,197	2,268,523,858	5,548,760,339
NOVARA Viale Marconi 2/T	452	234,288,314	164,485,849	398,774,163	65,397,685	333,376,478
NOVI LIGURE C.so Marengo 10/P.za Repubblica 4	1,770	2,420,066,264	4,333,679,701	6,753,745,965	2,066,449,046	4,687,296,919
NUS Via Risorgimento 1	376	169,672,924	623,326,926	792,999,850	296,653,574	496,346,276
OCCHIEPPO SUP.RE Via Martiri della Liberta' 30	137	386,880,643	-	386,880,643	68,955,785	317,924,858
OGGIONO Via Cavour 3	652	1,107,719,917	394,854,803	1,502,574,720	414,217,777	1,088,356,943
OLGIATE COMASCO Via Roma 2	981	36,597,864	2,570,954,251	2,607,552,115	606,504,187	2,001,047,928
OLMO AL BREMBO Via Roma 45	279	3,445,000	358,614,775	362,059,775	78,075,743	283,984,032
OMEGNA Via Don A. Beltrami 2	2,149	3,299,075,633	1,212,057,891	4,511,133,524	1,444,180,860	3,066,952,664
ORBASSANO Via Roma 43 / Via San Rocco 10	751	440,003,181	1,930,533,656	2,370,536,837	792,583,000	1,577,953,837
ORZINUOVI Piazza V.Emanuele 55/Via Chierica 3/a	827	299,434,341	2,930,120,400	3,229,554,741	753,614,668	2,475,940,073
OSPEDALETTO LODIGIANO Via Balbi 53	346	2,500,000	487,028,522	489,528,522	79,468,442	410,060,080
OSSONA Via Patrioti 2 / Via Bosi	315	28,892,638	578,276,907	607,169,545	150,696,362	456,473,183

(\*) Laws 823 of 12/19/73; 576 of 12/2/75; 72 of 3/19/83; 218 of 7/30/90; 408 of 12/29/90; 413 of 12/30/91; other.

continued

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
OSTIANO Via Garibaldi 27/Via Vighenzi 6	389	120,344,797	467,112,416	587,457,213	127,359,538	460,097,675
OTTIGLIO Via Mazza 18	380	133,162,660	404,762,120	537,924,780	188,993,719	348,931,061
OTTOBIANO Viale Garibaldi 9	416	43,373,991	411,004,668	454,378,659	89,072,739	365,305,920
OVADA Via Cairoli 22	1,532	1,161,358,764	3,692,856,348	4,854,215,112	1,721,267,898	3,132,947,214
PADERNO DUGNANO Via Gramsci 124	873	788,799,943	1,462,723,166	2,251,523,109	537,000,776	1,714,522,333
PADERNO DUGNANO Viale della Repubblica 28	765	1,199,239,932	1,013,863,564	2,213,103,496	565,936,929	1,647,166,567
PALERMO Via Dante 48/48a	386	923,353,701	1,443,668,050	2,367,021,751	1,045,255,526	1,321,766,225
PARABIAGO Via S. Michele 6	2,053	668,843,877	3,617,888,762	4,286,732,639	1,023,921,020	3,262,811,619
PARE' Via S. Fermo 5	253	89,143,577	568,527,299	657,670,876	170,230,432	487,440,444
PARMA Via Verdi, 6	345	77,082,072	1,422,917,928	1,500,000,000	270,000,000	1,230,000,000
PAULLO Via Mazzini 21/23	1,699	42,348,000	3,828,794,158	3,871,142,158	758,041,423	3,113,100,735
PAVIA Ag. 1 Piazza Dante Alighieri 1	5,406	6,996,888,376	9,312,301,007	16,309,189,383	2,915,728,913	13,393,460,470
PAVIA Ag. 2 Corso Garibaldi 52	526	145,041,300	1,611,223,978	1,756,265,278	401,016,212	1,355,249,066
PAVIA Main branch Via Rismondo 2	3,127	9,285,110,670	898,656,907	10,183,767,577	1,511,878,351	8,671,889,226
PEJA Via Provinciale 3	1,041	371,059,144	1,412,980,493	1,784,039,637	513,906,734	1,270,132,903
PEROSA ARGENTINA Via Roma 31/P Marconi 7	503	207,039,263	758,977,720	966,016,983	323,099,971	642,917,012
PERUGIA Via XX Settembre 72 / Via d.Corgna	2,582	4,304,758,867	4,243,720,290	8,548,479,157	3,378,649,660	5,169,829,497
PESCARA Corso V. Emmanuele 68/76	1,502	5,274,971,380	3,526,906,038	8,801,877,418	1,829,824,932	6,972,052,486
PIADENA Via Liberta' 40	1,241	1,105,954,470	1,081,683,702	2,187,638,172	534,567,960	1,653,070,212
PIAZZATORRE Via Centro 8	167	39,297,458	218,544,767	257,842,225	47,925,672	209,916,553
PINEROLO Piazza L. Barbieri 39/41	1,235	780,655,936	3,816,769,910	4,597,425,846	1,251,967,938	3,345,457,908
PINO TORINESE Via Roma 76	156	675,621,300	128,316,016	803,937,316	179,863,803	624,073,513
PIOLTELLO Via Milano 40 / Via Roma	476	958,134,070	521,579,512	1,479,713,582	443,376,298	1,036,337,284
PIOSSASCO Via Torino 47	657	226,404,680	1,068,234,358	1,294,639,038	335,830,345	958,808,693
PIZZIGHETTONI Via Monte Grappa	901	1,835,897,300	191,641,160	2,027,538,460	298,216,018	1,729,322,442
POGGIOMARINO V.Manzoni 2 ang. V.V.Emanuele	329	530,324,334	392,222,731	922,547,065	333,330,415	589,216,650
POGLIANO MILANESE Via Mons. Paleari 74	435	60,280,614	898,780,099	959,060,713	208,638,455	750,422,258
POIRINO Via Indipendenza 19	647	225,651,689	1,095,408,608	1,321,060,297	480,344,997	840,715,300
PONT CANAVESE Piazza Craveri 6	217	234,011,025	366,681,979	600,693,004	136,993,913	463,699,091
PONTE NOSSA Via IV Novembre 16	289	142,325,008	472,760,176	615,085,184	141,676,621	473,408,563
PONTE S. PIETRO Via Garibaldi 5	635	454,811,744	1,007,578,442	1,462,390,186	374,643,424	1,087,746,762
PONTEVICO Via XX Settembre 27	1,108	1,318,595,560	1,764,846,742	3,083,442,302	1,241,985,639	1,841,456,663
PONTIROLO NUOVO Piazza Marconi 9	277	160,146,700	535,255,691	695,402,391	185,701,547	509,700,844
PORDENONE Via G.Marconi 30	60	50,000,000	-	50,000,000	8,911,764	41,088,236
PORLEZZA Piazza Matteotti 12	273	110,384,523	651,206,685	761,591,208	164,777,777	596,813,431
PRATO Viale Vittorio Veneto 7	2,680	3,381,185,113	6,981,550,466	10,362,735,579	3,944,750,293	6,417,985,286
PREGNANA MILANESE Via Roma 80	336	188,855,645	628,377,990	817,233,635	218,447,479	598,786,156
PRESEZZO Via Papa Giovanni XXIII 4-5	246	456,777,446	357,510,697	814,288,143	406,835,252	407,452,891
RAPALLO Corso Matteotti ang.Via Mameli	330	553,964,264	1,694,564,004	2,248,528,268	742,124,186	1,506,404,082
RAVENNA Via Arcivescovado 9	1,594	133,302,425	-	133,302,425	19,838,537	113,463,888
REGGIO CALABRIA Corso Garibaldi, 173	625	216,644,994	1,783,355,006	2,000,000,000	360,000,000	1,640,000,000
RESCALDINA Via A. da Giussano 43	288	105,844,154	527,993,725	633,837,879	157,955,485	475,882,394
RESCALDINA Via B. Melzi 2	530	26,108,988	1,158,358,026	1,184,467,014	254,055,889	930,411,125
RIVA PRESSO CHERI Via San Giovanni 2	523	122,986,025	834,651,870	957,637,895	263,020,808	694,617,087
RIVALTA Recreation centre Via Giaveno 55	2,044	3,400,872,110	1,172,337,289	4,573,209,399	1,096,849,451	3,476,359,948
RIVAROLO Piazza Chioratti 1 / Via S.Francesco	1,336	620,456,099	3,025,756,284	3,646,212,383	982,042,350	2,664,170,033
RIVOLI Piazza Martiri della Liberta' 8/Via Rombò 6	2,829	2,666,621,611	8,936,452,484	11,603,074,095	3,678,475,894	7,924,598,201
RIVOLI Via Condove 5/bis	432	65,157,500	94,625,213	159,782,713	27,159,697	132,623,016

(\*) Laws 823 of 12/19/73; 576 of 12/2/75; 72 of 3/19/83; 218 of 7/30/90; 408 of 12/29/90; 413 of 12/30/91; other.

continued



LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
ROBBIO Via Roma 22	427	2,500,000	885,618,008	888,118,008	147,347,452	740,770,556
ROME Ag. 1 Eur Viale Asia 3	2,459	4,876,593,143	15,890,395,239	20,766,988,382	4,276,176,419	16,490,811,963
ROME Ag. 2 Tiburtina Via Tiburtina Km. 16,2	1,265	1,433,794,764	4,166,746,022	5,600,540,786	1,618,354,496	3,982,186,290
ROME Ag. 22 Via Parigi 13/15	1,624	1,933,729,251	8,244,807,142	10,178,536,393	2,718,469,921	7,460,066,472
ROME Ag. 3 Montesacro Via Conca d'Oro 382/388	3,733	4,386,544,129	11,277,781,403	15,664,325,532	5,327,981,612	10,336,343,920
ROME Ag. 6 Via Gregorio VII 127	1,270	1,759,167,605	8,458,165,173	10,217,332,778	1,728,806,613	8,488,526,165
ROME Guidonia Montecelio / Via Giusti	396	80,532,175	596,742,045	677,274,220	160,702,948	516,571,272
ROME Main branch Via della Stamperia 64	3,288	3,315,610,681	30,727,338,354	34,042,949,035	8,602,912,009	25,440,037,026
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	2,310,711,440	2,900,000,000
ROME Via Conca d'Oro, 90/94	130	7,163,220	292,836,780	300,000,000	54,000,000	246,000,000
ROME Via S. Nicola da Tolentino 1/5	3,355	7,130,000,000	28,603,793,046	35,733,793,046	16,728,021,501	19,005,771,545
ROVELLASCA Via Piave 1	791	19,343,816	1,551,853,771	1,571,197,587	330,258,305	1,240,939,282
ROVELLO PORRO Via Piave 22	450	343,113,162	851,240,231	1,194,353,393	339,976,013	854,377,380
SAN BASSANO Via Roma 57	480	23,800,000	569,663,290	593,463,290	61,017,339	532,445,951
S. COLOMBANO AL LAMBRO V.Pasino Sforza 28	357	442,274,944	421,703,888	863,978,832	273,383,986	590,594,846
S. CRISTINA E BISSONE Via V. Veneto 142/140	304	86,607,978	323,316,021	409,923,999	103,325,394	306,598,605
SAN GIACOMO DI ROBURENT Via Sant'Anna 61	317	433,413,807	438,834,099	872,247,906	358,899,006	513,348,900
SAN GIACOMO DI ROBURENT Via Serra 41	574	860,336,891	739,367,490	1,599,704,381	479,077,487	1,120,626,894
SAN DAMIANO D'ASTI Via Roma 20	239	737,097	465,461,391	466,198,488	87,780,601	378,417,887
S. DONATO MILANESE C.so Europa / Via Morandi	359	630,150,300	236,471,894	866,622,194	236,665,360	629,956,834
S. FEDELE INTELVI Via Provinciale 15	75	131,210,600	89,378,941	220,589,541	96,112,526	124,477,015
S. FERMO DELLA BATTAGLIA Via Montelatici 2	530	197,026,600	305,543,546	502,570,146	302,570,147	199,999,999
S. GIORGIO LOMELLINA Via Roma 1	471	954,019,513	-	954,019,513	65,096,795	888,922,718
S. GIORGIO SU LEGNANO Via Pasubio 12	772	33,608,998	403,391,002	437,000,000	51,830,000	385,170,000
S. GIOVANNI BIANCO Via Boselli 16	915	241,400	917,605,736	917,847,136	186,779,261	731,067,875
S. GIOVANNI LUPATOTO Via Madonnina 1/c	821	1,403,000,000	1,788,785,000	3,191,785,000	1,372,302,121	1,819,482,879
S. MARIA DELLA VERSA Via F. Crispi 1	359	31,753,350	395,823,285	427,576,635	91,552,650	336,023,985
SAN MAURIZIO CANAVESE Via V. Emanuele 59	493	112,629,353	878,011,729	990,641,082	264,501,300	726,139,782
S. ROCCO AL PORTO Via D. Alighieri 5	1,134	2,108,389,000	494,617,680	2,603,006,680	565,040,415	2,037,966,265
SABBIONETA Piazza Ducale 3/via dell'Assunta	456	861,769,802	184,792,153	1,046,561,955	346,977,162	699,584,793
SAINT VINCENT Via E. Chanoux 88	728	180,490,730	1,819,472,206	1,999,962,936	536,804,584	1,463,158,352
SALE Via Roma 6	364	418,754,339	279,412,397	698,166,736	236,100,083	462,066,653
SALUZZO Corso Italia 44	892	742,604,212	2,221,858,208	2,964,462,420	994,837,940	1,969,624,480
SANNAZZARO DE' BURGONDI P.za del Popolo 6	1,188	1,880,000,000	1,838,400,000	3,718,400,000	1,612,278,353	2,106,121,647
SANREMO Via Matteotti 169	2,140	2,573,932,407	8,002,091,086	10,576,023,493	3,765,922,701	6,810,100,792
SANT'ANGELO LODIGIANO Via Umberto I 46	615	279,966,169	1,300,768,106	1,580,734,275	374,755,654	1,205,978,621
SANTHIA' Corso Nuova Italia 45	697	263,932,198	1,031,380,584	1,295,312,782	392,884,288	902,428,494
SARONNO Piazza De Gasperi	80	96,000,000	-	96,000,000	5,760,000	90,240,000
SARONNO Piazza Volontari del Sangue 7	1,904	221,441,001	5,871,726,735	6,093,167,736	1,169,098,053	4,924,069,683
SARONNO Via Grieg 5 (archives)	4,040	2,582,100,591	1,290,444,673	3,872,545,264	705,376,068	3,167,169,196
SARRE Strada Statale n.26	590	692,453,600	856,266,716	1,548,720,316	700,856,009	847,864,307
SAUZE D'OULX Piazza III Regg. Alpini 24	247	129,236,456	561,275,603	690,512,059	264,963,121	425,548,938
SAVIGLIANO Piazza del Popolo 60	1,118	848,980,447	2,099,149,037	2,948,129,484	862,247,380	2,085,882,104
SAVONA Via Paleocapa / Piazza Mameli 2	2,482	3,560,178,590	8,704,499,528	12,264,678,118	4,008,325,307	8,256,352,811
SECUGNAGO Via Roma 5	288	25,304,060	283,467,886	308,771,946	57,135,484	251,636,462
SENAGO Piazza F. Borromeo 2	539	625,966,720	625,151,988	1,251,118,708	295,396,887	955,721,821
SEREGNO Corso Matteotti / Via Sanzio	1,624	4,251,322,272	1,303,465,770	5,554,788,042	1,226,620,496	4,328,167,546

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continued

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
SESTO S. GIOVANNI Via F.lli Casiraghi 250	2,398	2,513,246,002	1,949,689,252	4,462,935,254	835,009,841	3,627,925,413
SESTRI LE VANTE Via Fasce 24	928	445,564,810	2,771,918,464	3,217,483,274	937,290,333	2,280,192,941
SESTRIERE Piazzale Agnelli 2	170	203,821,670	923,584,608	1,127,406,278	409,331,320	718,074,958
SETTIMO TORINESE Via Italia 16	1,962	2,104,613,276	4,800,170,952	6,904,784,228	1,733,956,101	5,170,828,127
SETTIMO TORINESE V.Torino 118 (Comm. center)	155	57,643,750	202,708,692	260,352,442	37,296,273	223,056,169
SOLTO COLLINA Via S. Eurasia 1	267	114,927,916	326,326,662	441,254,578	127,889,843	313,364,735
SOMMARIVA BOSCO Via Cavour 13	428	76,371,861	729,192,151	805,564,012	220,944,284	584,619,728
SORESINA Via Matteotti 2	2,249	2,412,100	2,556,281,795	2,558,693,895	549,842,657	2,008,851,238
SOVERE Via Roma 26	508	389,642,808	686,096,118	1,075,738,926	246,678,959	829,059,967
SPINO D'ADDA Via M. Liberazione 29	513	613,488,500	579,455,903	1,192,944,403	356,657,164	836,287,239
STRIANO Via Risorgimento ang. Via Roma 23	634	1,084,665,133	760,354,716	1,845,019,849	548,225,029	1,296,794,820
SUSA Via Mazzini ang. Corso Inghilterra 10	1,079	723,454,694	1,701,762,333	2,425,217,027	746,638,704	1,678,578,323
TAVERNERIO Via Provinciale per Lecco 16/d	266	186,056,778	707,097,773	893,154,551	196,802,871	696,351,680
TERMOLI Corso Nazionale 150/152	1,243	4,277,176,625	201,776,117	4,478,952,742	1,089,500,186	3,389,452,556
TERNO D'ISOLA Via Castegnate 1	821	1,230,000,000	477,649,404	1,707,649,404	431,323,845	1,276,325,559
TERZIGNO ex C.C. Vicolo Gionti 16	4,802	3,409,629,733	5,483,496,189	8,893,125,922	2,472,437,925	6,420,687,997
TERZIGNO Piazza V. Emanuele 17	808	803,090,128	1,215,584,275	2,018,674,403	789,948,525	1,228,725,878
TICINETO Via G. Matteotti 1	376	71,512,510	470,710,689	542,223,199	162,225,709	379,997,490
TURIN Corso Massimo d'Azeglio 60	225	284,548,860	702,411,040	986,959,900	-	986,959,900
TURIN Corso San Maurizio 43/45/47	85	32,569,791	113,506,680	146,076,471	-	146,076,471
TURIN Corso V. Emanuele 158/160	1,293	327,133,650	3,199,041,150	3,526,174,800	1,123,222,800	2,402,952,000
TURIN ex Ag. 25 Via P. Gaidano 8	624	381,294,497	1,122,304,569	1,503,599,066	242,566,964	1,261,032,102
TURIN Ag. 1 Corso Re Umberto 53	1,121	473,684,472	5,532,307,411	6,005,991,883	1,475,483,698	4,530,508,185
TURIN Ag. 10 Corso Casale 64	1,477	813,353,208	5,532,030,282	6,345,383,490	1,518,379,769	4,827,003,721
TURIN Ag. 11 Via Tunisi 126/F	1,076	2,859,914,869	1,034,486,948	3,894,401,817	868,848,436	3,025,553,381
TURIN Ag. 12 SP.S.V. Via Stradella 12	385	300,816,448	529,769,278	830,585,726	330,585,726	500,000,000
TURIN Ag. 12 Via Stradella 34	2,633	2,530,879,889	7,484,193,576	10,015,073,465	3,503,794,432	6,511,279,033
TURIN Ag. 13 Corso San Maurizio 35	1,335	837,337,378	4,933,257,669	5,770,595,047	1,334,941,109	4,435,653,938
TURIN Ag. 14 Corso Svizzera 32	1,727	1,073,395,470	5,120,806,912	6,194,202,382	1,849,690,977	4,344,511,405
TURIN Ag. 15 Via XX Settembre 3	1,052	433,542,877	5,199,974,588	5,633,517,465	1,372,817,774	4,260,699,691
TURIN Ag. 16 Corso Orbassano 138	2,165	1,941,372,348	7,233,522,751	9,174,895,099	2,618,810,399	6,556,084,700
TURIN Ag. 17 Piazza Massaua 5	3,057	2,609,736,502	5,374,415,469	7,984,151,971	2,599,446,736	5,384,705,235
TURIN Ag. 18 Corso Bramante 84/b	1,206	1,843,895,784	1,257,583,511	3,101,479,295	1,804,968,288	1,296,511,007
TURIN Ag. 19 Via O.Vigliani 160/51	3,095	5,809,739,125	1,275,719,743	7,085,458,868	1,652,505,695	5,432,953,173
TURIN Ag. 2 Via Sant'Anselmo 18	1,197	302,393,372	4,359,235,458	4,661,628,830	1,098,754,494	3,562,874,336
TURIN Ag. 20 Via Cimarosa 85	3,269	4,267,560,550	5,212,582,931	9,480,143,481	1,861,182,284	7,618,961,197
TURIN Ag. 21 Via A. di Bernezzo 50	1,019	792,125,891	3,017,832,541	3,809,958,432	1,092,204,229	2,717,754,203
TURIN Ag. 22 Corso V. Emanuele 110	1,256	1,361,568,485	4,953,913,716	6,315,482,201	1,869,084,908	4,446,397,293
TURIN Ag. 23 Corso Unione Sovietica 409	2,824	2,171,970,200	7,778,333,471	9,950,303,671	3,400,709,895	6,549,593,776
TURIN Ag. 24 Corso Turati 18	2,157	392,767,582	4,768,403,023	5,161,170,605	1,225,589,454	3,935,581,151
TURIN Ag. 25 Via P. Gaidano 7	2,016	2,955,991,860	3,494,983,342	6,450,975,202	2,733,455,459	3,717,519,743
TURIN Ag. 26 Via Monginevro 228	1,296	1,077,754,196	2,813,183,947	3,890,938,143	1,272,462,567	2,618,475,576
TURIN Ag. 27 Piazza Rebaudengo 7/9	1,796	957,109,416	2,794,712,594	3,751,822,010	1,385,748,966	2,366,073,044
TURIN Ag. 3 Via Matteucci 2	1,354	1,180,984,295	3,853,275,997	5,034,260,292	1,286,491,365	3,747,768,927
TURIN Ag. 4 Corso Peschiera 151	2,021	1,832,514,415	5,751,208,311	7,583,722,726	2,342,102,943	5,241,619,783
TURIN Ag. 5 Piazza della Repubblica 7	3,001	902,947,769	7,599,979,179	8,502,926,948	2,095,281,830	6,407,645,118
TURIN Ag. 55 S.V. Via Gottardo 273	526	70,572,601	1,244,098,982	1,314,671,583	379,366,191	935,305,392
TURIN Ag. 6 Piazza Nizza 75	1,459	1,805,322,752	5,075,672,618	6,880,995,370	2,058,543,082	4,822,452,288

(\*) Laws 823 of 12/19/73; 576 of 12/2/75; 72 of 3/19/83; 218 of 7/30/90; 408 of 12/29/90; 413 of 12/30/91; other.

continued

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
TURIN Ag. 7 Piazza Crispi 61 / Corso Vercelli	1,369	1,249,964,847	3,617,264,335	4,867,229,182	1,636,335,430	3,230,893,752
TURIN Ag. 8 Corso A. De Gasperi 14	1,512	1,737,940,428	4,613,666,757	6,351,607,185	1,949,353,908	4,402,253,277
TURIN Ag. 9 S.Vari Via Caluso 1	649	46,303,638	1,509,508,329	1,555,811,967	377,867,916	1,177,944,051
TURIN Ag. 9 Via Banchette ang. Corso Grosseto	1,890	3,506,317,478	4,087,828,069	7,594,145,547	3,370,196,504	4,223,949,043
TURIN Main branch Piazza San Carlo 156/182	42,779	20,480,219,965	191,401,926,305	211,882,146,270	60,896,969,228	150,985,177,042
TURIN Main branch Via Monte di Pietà 26	564	549,400,307	2,160,008,217	2,709,408,524	458,664,103	2,250,744,421
TURIN Main branch Via Monte di Pietà 26	1,660	259,443,225	7,545,173,974	7,804,617,199	1,168,168,478	6,636,448,721
TURIN Main branch Via Monte di Pietà 32	24,277	23,261,653,359	92,000,740,483	115,262,393,842	27,917,843,222	87,344,550,620
TURIN Main branch Via Santa Teresa 3	1,871	695,219,200	8,598,241,990	9,293,461,190	2,043,247,274	7,250,213,916
TURIN Sp.S.V. 'A' Corso Peschiera 162	690	115,796,745	1,868,382,619	1,984,179,364	564,165,542	1,420,013,822
TURIN Sp.S.V. 'D' Corso Svizzera 48	324	540,000,000	802,376,471	1,342,376,471	642,376,471	700,000,000
TURIN Sp.S.V. 'E' Corso Orbassano 134	729	177,548,258	2,647,228,005	2,824,776,263	636,237,961	2,188,538,302
TURIN Strada San Vito (Villa Abegg)	2,856	4,909,571,304	6,818,906,795	11,728,478,099	2,000,857,390	9,727,620,709
TURIN Via G. Bruno 200/202	241	38,901,155	460,692,963	499,594,118	184,758,409	314,835,709
TURIN Via Lugaro 15	32,610	15,949,138,485	98,896,030,390	114,845,168,875	33,072,813,986	81,772,354,889
TURIN Via Nizza 50	227	9,160,453	735,777,782	744,938,235	194,938,235	550,000,000
TURIN Via O.Vigliani 160 (canteen Ag. 19)	95	24,024,000	145,976,000	170,000,000	-	170,000,000
TURIN Via San Francesco d'Assisi 15	1,185	49,716,507	3,302,063,749	3,351,780,256	739,189,175	2,612,591,081
TORRE BOLDONE Via D.L.Palazzolo 11	374	71,737,850	924,294,286	996,032,136	244,766,793	751,265,343
TORTONA Piazza Duomo 9	2,642	1,154,455,191	7,585,200,489	8,739,655,680	2,988,526,271	5,751,129,409
TORTONA Piazza Mazzini 2 (parking)	56	43,521,500	38,995,399	82,516,899	32,607,779	49,909,120
TRADATE Corso Bernacchi 85	816	595,548,250	1,673,251,755	2,268,800,005	711,901,498	1,556,898,507
TRADATE Corso Bernacchi 3/via don Zini 2	26	11,920,000	28,080,000	40,000,000	-	40,000,000
TRECCATE Via Gramsci 1	927	487,874,857	1,544,434,991	2,032,309,848	664,326,731	1,367,983,117
TRENTO Via Segantini ang. Via Acconcio	930	4,389,499,080	1,181,649,397	5,571,148,477	1,233,650,455	4,337,498,022
TRESCORE CREMASCO Via Carioni 4	588	637,862,821	528,775,903	1,166,638,724	286,513,657	880,125,067
TREVIGLIO Piazza Camerani 2	2,542	4,002,756,314	4,795,031,394	8,797,787,708	2,503,282,161	6,294,505,547
TREZZO SULL'ADDA V. Garibaldi / V. dei Mille 1	1,645	1,514,381,276	2,452,966,102	3,967,347,378	950,870,780	3,016,476,598
TRIESTE Piazza Oberdan, 3	670	132,000,000	2,068,000,000	2,200,000,000	396,000,000	1,804,000,000
TRIESTE Via Coroneo, 8	90	87,528,400	52,471,600	140,000,000	25,200,000	114,800,000
TRINO VERCELLESE Corso Cavour 64	840	629,257,954	1,117,653,081	1,746,911,035	736,754,135	1,010,156,900
TROFARELLO Via Torino 64	869	232,477,168	1,850,427,930	2,082,905,098	604,710,017	1,478,195,081
TURATE Via Marconi 7 / Via Candiani	547	880,300,000	677,292,609	1,557,592,609	422,488,223	1,135,104,386
UBOLDO Via Roma 27	351	58,683,386	896,214,796	954,898,182	229,956,328	724,941,854
VADO LIGURE Piazza Cavour 11	754	2,523,000,000	75,690,000	2,598,690,000	532,189,747	2,066,500,253
VAILATE Via S. Giani 15	464	307,262,187	706,383,350	1,013,645,537	136,777,197	876,868,340
VALBONDIONE Via S. Lorenzo 24	148	42,537,709	176,706,452	219,244,161	52,298,488	166,945,673
VALENZA Corso Garibaldi 111	1,724	4,228,593,244	4,897,219,394	9,125,812,638	2,656,781,903	6,469,030,735
VALFENERA Via A. d'Aosta 10	355	88,288,220	494,155,070	582,443,290	189,577,719	392,865,571
VALGUARNERA CAROPEPE Via Garibaldi 95	120	83,494,200	325,466,805	408,961,005	163,449,157	245,511,848
VALLE LOMELLINA V. Casserotto 1/V. Roma 29	611	478,293,017	952,126,201	1,430,419,218	640,569,301	789,849,917
VALLEMOSSO Piazza Dante Alighieri 8	650	405,601,988	728,298,533	1,133,900,521	323,838,641	810,061,880
VANZAGHELLO Piazza S. Ambrogio 2	701	630,407,312	842,245,956	1,472,653,268	359,569,857	1,113,083,411
VARALLO SESIA Piazza Vittorio Emanuele	510	259,800,956	717,693,376	977,494,332	245,796,637	731,697,695
VARAZZE Piazza Patrone / Via Nazioni Unite	843	476,069,397	3,522,814,152	3,998,883,549	1,201,628,924	2,797,254,625
VARESE Ag. 1 Via Marcobi 8	915	114,023,200	2,760,401,020	2,874,424,220	884,192,606	1,990,231,614
VARESE Main branch Via Milano 16	2,730	1,329,226,428	6,824,102,911	8,153,329,339	2,121,282,333	6,032,047,006
VARESE Via Sacro Monte (land)		3,385,000	3,615,000	7,000,000	-	7,000,000

(\*) Laws 823 of 12/19/73; 576 of 12/2/75; 72 of 3/19/83; 218 of 7/30/90; 408 of 12/29/90; 413 of 12/30/91; other.

continued

LOCATION	Sq.m.	INVESTMENT	REVALUATIONS (*)	GROSS VALUE	ADJUSTMENTS	NET BOOK VALUE
VENARIA REALE Viale Buridani 6	569	190,268,762	1,253,592,337	1,443,861,099	593,861,099	850,000,000
VENICE Rio Terra' S. Leonardo, 1353	303	61,675,717	2,938,324,283	3,000,000,000	540,000,000	2,460,000,000
VENTIMIGLIA Corso Limone 9	130	351,502,750	215,868,204	567,370,954	280,112,540	287,258,414
VENTIMIGLIA Via Cavour 30A-B/108	1,554	1,367,751,219	7,315,461,492	8,683,212,711	2,672,087,672	6,011,125,039
VERCELLI Viale Garibaldi 12	4,449	3,223,700,032	8,251,935,835	11,475,635,867	3,641,913,482	7,833,722,385
VERCELLI Via Mercadante ang. Via Paggi (ex Ag. I)	280	18,161,039	291,365,797	309,526,836	61,343,091	248,183,745
VERDELLO Via Cavour 19	771	35,431,500	1,442,257,543	1,477,689,043	195,563,410	1,282,125,633
VERONA Corso Cavour, 25/27	593	206,371,208	2,393,628,792	2,600,000,000	468,000,000	2,132,000,000
VERONA Piazza Madonna di Campagna 18	1,269	3,631,547,462	881,739,640	4,513,287,102	650,271,551	3,863,015,551
VERONA Via Fratta, 14	274	974,729,883	225,270,117	1,200,000,000	216,000,000	984,000,000
VIADANA Piazza Manzoni 32	780	1,085,070,072	1,379,257,885	2,464,327,957	729,712,767	1,734,615,190
VICENZA Via Battaglione Framarin	4,441	7,283,961,602	8,976,445,069	16,260,406,671	7,373,696,213	8,886,710,458
VICO EQUENSE (Monte Faito)	49	44,062,500	210,278,493	254,340,993	59,896,042	194,444,951
VIGEVANO Via Decembrio 35 / Via Carducci I	1,677	545,683,165	6,416,371,621	6,962,054,786	1,898,033,338	5,064,021,448
VIGNALE MONFERRATO Piazza del Popolo I	170	8,777,575	152,129,364	160,906,939	25,961,228	134,945,711
VILLA CARCINA Via Glisenti 78	726	1,443,523,848	789,069,430	2,232,593,278	732,396,696	1,500,196,582
VILLA CORTESE Via Tosi 22/ Via Speroni	436	676,686,100	498,606,830	1,175,292,930	371,610,413	803,682,517
VILLAFRANCA D'ASTI Via Roma 32	398	77,205,518	619,306,207	696,511,725	234,612,065	461,899,660
VILLANTERIO Via IV Novembre 12/a	503	74,061,995	827,962,291	902,024,286	143,072,998	758,951,288
VILLAR PEROSA Via Nazionale 31/9	773	45,551,337	1,258,775,391	1,304,326,728	316,526,353	987,800,375
VILLAROSA SICILIA Piazza V. Emanuele 3	100	98,367,644	174,213,403	272,581,047	116,087,776	156,493,271
VILLASANTA Via Confalonieri / Via Camperio	265	941,042,886	46,014,936	987,057,822	145,250,370	841,807,452
VILLASTANZA DI PARABIAGO P. Indipendenza 6	178	24,486,348	360,217,450	384,703,798	74,091,438	310,612,360
VIMERCATE Via Risorgimento 32/a	754	1,600,086,269	702,430,229	2,302,516,498	610,229,931	1,692,286,567
VOGHERA Piazza Duomo 10	2,264	4,195,429,703	7,464,939,948	11,660,369,651	4,514,572,999	7,145,796,652
ZANICA Via Roma 9	712	183,711,027	1,156,576,553	1,340,287,580	294,305,227	1,045,982,353
<b>TOTAL ITALIAN PROPERTIES</b>	<b>768,400</b>	<b>843,066,523,887</b>	<b>2,176,909,044,114</b>	<b>3,019,975,568,001</b>	<b>871,512,870,696</b>	<b>2,148,462,697,305</b>
PARIS Avenue de Suffren 78	150	41,249,341	608,750,659	650,000,000	-	650,000,000
AMSTERDAM Herengracht 446	1,348	4,158,713,239	2,305,954,568	6,464,667,807	1,690,221,627	4,774,446,180
NEW YORK Town of Mamaroneck	613	797,696,912	800,475,852	1,598,172,764	458,671,709	1,139,501,055
<b>GRAND TOTAL</b>	<b>770,511</b>	<b>848,064,183,379</b>	<b>2,180,624,225,193</b>	<b>3,028,688,408,572</b>	<b>873,661,764,032</b>	<b>2,155,026,644,540</b>

(\*) Laws 823 of 12/19/73; 576 of 12/2/75; 72 of 3/19/83; 218 of 7/30/90; 408 of 12/29/90; 413 of 12/30/91; other.





# **CONSOLIDATED FINANCIAL STATEMENTS AND REPORTS**





## Reclassified consolidated statement of income

	1997 (L/bln)	1996 (L/bln)	Change (%)
Interest income and similar revenues	17,205	20,599	-16.5
Interest expense and similar charges	-13,076	-15,967	-18.1
Dividends	19	21	-9.5
NET INTEREST INCOME	4,148	4,653	-10.9
Net commissions	1,808	1,245	+45.2
Profits (losses) on financial transactions	431	1,009	-57.3
NET INTEREST AND OTHER BANKING INCOME	6,387	6,907	-7.5
Administrative costs	-4,314	-4,464	-3.4
Other operating expenses	-71	-67	+6.0
Other operating income	413	370	+11.6
Depreciation of tangible fixed assets	-322	-349	-7.7
Amortization of intangible fixed assets	-223	-236	-5.5
OPERATING INCOME	1,870	2,161	-13.5
Provisions for risks and charges	-100	-65	+53.8
Adjustments to loans and provisions for guarantees and commitments	-2,008	-1,588	+26.4
Writebacks of loans	658	611	+7.7
Adjustments to financial fixed assets	-20	-43	-53.5
Writebacks of financial fixed assets	3	-	n.s.
Income and losses from investments carried at equity	-205	-88	+133.0
Extraordinary income and expenses, net	470	-19	n.s.
INCOME BEFORE INCOME TAXES	668	969	-31.1
Income taxes	-320	-369	-13.8
Substitute tax on merger differences	-100	-	n.s.
Change in reserve for general banking risks	-11	-	n.s.
Net (income) loss attributable to minority interests	-69	3	n.s.
NET INCOME FOR THE YEAR	168	603	-72.1



## Reclassified consolidated balance sheet

ASSETS	12/31/97 (L/bln)	12/31/96 (L/bln)	Change (%)
Cash and deposits with central banks and post offices	762	793	-3.9
Loans	186,300	190,536	-2.2
• due from banks	54,679	58,022	-5.8
• loans to customers	131,621	132,514	-0.7
Dealing securities	32,222	35,158	-8.4
Fixed assets	9,537	9,502	+0.4
• investment securities	5,376	4,524	+18.8
• equity investments	896	1,270	-29.4
• intangible fixed assets	460	509	-9.6
• tangible fixed assets	2,805	3,199	-12.3
Differences arising on consolidation and on application of the equity method	174	212	-17.9
Other assets	27,723	26,017	+6.6
<b>Total assets</b>	<b>256,718</b>	<b>262,218</b>	<b>-2.1</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	12/31/1997 (L/bln)	1/31/1996 (L/bln)	Change (%)
Payables	208,938	216,127	-3.3
• due to banks	52,259	60,147	-13.1
• due to customers and securities issued	156,679	155,980	+0.4
Other liabilities	34,020	32,575	+4.4
Subordinated liabilities	3,528	3,578	-1.4
Minority interests	471	60	n.s.
Shareholders' equity attributable to the Group	9,761	9,878	-1.2
<b>Total liabilities and shareholders' equity</b>	<b>256,718</b>	<b>262,218</b>	<b>-2.1</b>

GUARANTEES AND COMMITMENTS	12/31/97 (L/bln)	12/31/96 (L/bln)	Change (%)
Guarantees given	22,899	19,573	+17.0
Commitments	39,424	37,033	+6.5




## Report on operations



## Results for 1997

### Overview of Group's results

 Consolidated net income amounted to 168 billion lire, down compared with 1996 by 72.1%.

The Group result was dominated by the performance of the Parent Bank, which reported a drop in net income of 89.7%; the principal influences were heavy writedowns against the loans portfolio and a sharp reduction in gains on financial transactions. The effect on the consolidated figures was mitigated by better results among the remaining Group companies: the combined contributions of Sanpaolo Ireland, Crediop and Banque Sanpaolo accounted for 60% of consolidated pre-tax income, compared with 25% in the previous year.

Results improved significantly in the savings management and stockbroking sectors, on the strength of sharply growing business volumes. Overall, commissions on services jumped by over 45% to pass 1,800 billion lire, absorbing the foreseen reduction in the interest margin (by 10.9% to 4,148 billion).

The drop in profits on financial transactions amounted to 57.3%, income from dealings in stocks and derivatives falling to 431 billion lire. The 1996 performance in this area was exceptional, however.

Continuing implementation of cost-containment policies throughout the Group produced benefits which included a 4.2% saving in personnel costs, the combined effect of reorganization and the early-retirement scheme launched by the Bank in 1996. Among rationalization measures affecting the Group's operations abroad, withdrawal from the Spanish market made a significant contribution to the savings.

Group results were affected by charges totalling 1,672 billion lire in the form of provisions and net writedowns against both loans and equity investments. The principal motivating factor was a further deterioration of construction-lending business, in turn attributable to the persistent crisis in the real-estate sector.

Net extraordinary income amounted to 470 billion lire, largely represented by gains on the divestment of interests (40% and 70% respectively) in Crediop and BNC Assicurazioni, together with the benefit of certain changes in accounting policies concerned with asset valuation.

The changes just mentioned are described in detail in the explanatory notes. They include translating the Group's investments in the foreign

branches and principal companies abroad at current rates of exchange, as well as adopting the treatment of deferred taxation recommended by IAS (International Accounting Standard) No. 12. Together with other changes relating to determining the cost of securities and to staff long-service bonuses, the net benefit to the consolidated statement of income amounted to 333 billion lire.

The Bank divested its Spanish subsidiary Banco Sanpaolo SA at the end of 1997. In view of the minor contribution to Group figures of this company, there has been no restatement of the 1996 comparative data to reflect the change.

## Net interest income

The most striking feature of the year's statement of income was a 10.9% erosion of the interest margin. The result at this level amounted to 4,148 billion lire.

	1997	1996	Change
	Amount (L/bln)	Amount (L/bln)	(%)
Interest income and similar revenues	17,205	20,599	-16.5
Interest expenses and similar charges	-13,076	-15,967	-18.1
Dividends received	19	21	-9.5
Net interest income	4,148	4,653	-10.9

The principal cause of the decline, common to the entire banking system, was a narrowing of the spread between interest rates charged to borrowers and paid to depositors. The downturn was compounded by a generalized decline in yields from the securities portfolio and from deposits on the interbank market.

Eliminating the figures for the divested Banco Sanpaolo (Spain), the adjusted reduction in the interest margin amounts to 9%.

## By sector

Among the Group's sectors of activity, the decline in results from banking operations primarily reflected the performance of the Parent Bank, which experienced decreased volumes of traditional business, affecting deposits and lending to similar degrees, as well as slimmer interest-rate spreads.

By contrast, in Crediop's case the interest margin rose by 1.6% compared with 1996, boosted by higher dividends from its subsidiaries.

Substantial rises in the result at this level in lira terms were reported by Banque Sanpaolo (13% up) and Sanpaolo Ireland (a jump of 117%), although a key influence in both cases was significant capital injections from the Parent Bank during the year, to support a growing level of operations.



	1997		1996		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Banks and finance companies	4,187	97.5	4,587	97.6	-8.7
• <i>Istituto Bancario San Paolo di Torino</i>	3,614	84.2	3,969	84.4	-8.9
• <i>Crediop</i>	327	7.6	322	6.8	+1.6
• <i>Banque Sanpaolo - France</i>	148	3.4	131	2.8	+13.0
• <i>Banco Sanpaolo - Spain</i>	-	-	87	1.9	n.s.
• <i>Sanpaolo Ireland - Eire</i>	52	1.2	24	0.5	+116.7
• <i>Others</i>	46	1.1	54	1.2	-14.8
Leasing	85	2.0	96	2.0	-11.5
Other companies consolidated line-by-line	22	0.5	21	0.4	+4.8
Eliminations on consolidation	-146	-	-51	-	+186.3
Net interest income	4,148	100.0	4,653	100.0	-10.9

The eliminations on consolidation are basically of intercompany dividends.

### Net interest and other banking income

Consolidated net interest and other banking income declined by 7.5%, to 6,387 billion lire. Recalculated ignoring Banco Sanpaolo (Spain), the decline amounted to 6.1%.

The impact on this result of the decline in the interest margin was cushioned by improvements which included a steep (45.2%) rise in income from services. Commissions from asset management, brokerage and consultancy more than doubled the 1996 level. Reflecting guidelines established in the Group strategic plan, the results within this sector from savings management, placings and dealings in securities were excellent.

	1997	1996	Change
	Amount (L/bln)	Amount (L/bln)	(%)
Net interest income	4,148	4,653	-10.9
Net commissions	1,808	1,245	+45.2
• management, dealing and consultancy services	972	451	+115.5
• managed savings (mutual funds, insurance, portfolio management)	543	232	+134.1
• placing and dealing in securities	350	137	+155.5
• safekeeping and administration of securities	31	37	-16.2
• dealings in foreign exchange	48	45	+6.7
• loans and overdrafts	330	313	+5.4
• deposit and current accounts	164	159	+3.1
• collection and payment services	181	179	+1.1
• guarantees given	76	90	-15.6
• other services	85	53	+60.4
Profits (losses) on financial transactions	431	1,009	-57.3
• dealings in securities, forex and derivatives	379	1,012	-62.5
• valuation of securities and derivatives	52	-3	n.s.
Net interest and other banking income	6,387	6,907	-7.5

Profits on financial operations reported by the Parent Bank, which dominate the corresponding consolidated result, were affected by turbulent conditions in the financial markets early in the year. Also highly relevant to the comparison with 1996 is the fact that the earlier performance was quite exceptional.

The accounting policy addressing valuation of the securities portfolio (at the lower of cost and market value) has been changed: the "average cost on a daily basis" method has replaced LIFO in annual layers, on grounds of greater consistency with Group operating requirements. The effect on 1997 consolidated pre-tax income was a benefit of 79 billion lire.

#### By sector

Among the individual performances contributing to consolidated net interest and other banking income, the Parent Bank's result at this level accounted for 83% of the total, compared with 85.7% in 1996; the corresponding proportions contributed by Banque Sanpaolo and Sanpaolo Ireland both increased.

	1997		1996		Variatione
	Amount (L/bln)	%	Amount (L/bln)	%	(%)
Banks and finance companies	6,248	94.5	6,701	96.0	-6.8
• Istituto Bancario San Paolo di Torino	5,488	83.0	5,980	85.7	-8.2
• Crediop	341	5.2	341	4.9	-
• Banque Sanpaolo - France	233	3.5	198	2.8	+17.7
• Banco Sanpaolo - Spain	-	-	103	1.5	n.s.
• Sanpaolo Ireland	125	1.9	24	0.3	+420.8
• Others	61	0.9	55	0.8	+10.9
Managed savings, stockbroking and sales network	229	3.5	131	1.9	+74.8
Leasing	83	1.2	96	1.4	-13.5
Other companies consolidated line-by-line	54	0.8	52	0.7	+3.8
Consolidation adjustments	-227	-	-73	-	+211.0
Net interest and other banking income	6,387	100.0	6,907	100.0	-7.5

In the case of the French bank, the improvement reflected a 30% rise, approximately, in commissions on managed savings, as well as the benefit of increased resources.

The dramatic rise in Sanpaolo Ireland's result at this level was partly due to a gain of 69 billion lire on cancellation of currency-swap agreements with the Parent Bank, originally put in place to hedge exchange-rate exposure on transfers of capital from the latter. Disregarding this factor however, the result still improved by over 100%.

The margin on savings management and stockbroking business shot up by 74.8%, as levels of assets under management rose steeply across the various Group companies concerned. Fierce competition in the leasing market squeezed the margin from this activity, as evidenced by the 13.5% downturn.

## Operating income

At 1,870 billion lire, consolidated operating income was down by 13.5% compared with 1996, or 14.3% disregarding Banco Sanpaolo (Spain).

	1997	1996	Change
	Amount (L/bln)	Amount (L/bln)	(%)
Net interest and other banking income	6,387	6,907	-7.5
Administrative costs	-4,314	-4,464	-3.4
• payroll	-2,860	-2,986	-4.2
• ordinary	-2,794	-2,846	-1.8
• extraordinary	-66	-140	-52.9
• other administrative costs	-992	-1,017	-2.5
• indirect taxes and similar dues	-462	-461	+0.2
Other operating expenses	-71	-67	+6.0
Other operating income	413	370	+11.6
• expenses recharged to customers	290	292	-0.7
• other	123	78	+57.7
Adjustments to tangible fixed assets	-322	-349	-7.7
Adjustments to intangible fixed assets	-223	-236	-5.5
• amortization of deferred charges	-147	-161	-8.7
• amortization of goodwill arising on consolidation and application of the equity method	-76	-75	+1.3
Operating income	1,870	2,161	-13.5

Operating income benefited from cost-containment measures throughout the Group, initiated in earlier years. In the case of personnel costs, a saving of 4.2% was achieved; the principal influences in the latter connection were the withdrawal from the Spanish market, and the introduction of an early-retirement scheme by the Parent Bank in 1996.

Savings of 1.9% were achieved in the aggregate of the remaining administrative costs and other operating expenses; or of 4.7% disregarding exceptional costs; the latter were those associated with the program to

standardize procedures across the network, and with an advertising campaign linked to the San Paolo privatization.

The divestment of Sanpaolo in Spain, combined with the year's property sales, resulted in a 7.7% reduction in amounts written off tangible fixed assets.

#### *By sector*

While the Parent Bank's contribution to consolidated operating income declined, from 81.3% to 69.1%, those of Sanpaolo Ireland and the savings management companies were significantly larger.


San Paolo Ireland contributed 5.7%, admittedly on the strength of a result boosted by exceptional gains on cancellation of currency-swap agreements (mentioned earlier). Also significant, however, were the results of the savings-management sector companies, which succeeded in containing growth in expenditure despite sharply rising business volumes.

Among the banking companies, Banque Sanpaolo raised its operating income by an impressive 97%.

The consolidation adjustments (313 billion lire adverse) include 76 billion lire in amortization of goodwill on consolidation and on application of the equity method, as in 1996, in addition to elimination of intercompany dividends (mentioned earlier).

	1997		1996		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Banks and finance companies	2,005	91.8	2,209	96.3	-9.2
• Istituto Bancario San Paolo di Torino	1,508	69.1	1,864	81.3	-19.1
• Crediop	267	12.2	281	12.3	-5.0
• Banque Sanpaolo - France	69	3.1	35	1.5	+97.1
• Banco Sanpaolo - Spain	-	-	-20	-0.9	n.s.
• Sanpaolo Ireland	124	5.7	24	1.0	+416.7
• Others	37	1.7	25	1.1	+48.0
Managed savings, stockbroking and sales network	133	6.1	47	2.0	+183.0
Leasing	35	1.6	37	1.6	-5.4
Other companies consolidated line-by-line	10	0.5	2	0.1	+400.0
Consolidation adjustments	-313	-	-134	-	+133.6
Operating income	1,870	100.0	2,161	100.0	-13.5

## Income before taxes

 Consolidated pre-tax income amounted to 668 billion lire, around 31% lower than in the previous year.

	1997	1996	Change
	Amount (L/bln)	Amount (L/bln)	(%)
Operating income	1,870	2,161	-13.5
Provisions for risks and charges	-100	-65	+53.8
Adjustments to loans and provisions for guarantees and commitments	-2,008	-1,588	+26.4
• writedowns	-1,437	-1,081	+32.9
• losses on settlements and disposals	-211	-217	-2.8
• losses on scaling down in bankruptcy cases	-344	-283	+21.6
• provisions for guarantees and commitments	-16	-7	+128.6
Writebacks of loans	658	611	+7.7
• on revaluation	415	361	+15.0
• collection of principal	137	120	+14.3
• collection of default interest	106	130	-18.5
Writedowns of financial fixed assets	-20	-43	-53.5
• equity investments	-6	-42	-85.7
• investment securities	-14	-1	n.s.
Writebacks of financial fixed assets	3	-	n.s.
• equity investments	1	-	n.s.
• investment securities	2	-	n.s.
Income (losses) from investments carried at equity	-205	-88	+132.9
Extraordinary income (expense)	470	-19	n.s.
• net gains on divestment of equity interests	168	-64	n.s.
• prepaid income taxes	286	-	n.s.
• net gains on translation of foreign-currency fixed assets at current exchange rates	52	-	n.s.
• contributions to the Interbank Deposit Guarantee Fund	-74	-	n.s.
• other extraordinary income (net)	38	45	-15.6
Income before taxes	668	969	-31.1

Pre-tax income was affected by the heavy writedowns against the Parent Bank's loans portfolio, largely in response to a rise in the level of non-performing accounts in the construction-loans sector. The latter deterioration reflected worsening conditions in the Italian real-estate market, which prompted an extremely cautious policy regarding the valuation of lending assets, and the basis for consigning loans in the related sectors at risk to the "non-performing" category.

Overall, net writedowns and provisions against the loans portfolio amounted to 1,450 billion lire, higher than in 1996 by over 39%. Including the elimination of default interest (prudently regarded as irrecoverable) from the interest margin, the total was 1,946 billion lire.

Consolidated pre-tax income was also eroded by adverse results among the companies carried at equity. Heavy losses were again sustained by a number of enterprises acquired in connection with debt-rescheduling schemes. The losses primarily arose from alignment of the asset bases of the companies concerned with market values ascertained by recent, independent valuations.

The impact of the losses mentioned was mitigated by the positive contributions of Sanpaolo Vita, Esatri and Inter-Europa Bank, totalling 23 billion lire.

The principal items contributing to net extraordinary income of 470 billion lire were gains on the divestment of interests in Crediop and BNC Assicurazioni, and the effect of the year's accounting-policy changes. The latter included a revised basis for determining deferred taxation, in line with international accounting standards; the effect on the consolidated reclassified statement of income was a benefit of 286 billion lire. The first-time application of current rates of exchange, in translating the Group's investment in its foreign branches and principal equity interests abroad, resulted in a further benefit of 52 billion lire. Offsetting these items were contributions to the Interbank Deposit Guarantee Fund totalling a substantial 74 billion lire.

#### *By sector*

The percentage sector contributions to consolidated pre-tax income changed dramatically. That of the Parent Bank was virtually halved, while Crediop's rose to 29% despite an 8.8% decline in its result at this level compared with the previous year.

	1997		1996		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Banks and finance companies	558	111.6	815	104.4	-31.5
• Istituto Bancario San Paolo di Torino	253	50.6	777	99.5	-67.4
• Crediop	145	29.0	159	20.4	-8.8
• Banque Sanpaolo - France	35	7.0	15	1.9	+133.3
• Banco Sanpaolo - Spain	-	-	-56	-7.2	n.s.
• Sanpaolo Ireland	122	24.4	24	3.1	+408.3
• Others	3	0.6	-104	-13.3	n.s.
Managed savings, stockbroking and sales network	123	24.6	36	4.6	+241.7
Leasing	16	3.2	14	1.8	+14.3
Other companies consolidated line-by-line	8	1.6	4	0.5	+100.0
Companies carried at equity	-205	-41.0	-88	-11.3	+133.0
Consolidation adjustments	168	-	188	-	-10.6
Income before taxes	668	100.0	969	100.0	-31.1

Results improved significantly among the companies with faster rates of business growth. In the case of Banque Sanpaolo, a jump of over 133% in revenues led to an increase in the French bank's contribution to the Group result from 2% to 7%.

Admittedly inflated by exceptional items (mentioned earlier), the rise in San Paolo Ireland's contribution was from 3.1% to 24.4%.

The progress achieved by the companies operating in savings management was especially significant, in terms of both strategic relevance and future revenue-earning prospects. Their combined results were a more than three-

fold improvement on 1996, and accounted for 24.6% of consolidated pre-tax income.

The consolidation adjustments (168 billion lire positive) affecting the Group result at this level primarily reflect some 308 billion lire in reinstatements of the carrying values of equity interests (mainly among those of the Parent Bank) written down in earlier years. Elimination of provisions effected by Crediop solely for tax purposes accounts for 137 billion lire. Together, these more than offset the previous negative adjustments which included elimination of intercompany dividends and the amortization of goodwill on consolidation.

## Net income

**A**t 168 billion lire, consolidated net income was down on the previous year's result by 72.1%, or 74.5% on a restated basis reflecting the divestment of Banco Sanpaolo (Spain).

The disproportionate drop in net income was mainly caused by an increase in taxes. Relevant in this connection is substitute tax of 100 billion lire appearing in the financial statements of the Parent Bank, raised to ensure that merger differences relating to previous years would be allowable for tax purposes. The Group's effective tax rate amounted to 48%, compared with 38% in 1996, mainly reflecting higher profits, taxed at the full rate, among the savings management companies.

Profits of 69 billion lire were attributed to minority interests, compared with a 3 billion share of losses in the previous year - a difference of 72 billion lire primarily accounted for by the Crediop partial divestment.

	1997	1996	Change
	(L/bln)	(L/bln)	(%)
Income before taxes	668	969	-31.1
Income taxes	-320	-369	-13.8
Substitute tax on merger differences	-100	-	n.s.
Change in reserve for general banking risks	-11	-	n.s.
(Income) loss attributable to minority shareholders	-69	3	n.s.
Net income	168	603	-72.1

### By sector

The percentage contributions of the various sectors to the consolidated result differed considerably from the pattern in the previous year. The principal influences were: the 89.7% drop in net income reported by the Parent Bank; an exceptional result in the case of Sanpaolo Ireland; and the rapid growth of the savings management companies. Net income at Group level was also severely affected by the losses among companies carried at equity.

	1997		1996		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Banks and finance companies	263	224.8	464	116.0	-43.3
• <i>Istituto Bancario San Paolo di Torino</i>	53	45.3	517	129.2	-89.7
• <i>Crediop</i>	67	57.3	72	18.0	-6.9
• <i>Banque Sanpaolo - France</i>	38	32.5	16	4.0	+137.5
• <i>Banco Sanpaolo - Spain</i>	-	-	-56	-14.0	n.s.
• <i>Sanpaolo Ireland</i>	110	94.0	22	5.5	+400.0
• <i>Others</i>	-5	-4.3	-107	-26.7	-95.3
Managed savings, stockbroking and sales network	48	41.0	14	3.5	+242.9
Leasing	7	6.0	7	1.8	-
Other companies consolidated line-by-line	4	3.4	3	0.7	+33.3
Companies carried at equity	-205	-175.2	-88	-22.0	+133.0
Consolidation adjustments	51	-	203	-	-74.9
Net income	168	100.0	603	100.0	-72.1



## Operating performance

### Deposit business

Customer assets with the Group (direct and indirect deposits) approached 335,000 billion lire at the end of 1997, having risen during the year by 12%. The principal features of the rise were rapid growth (25.2%) in managed and administered savings, and a slight (0.4%) rise in the level of direct deposits. Restated on a basis allowing for the divestment of Banco Sanpaolo (Spain), the overall level of deposits grew by 12.8%.

The significant improvement in managed savings business boosted San Paolo's share of the "resident customer" market: based on customer assets, the Group's share improved from 8% to 8.2% during the year. The rise in the share of the indirect deposits market was from 8% to 8.6%; the corresponding change as regards direct deposits was a decline of three-tenths of a point, to 7.7%.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Direct customer deposits	160,207	47.9	159,558	53.4	+0.4
• customer deposits	78,290	23.4	71,195	23.8	+10.0
• securities issued	78,389	23.4	84,785	28.4	-7.5
• subordinated liabilities	3,528	1.1	3,578	1.2	-1.4
Indirect customer deposits	174,371	52.1	139,230	46.6	+25.2
• asset management	67,084	20.0	42,600	14.3	+57.5
• asset administration	107,287	32.1	96,630	32.3	+11.0
Financial assets of customers	334,578	100.0	298,788	100.0	+12.0

### Direct deposits

The slight increase in the level of direct customer deposits was the combined effect of rising volumes among the foreign banks and a basically stable picture in terms of traditional sector business in the domestic market.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Current accounts and savings deposits	57,943	36.2	53,348	33.5	+8.6
Certificates of deposit	26,691	16.7	32,383	20.3	-17.6
Bonds	49,452	30.9	49,452	31.0	-
Subordinated liabilities	3,528	2.2	3,578	2.2	-1.4
Repurchase agreements	16,574	10.3	14,899	9.3	+11.2
Other	6,019	3.7	5,898	3.7	+2.1
Direct customer deposits	160,207	100.0	159,558	100.0	+0.4

Shifts in the composition of deposit funds favoured the short term, evidenced by an 8.6% increase in current- and savings-account balances. The

key influence was a continuing decline in yields on government stocks, which narrowed the gap with money-market returns.

Short-term interest rates rose, attracting inflows to the repurchase-agreements segment and inhibiting investment in certificates of deposit; CDs maturing beyond 18 months were also heavily penalized by the tax-rate changes introduced in the summer of 1996.

Deposit funds in the form of bonds were virtually unchanged overall; a downturn recorded by the Parent Bank in the domestic market was counterbalanced by fresh issues by Crediop and its foreign subsidiary Crediop Overseas Bank.

In terms of currencies, deposits in lire edged up 0.2%, while the combined total of foreign-currency deposits rose by 1.5%.

As mentioned earlier, the trend in maturities was towards those repayable in 12 months or less (including demand deposits). Composition by customer residence shifted in favour of the foreign network.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Deposits in lire	131,104	81.8	130,883	82.0	+0.2
Deposits in foreign currency	29,103	18.2	28,675	18.0	+1.5
Demand deposits	52,055	32.5	49,912	31.3	+4.3
Due within 12 months	54,518	34.0	49,453	31.0	+10.2
Due beyond 12 months	53,634	33.5	60,193	37.7	-10.9
• fixed-rate	26,163	16.3	29,435	18.4	-11.1
• floating-rate	27,471	17.2	30,758	19.3	-10.7
Deposits from Italian residents	127,368	79.5	128,890	80.8	-1.2
Deposits from residents of other EU countries	16,153	10.1	16,088	10.1	+0.4
Deposits from residents of other countries	16,686	10.4	14,580	9.1	+14.4

#### *By sector*

In the banking sector, the 0.7% decline in deposits with the Parent Bank was more than offset by increases reported by Banque Sanpaolo and Crediop, respectively of 19.4% (on a lira basis) and 1.5%.

Sanpaolo Bank, Luxembourg, also performed well, its direct deposits rising by 43% (47% on a lira basis).

Among the smaller banks, Crediop Overseas Bank reported a 15% rise (at constant exchange rates) in bond issues supporting Group operations in the international markets; the increase during the year was from US \$3,097 million to US \$3,562 million. In lira terms the rise exceeded 32%, reflecting the substantial appreciation of the dollar during 1997.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Banks and finance companies	162,178	99.9	161,925	99.8	+0.2
• <i>Istituto Bancario San Paolo di Torino</i>	126,719	78.1	127,646	78.6	-0.7
• <i>Crediop</i>	19,697	12.1	19,406	12.0	+1.5
• <i>Banque Sanpaolo - France</i>	5,415	3.3	4,537	2.8	+19.4
• <i>Banco Sanpaolo - Spain</i>	-	-	1,629	1.0	n.s.
• <i>Others</i>	10,347	6.4	8,707	5.4	+18.8
Other companies consolidated line-by-line	147	0.1	357	0.2	-58.8
Eliminations on consolidation	-2,118	-	-2,724	-	-
Total direct customer deposits	160,207	100.0	159,558	100.0	+0.4

## Managed and administered savings

The level of indirect customer deposits rose by 25.2% during 1997 (or 25.7% on a basis restated to allow for the divestment of Banco Sanpaolo, Spain). The driving force was managed savings, the related customer assets climbing by 57.5%.

Within the managed-savings business, the largest contribution came from the mutual investment funds, whose assets rose by 85.2% - from around 28,000 billion lire to over 51,500 billion lire. Life insurance and similar business almost doubled during the year.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Managed savings	67,084	38.5	42,600	30.6	+57.5
• <i>mutual investment funds</i>	51,502	29.5	27,812	20.0	+85.2
• <i>asset management</i>	12,224	7.0	13,072	9.4	-6.5
• <i>insurance</i>	3,358	1.9	1,716	1.2	+95.7
Asset administration	107,287	61.5	96,630	69.4	+11.0
Indirect customer deposits	174,371	100.0	139,230	100.0	+25.2

## By sector

An analysis by company confirms the banking network as the primary channel for savings business. The banks accounted for 96% of customer assets entrusted to the Group's relevant services; the remaining 4% arose from placing activities by Sanpaolo Invest.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Banks and finance companies	167,406	96.0	133,853	96.1	+25.1
• Istituto Bancario San Paolo di Torino	142,514	81.7	114,250	82.1	+24.7
• Banque Sanpaolo - France	21,961	12.6	16,896	12.1	+30.0
• Sanpaolo Bank - Luxembourg	2,355	1.4	1,731	1.2	+36.0
• Banco Sanpaolo - Spain	-	-	475	0.3	n.s.
• Others	576	0.3	501	0.4	+15.0
Sanpaolo Invest sales network	6,965	4.0	5,377	3.9	+29.5
Total indirect customer deposits	174,371	100.0	139,230	100.0	+25.2

Turning to the distribution of savings management business across the various companies, customer assets with Sanpaolo Fondi almost doubled to around 48,500 billion lire, as mutual funds and asset-management business expanded rapidly. Similar considerations apply to the relevant Group companies abroad, among whom Banque Sanpaolo and Sanpaolo Bank SA reported corresponding rises of 30% and 36% respectively.

In the case of Banque Sanpaolo, the upturn increased the bank's share of the consolidated total to 12.6%.

## Lending

At 131,600 billion lire net of writedowns, lending to customers at the end of 1997 was 0.7% down on the level 12 months earlier; due to the divestment of Banco Sanpaolo (Spain) at the end of the year. On a restated basis allowing for the latter change, customer lending edged up 0.4%.

Growth in lending was below the industry average for the year; the Italian branches' share of the resident market declined from 9.6% to 8.9%.

Among the various types of lending, term loans were down by 3.6%, basically reflecting a policy adopted by the Parent Bank aimed at gradually reducing large-customer exposure in the industrial- and construction-loans segment, while expanding in the "small/medium-sized business" and "personal customer" segments. Ordinary lending was down, notably in the cases of overdrafts and portfolio transactions, while there was a rise of over 40% in the level of import/export financing, basically concentrated in the Parent Bank's foreign branches and Sanpaolo Ireland.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Term loans (industrial, construction and public works)	59,868	45.5	62,121	46.9	-3.6
Current accounts	20,197	15.3	20,829	15.7	-3.0
Portfolio transactions	5,976	4.6	6,080	4.6	-1.7
Import-export financing	5,561	4.2	3,954	3.0	+40.6
Repurchase agreements	9,004	6.8	9,448	7.1	-4.7
Other	26,137	19.9	25,910	19.6	+0.9
Non-performing loans	4,878	3.7	4,172	3.1	+16.9
Total customer lending	131,621	100.0	132,514	100.0	-0.7

Reflecting the rising levels of lending at the foreign branches and Group banks abroad, foreign-currency loans grew by 13.7% and accounted for over 21% of total customer lending.

Among the various types of borrower, lending to those in the finance sector declined, leading to a reduction in the relevant proportion of total lending, from 14.4% to 13.2%. By contrast, business with the government sector expanded, the rise being largely concentrated at Crediop.

In the sector represented by individuals and family businesses, the overall lending level declined by 4.5% during the year; the element referring to non-residents increased sharply however, by 42%.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Loans in lire	103,660	78.8	107,915	81.4	-3.9
Loans in foreign currency	27,961	21.2	24,599	18.6	+13.7
Loans repayable on demand	24,168	18.4	26,407	19.9	-8.5
Due within 12 months	41,209	31.3	36,739	27.7	+12.2
Due beyond 12 months	60,181	45.7	64,110	48.4	-6.1
• fixed-rate	26,399	20.0	25,613	19.3	+3.1
• floating-rate	33,782	25.7	38,497	29.1	-12.2
Unspecified maturity	6,063	4.6	5,258	4.0	+15.3
Loans to Italian residents	108,652	82.5	112,038	84.6	-3.0
Loans to residents of other EU countries	14,065	10.7	15,517	11.7	-9.4
Loans to residents of other countries	8,904	6.8	4,959	3.7	+79.6
Loans secured by mortgages	27,795	21.1	29,345	22.1	-5.3
Loans secured by pledges and personal guarantees	20,941	15.9	27,575	20.8	-24.1
Unsecured loans	82,885	63.0	75,594	57.1	+9.6

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Non-financial and family businesses	65,459	49.7	68,563	51.7	-4.5
• resident in Italy	55,584	42.2	61,611	46.5	-9.8
• construction and public works	9,645	7.3	10,728	8.1	-10.1
• other services for sale	8,372	6.4	9,602	7.3	-12.8
• commerce, salvage and repairs	8,231	6.3	8,659	6.5	-4.9
• textiles, leather and footwear, clothing	2,740	2.1	2,818	2.1	-2.8
• energy products	2,710	2.0	2,587	2.0	+4.8
• other	23,886	18.1	27,217	20.5	-12.2
• resident abroad	9,875	7.5	6,952	5.2	+42.0
Governments	21,692	16.5	18,697	14.1	+16.0
Other public entities	7,507	5.7	6,698	5.1	+12.1
Financial institutions	17,316	13.2	19,121	14.4	-9.4
Others	19,647	14.9	19,435	14.7	+1.1
Loans to customers	131,621	100.0	132,514	100.0	-0.7

## By sector

Apart from that experienced by the Parent Bank, increases in customer lending levels were reported by Crediop (2.6%) and Banque Sanpaolo. In the latter case, the rise was boosted by capital injections from the Parent Bank, and amounted to some 15% (or nearly 16% in lira terms).

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Banks and finance companies	133,034	98.6	132,742	98.2	+0.2
• Istituto Bancario San Paolo di Torino	99,502	73.7	99,177	73.3	+0.3
• Crediop	27,620	20.5	26,921	19.9	+2.6
• Banque Sanpaolo - France	4,523	3.4	3,904	2.9	+15.9
• Banco Sanpaolo - Spain	-	-	1,417	1.1	n.s.
• Sanpaolo Ireland - Eire	959	0.7	818	0.6	+17.2
• Others	430	0.3	505	0.4	-14.9
Leasing	1,888	1.4	2,467	1.8	-23.5
Other companies consolidated line-by-line	13	-	18	-	-27.8
Eliminations on consolidation	-3,314	-	-2,713	-	+22.2
Total customer lending	131,621	100.0	132,514	100.0	-0.7

Sanpaolo Ireland stands out among the remaining finance companies, having grown its business volume in the buyer-credit and export-financing segments.

By contrast, Group leasing business declined, in conditions of intense competition and contracting operating margins. The consolidated totals also reflect a securitization operation completed in the previous year relating to loans amounting to some 1,000 billion lire.

## Lending risk profile

The persistent crisis in Italy's real-estate sector contributed significantly to an increase in the level of non-performing loans, primarily concentrated in the construction-lending sector addressed by the Parent Bank.

At Group level, non-performing loans after writedowns rose by 16.9%; restated on a basis allowing for the divestment of Banco Sanpaolo (Spain), the increase amounted to 18.6%.

Problem loans were 9.2% down, while a rise in the total for loans subject to country risk basically resulted from reclassification to that category of lending to residents of countries affected by the current financial crisis in South-East Asia.

	12/31/97		12/31/96		Change (%)
	Net amount (L/bln)	%	Net amount (L/bln)	%	
Non-performing loans	4,878	3.7	4,172	3.2	+16.9
• Istituto Bancario San Paolo di Torino	4,399	3.3	3,620	2.7	+21.5
• Crediop	1	-	2	-	-50.0
• Banque Sanpaolo - France	223	0.2	190	0.1	+17.4
• Banco Sanpaolo - Spain	-	-	58	0.1	n.s.
• Sanpaolo Immobiliare	200	0.1	261	0.2	-23.4
• Other companies	55	0.1	41	0.1	+34.1
Problem loans	3,526	2.7	3,882	2.9	-9.2
Loans exposed to country risk - customers	344	0.3	141	0.1	+144.0
Performing loans	122,873	93.3	124,319	93.8	-1.2
Total loans to customers	131,621	100.0	132,514	100.0	-0.7
Loans exposed to country risk - banks	398		201		+98.0

The changes in the lending profile in terms of non-performing and problem loans are confirmed by the gross figures: respectively a 15.2% rise and a 9.5% decrease.

The relationship of total downward adjustments to the gross lending level improved: the coverage ratio amounted to about 41% in the case of non-performing loans, and 20% in respect of problem loans.

The ratios of non-performing loans to total lending rose during 1997, from 3.2% to 3.7% on an "after writedowns" basis, and from 5.2% to 6.1% on a gross basis.

billions of lire

	12/31/97			12/31/96		
	Gross	Total write-downs	Net value carrying	Gross	Total write-downs	Net value carrying
Non-performing loans	8,257	3,379	4,878	7,167	2,995	4,172
• Istituto Bancario San Paolo di Torino	7,198	2,799	4,399	5,803	2,183	3,620
• Crediop	2	1	1	3	1	2
• Banque Sanpaolo - France	442	219	223	601	411	190
• Banco Sanpaolo - Spain	-	-	-	137	79	58
• Sanpaolo Immobiliare	512	312	200	504	243	261
• Other companies	103	48	55	119	78	41
Problem loans	4,404	878	3,526	4,866	984	3,882
Loans exposed to country risk - customers	431	87	344	203	62	141
Performing loans	123,272	399	122,873	124,677	358	124,319
Total loans to customers	136,364	4,743	131,621	136,913	4,399	132,514
Loans exposed to country risk - banks	475	77	398	318	117	201

## Securities held

The Group's holdings of securities decreased by 5.3% during 1997, to just under 37,600 billion lire. After restatement to allow for the divestment of Banco Sanpaolo (Spain), the reduction amounts to 4.5%.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Investment securities	5,376	14.3	4,524	11.4	+18.8
Dealing securities	32,222	85.7	35,158	88.6	-8.4
<b>Total</b>	<b>37,598</b>	<b>100.0</b>	<b>39,682</b>	<b>100.0</b>	<b>-5.3</b>

The proportion represented by investment securities rose from 11.4% to 14.3%, following the hedging of the interest-rate exposure inherent in longer-term sources of funds, with securities offering potential for capital appreciation.

The dealing portfolio decreased by 8.4%, reflecting diversion of the Parent Bank's surplus liquidity to the interbank market, under a policy which responded to falling interest rates by investing short term.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Debt securities	36,126	96.1	38,632	97.4	-6.5
• Government securities	23,133	61.5	28,202	71.1	-18.0
• other	12,993	34.6	10,430	26.3	+24.6
Equities	1,472	3.9	1,050	2.6	+40.2
Securities denominated in Lire	24,611	65.5	28,773	72.5	-14.5
Securities denominated in foreign currency	12,987	34.5	10,909	27.5	+19.0
Sight securities (including shares)	2,438	6.5	1,442	3.6	+69.1
Securities maturing within 12 months	9,110	24.2	9,920	25.0	-8.2
Securities maturing beyond 12 months	26,050	69.3	28,320	71.4	-8.0
• fixed-rate	18,746	49.9	21,936	55.3	-14.5
• floating-rate	7,304	19.4	6,384	16.1	+14.4
Quoted securities	29,339	78.0	31,707	79.9	-7.5
Unquoted securities	8,259	22.0	7,975	20.1	+3.6

### By sector

The Parent Bank's portfolio represents over 90% of the Group's holdings of securities.

This proportion was lower than a year earlier by around three percentage points, following expansion of the portfolios of Crediop, Banque Sanpaolo and Sanpaolo Ireland; these companies stepped up their financial-market operations, partly on the strength of capital injections from the Parent Bank.



	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Banks and finance companies	37,239	99.0	39,587	99.8	-5.9
• Istituto Bancario San Paolo di Torino	34,003	90.4	37,290	94.0	-8.8
• Crediop	1,078	2.8	815	2.1	+32.3
• Banque Sanpaolo - France	1,424	3.8	958	2.4	+48.6
• Banco Sanpaolo - Spain	-	-	298	0.7	n.s.
• Sanpaolo Ireland	478	1.3	-	-	n.s.
• Others	256	0.7	226	0.6	+13.3
Leasing	179	0.5	-	-	n.s.
Other companies consolidated line-by-line	180	0.5	95	0.2	+89.5
Total securities	37,598	100.0	39,682	100.0	-5.3

## Operations in derivatives

A slight decline in Group operations in the international markets was attributable to lower dealing volumes, partly offset by increased business in interest- and exchange-rate hedging mechanisms.

	12/31/97		12/31/96		Change (%)
	Notional amount (L/bln)	%	Notional amount (L/bln)	%	
Dealing derivatives	389,450	84.9	415,080	88.1	-6.2
Hedging derivatives	69,184	15.1	56,322	11.9	+22.8
Total derivatives	458,634	100.0	471,402	100.0	-2.7
Forward forex transactions	196,187	-	159,955	-	+22.7

## By sector

As in previous years, the derivatives portfolio was largely (91.2%) concentrated at the Bank, the remainder being held by certain companies with authority to deal in such instruments within specified limits. This situation reflects a Group policy aimed at restricting Group operations in derivatives to a few specialized units within selected companies.

	12/31/97		12/31/96		Change (%)
	Amount (L/bln)	%	Amount (L/bln)	%	
Banks and finance companies	479,439	99.8	480,971	99.9	-0.3
• Istituto Bancario San Paolo di Torino	438,127	91.2	452,045	93.9	-3.1
• Crediop	36,671	7.6	23,340	4.9	+57.1
• Banque Sanpaolo - France	3,294	0.7	5,269	1.1	-37.5
• Banco Sanpaolo - Spain	-	-	122	-	n.s.
• Sanpaolo Ireland	551	0.1	-	-	n.s.
• Others	796	0.2	195	-	+308.2
Leasing	727	0.2	682	0.1	+6.6
Other companies consolidated line-by-line	42	-	34	-	+23.5
Eliminations on consolidation	-21,574	-	-10,285	-	+109.8
Total derivatives	458,634	100.0	471,402	100.0	-2.7

## Structure of operations

Disregarding Banco Sanpaolo (Spain) which has since been divested, the Group's network of banking branches expanded by 38 during 1997, to 1,338 outlets. Employees numbered 22,614 at the year-end, 234 fewer than at the end of 1996.

### The branch network

In greater detail, branches numbered 1,275 in Italy and 52 in France, complemented by 11 branches and 12 representative offices elsewhere.

	12/31/97		12/31/96		Change (%)
	Branches	%	Branches	%	
Istituto Bancario San Paolo di Torino	1,286	96.1	1,253	86.6	+2.6
• Italy	1,275	95.3	1,242	85.8	+2.7
• abroad	11	0.8	11	0.8	-
Banque Sanpaolo - France	52	3.9	53	3.7	-1.9
Banco Sanpaolo - Spain	-	-	141	9.7	n.s.
Total branch network	1,338	100.0	1,447	100.0	-7.5

### Employees

On a consistent basis of comparison, the decline during 1997 in the combined workforces of the companies consolidated line-by-line amounted to 1%, and was attributable to the early-retirement scheme introduced by the Bank in the previous year. There were increases in the numbers of employees in certain group companies, in particular among staff engaged the savings management, stockbroking and other rapidly expanding areas.

Divestment of Banco Sanpaolo (Spain) reduced the Group's workforce by 885.

	12/31/97		12/31/96		Change (%)
	Employees	%	Employees	%	
Banks and finance companies	21,887	96.8	23,052	97.1	-5.1
• Istituto Bancario San Paolo di Torino	20,472	90.5	20,752	87.4	-1.3
• Crediop	218	1.0	228	1.0	-4.4
• Banque Sanpaolo - France	1,116	4.9	1,091	4.6	+2.3
• Banco Sanpaolo - Spain	-	-	885	3.7	n.s.
• Others	81	0.4	96	0.4	-15.6
Managed savings, stockbroking and sales network	286	1.2	257	1.1	+11.3
Leasing	131	0.6	127	0.5	+3.1
Other companies consolidated line-by-line	310	1.4	297	1.3	+4.4
Total employees	22,614	100.0	23,733	100.0	-4.7

## Performance by sector

### Banking and finance

Company	Group interest	Assets	Proportion of consolidated assets	Operating income	Proportion of consolidated operating income
	(%)	(L/bln)	(%)	(L/bln)	(%)
Istituto Bancario San Paolo di Torino SpA	-	214,763	77.8	1,508	69.1
Crediop SpA - Rome	60.00	35,163	12.7	267	12.2
Banque Sanpaolo SA - France	100.00	9,066	3.3	69	3.1
Crediop Overseas Bank Ltd - Cayman Islands	100.00	6,586	2.4	7	0.3
Sanpaolo Bank SA - Luxembourg	100.00	2,809	1.0	15	0.7
Sanpaolo Ireland Plc - Eire	100.00	1,797	0.7	124	5.7
Sanpaolo US Financial - USA	100.00	1,722	0.6	-	-
Sanpaolo Immobiliare SpA - Turin	100.00	553	0.2	14	0.6
Sanpaolo Bank AG - Austria	100.00	159	0.1	-	-
Crediop BV - The Netherlands	100.00	49	-	1	0.1
Total		272,667	98.8	2,005	91.8

#### *Istituto Bancario San Paolo di Torino SpA*

The Bank's performance during 1997 is described in detail in the report accompanying its financial statements.

#### *Crediop SpA - Rome (60%)*

This company, in which the Dexia Group acquired a 40% interest in June 1997, operates in the sector represented by the financing of infrastructure projects and public works; its clients are local authorities and other public-sector agencies.

1997 was its first full year of operations, the company having taken over the Parent Bank's public-works financing activity on January 31, 1996.

Net interest income amounted to 327 billion lire, a 1.6% improvement on the previous year; net interest and other banking income was virtually unchanged however, at 341 billion lire.

At around 67 billion lire, net income (after provisions of 137 billion lire to risk reserves) represented an RoE of 6.9%.

Lending to customers totalled 27,620 billion lire at the end of 1997, 2.6% higher than the level a year earlier. The year's lending outflows were 4,763 billion lire, comprising 4,110 billion lire in term loans and 653 billion lire in net

subscriptions for local-authority stocks. The company's share of the government-financing sector amounted to 24.7%, compared with 20.6% at the end of 1996.

The company sourced its funding requirements in the domestic and international markets from a client base which included banks. Deposits totalled 32,124 billion at the year-end, 7.5% above the level at the end of 1996. Crediop received ratings among the highest attributed to Italian financial organizations: an IBCA AA- for long-term debt and an A/B Individual Rating; Moody's long-term debt and Bank Financial Strength ratings were Aa3 and B respectively.

During the year, the company expanded its dealings with local authority clients by providing consultancy on bond issues (BOCs, BOPs, BORs), a market in which it now enjoys a leading 53% share.

*Banque Sanpaolo SA -  
France (100%)*

The consolidated net income of the Banque Sanpaolo Group for 1997 amounted to FF 130 million, more than doubling the 1996 result.

The sharp improvement partly reflected a capital injection from the Parent Bank during the year amounting to FF 1,200 million, to support expansion of operations.

Net interest income (restated in line with Group accounting policies) amounted to FF 505 million, 12% up.

Commission income rose by over 25%, following the reorganization and significant upgrading of the resources deployed in professional savings-management activities.

At FF 793 million, net interest and other banking income was 16% higher than in 1996. Despite a rise in investment expenditure, largely in preparation for the Euro, operating income rose from FF 121 million in the previous year to FF 236 million.

A prudent approach in reviewing the loans portfolio led to a 54% increase in writedowns; the ratio to total lending of non-performing loans after writedowns declined to below 5%.

The year's key figures for operations reflect the full effect of acquiring the branch network of Banque Veuve Morin-Pons in the first half 1996. Year-end customer deposits were 18% up at FF 18.4 billion, while the customer-lending portfolio after writedowns reached FF 15.4 billion (15 % higher).

*Crediop Overseas Bank Ltd -  
Cayman Islands (100%  
via Crediop)*

The Group's interest in this company is held by Crediop; its important mission is that of supporting Crediop's debt-finance raising activities in the international markets.

Medium-term notes accounted for the bulk of the company's bond issues in 1997, which totalled US \$850 million, taking the total to US \$3,500 million (15% higher than at the end of 1996). Net income was 14% up, at US \$4 million.

*Sanpaolo Bank SA -  
Luxembourg (100%)*

This bank made further progress in its specialized sector, Private Banking, which it entered during 1995.

The results in 1997 were significant: at Ecu 14.8 million, net interest and other banking income rose by 9.4%, boosted by an increase of over 22% in net commissions. Tight control of operating expenditure contributed to a 33.1% improvement in operating income, which amounted to Ecu 7.6 million.

However, a larger tax charge and increased provisions depressed net income, which at Ecu 2.9 million compares with Ecu 3.6 million in 1996.

The operating margins benefited from a rising trend in volumes: the level of total customer deposits was 20.9% up by the year-end, at Ecu 2,358 million. The component represented by direct deposits increased by 43.4% to Ecu 1,144 million, while indirect deposits increased to Ecu 1,214 million including Ecu 288 million relating to asset-management services.

*Sanpaolo Ireland Plc -  
Eire (100%)*

This company has operated within the Dublin financial center since 1994, primarily focusing on export financing. During 1997, the company applied to the Irish authorities to change its status from that of a finance company to a bank, with a view to expanding the range of operations and containing the cost of deposit-taking activities.

During the year, the company received a capital injection designed to facilitate growth of the business. Year-end shareholders' equity (excluding net income for the year) amounted to US \$427 million, compared with US \$240 million a year earlier.

Net income was US \$62.8 million, against US \$14.5 million in 1996. The key factors in the jump included gains of US \$36 million on cancellation of currency-swap agreements with the Parent Bank. These agreements had been put in place to hedge exchange-rate exposure on capital resources received in lire, and had lost their relevance due to changes in the composition of the subsidiary's lending and deposits. Another factor was a change towards the end of the year whereby injections from the Parent Bank were effected in US dollars, the subsidiary's reference currency.

*Sanpaolo US Financial Co -  
USA (100%)*

This company raises capital for the Group by issuing commercial paper in the international markets. Instruments in issue during 1996 averaged US \$1.4 billion, above the 1996 value by 59%.

The company's draft financial statements indicate a small profit, as in the previous year.

*Sanpaolo Immobiliare SpA -  
Turin (100%)*

Sanpaolo Immobiliare's business is the recovery of non-performing mortgage loans taken over from the Bank in earlier years. Its loss for 1996 was 39.2 billion lire, compared with a 1996 loss of 114 billion lire.

The loss largely resulted from an extraordinary charge (almost 34 billion lire) representing the loss on disposal of the company's interest in Immobiliare Colonna '92 Srl, an operation which formed part of the rationalization during 1997 of the Group's equity investments.

Other factors included further writedowns of 20 billion lire to align the loans portfolio with updated estimated realizable values for properties charged as security.

The year's continuing loan-recovery operations resulted in agreements for the sale of properties totalling over 42 billion lire. The portfolio remaining at the year-end totalled 210 billion lire.

*Sanpaolo Bank AG - Austria  
(100% via Sanpaolo Bank  
Luxembourg)*

1997 was the second year of operations in the Private Banking sector for Sanpaolo Bank in Austria, its lending business having been transferred to the Parent Bank's Vienna branch. Net interest and other banking income amounted to Ats 37.7 million, 10.5% higher than in 1996.

The main factor in the improvement was a 48.7% rise in net commissions, which amounted to Ats 11.6 million.

Strict control of administrative costs - involving cuts in staffing and relocation of the head office - contributed to a significant reduction in the operating loss, from Ats 7 million in 1996 to Ats 1.7 million.

The principal objective of operating strategy remained that of increasing banking aggregates. A 30.5% rise in deposits derived mainly from indirect business: deposits in this category reached Ats 1,261 million by the end of the year, while direct deposits amounted to Ats 917 million.

*Crediop BV - The Netherlands* (100% via Crediop) This Crediop-owned holding company reported 1997 net income of Nlg 24.2 million, compared with Nlg 1 million in the previous year. During the year, the company divested its principal asset, a holding in Cofiri & Partners BV acquired under the Aeroporti di Roma SpA privatization program. The gain on this transaction amounted to Nlg 23.7 million.

**Managed savings,  
stockbroking and the sales  
network**

Company	Group interest	Assets	Proportion of consolidated assets	Operating income	Proportion of consolidated operating income
	(%)	(L/bln)	(%)	(L/bln)	(%)
Sanpaolo Fondi SpA - Turin	96.04	198	0.1	22	1.0
Intersim SpA - Milan	100.00	205	0.1	44	2.0
Sanpaolo Invest S.I.M. SpA - Rome	100.00	154	-	62	2.8
Sanpaolo Asset Management S.I.M. Fiduciaria SpA - Milan	100.00	38	-	3	0.1
Sanpaolo Fiduciaria SpA - Turin	100.00	4	-	1	0.1
Sanpaolo Gestion Internat. SA - Luxembourg	100.00	4	-	1	0.1
Total		603	0.2	133	6.1

*Sanpaolo Fondi SpA - Turin  
(96.04%)*

Development of the mutual funds market during 1997 went well beyond mere consolidation of the rising trend apparent in the previous year. As yields on government stocks fell and savers sought alternative investments, a huge net inflow to the Italian mutual funds swelled their combined assets to over 143,000 billion lire, from 58,000 billion lire a year earlier.

In extremely competitive market conditions, the company increased the market lead it secured in 1996. Largely on the strength of business obtained via the Parent Bank's branch network, assets under management all but doubled, reaching around 48,460 billion lire (compared with just under 24,500 billion lire a year earlier).

The corresponding increase in market share was from 11.6% to 12.3%.

The rise in the company's fund assets was reflected in the financial results: net commissions leaped by 63.6% to 37.3 billion lire (1996: 22.8 billion lire); net income of 11.2 billion lire compares with 6.4 billion lire in the previous year, benefiting from the results from liquidity management, and of operating-cost control which contained the growth of expenditure despite both higher volumes and an extended product range.

With a view to total ownership of the subsidiary, at the end of the year the Parent Bank acquired SAI's 17.65% interest and reached agreement in principle with the Hambros Group for the purchase of the remaining 3.96%.

*Intersim SpA - Milan (100%)*

Intersim operates in the stockbroking sector, where it is among the leading sector firms with banking-industry origins, in terms of traded volumes. The company raised its level of business significantly in 1997's easier market conditions.



Client-account dealings in equities more than doubled the 1996 volume, reaching around 41,200 billion lire. Trading of debt-securities increased by 11%, to a volume of around 24,900 billion lire. Own-account dealings were down overall, and fell by 64% in the case of bonds, to 12,300 billion lire; the corresponding volume in the equities sector rose more than six-fold, to 7,300 billion lire.

The company confirmed its status as an important Market Maker in derivatives. The relevant volumes amounted to 31,400 billion lire on own account (47.4% up) and 27,800 billion lire on client account (45.7% higher).

The financial results benefited dramatically from the sharply increased volumes: net commissions shot up by 96.6% to 51.5 billion lire (1996: 26.2 billion lire), while gains on own-account dealings in stocks and derivatives of 13.3 billion lire compare with 2.3 billion lire in the previous year. These improvements were reflected in a more than four-fold increase in pre-tax income, which reached 43.5 billion lire.

Net income amounted to 20.1 billion lire, against 4.3 billion lire in 1996.

*Sanpaolo Invest S.I.M. SpA - Rome (100%)*

Sanpaolo Invest S.I.M. distributes products complementary to those offered via the banking network, deploying a team of 1,052 financial advisors. The company's fortunes were helped by easier market conditions during 1997.

Total dealing volume climbed by 60% to reach 6,560 billion lire. The managed savings sector absorbed 74% of the year's product placings, involving an increase of over 100% in mutual-fund shares, which passed the 4,000 billion lire mark. The remaining deposit aggregates also rose: the network of advisors handled securities worth a total of 1,037 billion lire, while insurance premiums receipts totalled 482 billion lire (1996: 295 billion lire).

Excellent operating results were accompanied by tight control of administrative costs. The latter were roughly stable despite the increased volumes. Also reflecting a 95% jump in net commissions, operating income more than trebled to reach 62 billion lire.

Provisions to risk reserves and for taxation totalled 11.5 billion lire. Net income amounted to 14.5 billion lire, compared with 2.1 billion lire in 1996.

*Sanpaolo Asset Management S.I.M. Fiduciaria SpA (100% including 4.1% via Sanpaolo Bank SA - Luxembourg)*

The company operates in the management of investment portfolios. Its business volumes rose dramatically during 1997, reflecting the implementation stage of a project aimed at focusing the Group's asset-management activities within this company.

Gross inflows to the company's funds increased almost by a factor of 10, to 10,053 billion lire (1996: 1,013 billion lire); aggregate fund assets climbed

from 2,939 billion lire to 12,026 billion lire. These successes were the reward of intensive marketing effort on the part of the banking network, and a widening of the product range to include, for example, fund-based asset management services.

Net interest and other banking income rose by around 44% on the strength of the higher operating volumes, to 15.6 billion lire.

Staff increases needed to handle the sharply higher volumes were accompanied by an effective containment of the associated rise in operating expenditure. Auguring well for future growth, net income rose to 953 million lire.

*Sanpaolo Fiduciaria SpA -  
Turin (100%)*

This company operates in passive trust management. Its results in a favourable year included a 20.9% increase in assets under management, to around 1,780 billion lire, reflecting further measures to enhance the company's profile in the context of business placed via the Parent Bank's branch network.

The improved figures were achieved despite transferring a large number of customer contracts to Sanpaolo Asset Management S.I.M. Fiduciaria, as part of a program to rationalize the Group's savings management activities. Net income of 118 million lire compares with an approximate break-even in the previous year, reflecting both a 10% rise in commissions and effective containment of personnel-related and other administrative costs.

## Leasing

Company	Group interest	Assets	Proportion of consolidated assets	Operating income	Proportion of consolidated operating income
	(%)	(L/bln)	(%)	(L/bln)	(%)
Sanpaolo Leasint SpA - Milan	100.00	2,538	0.9	35	1.6
Sanpaolo Leasing GmbH - Austria	100.00	-	-	-	-
Total		2,538	0.9	35	1.6

### *Sanpaolo Leasint SpA - Milan (100%)*

Sanpaolo Leasint operates in the finance leasing sector. It reported 1997 net income of 7.2 billion lire, compared with 5.6 billion lire in the previous year, an improvement achieved despite shrinking margins in fiercely competitive conditions, through an effective policy of cost-containment.

The year's new business, largely secured via the Parent Bank's branch network, was at a similar level to 1996, and totalled 1,229 billion lire represented by 6,099 agreements. Assets on lease stood at 2,722 billion lire at the end of 1997, giving a market share of 5.07%, barely changed on the previous year.

During the year, the company acquired Aparc Leasing SpA, now Leasint Servizi Integrati SpA, a finance-leasing company specializing in the motor segment. The new subsidiary's 1997 result was modest at around 100 million lire, although its contribution is expected to grow significantly in the future.

## Insurance

### *Sanpaolo Vita SpA - Milan (100%)*

The premium revenues of Italy's insurance companies of banking-industry origin jumped by 111% in 1997, reaching 12,000 billion lire.

In the case of Sanpaolo Vita, the rise was better than three-fold, to 1,363 billion lire. The year's performance was boosted by the launching of innovative products, alongside development of the existing business based on *Integra* and *Valora*.

The steep rise in new business enhanced the company's competitive position, consolidating a presence among the leaders in the banking-channel insurance segment conferred by a market share which climbed from 6.5% to 11.4%. Actuarial and similar reserves stood at 2,674 billion lire at the year-end.

While the insurance-business margin climbed 30% to 14.9 billion lire, the growth in volumes was less than fully reflected in the bottom line. Net income was affected by falling interest rates and a less beneficial result from extraordinary items than in 1996; it declined by 35% to 10.8 billion lire.

## Tax collection

Company	Group interest	Assets	Proportion of consolidated assets	Operating income	Proportion of consolidated operating income
	(%)	(L/bln)	(%)	(L/bln)	(%)
Sanpaolo Riscossioni Genova SpA - Genoa	100.00	187	0.1	6	0.3
Sanpaolo Riscossioni Prato SpA - Prato	100.00	47	-	3	0.1
Esatri SpA (a) - Milan	31.50	1,835	-	57	n.s. (b)

(a) Income before extraordinary items (rather than operating income).

(b) Not significant, since the company is carried at equity.

*Sanpaolo Riscossioni Genova SpA - Genoa (100%)* The company operates the Genoa provincial tax-collection concession. After a transfer to the reserve for general banking risks, net income amounted to 2.1 billion lire, a 36% improvement on the 1996 result.

Net fees from ordinary operations rose to 38 billion lire; those derived from cases requiring action to recover overdue debts were 41% higher, offsetting a downturn in financial income resulting from a higher level of advance payments to the tax authorities.

*Sanpaolo Riscossioni Prato SpA - Prato (100%)* This company's tax-collection concession covers the province of Prato. Its 1997 result was net income of 1.6 billion lire, compared with an approximate break-even in 1996.

A better set of results reflects a rise in "overdue" cases handled, revenues in this connection increasing by 33%. An effective cost-containment policy secured savings in operating expenditure of around 18% (on a consistent basis of comparison).

*Esatri SpA - Milan (31.5%)* This company's collection concession covers Milan, Lodi, Varese, Pavia and Brescia; the Group's interest was acquired following the transfer of Sanpaolo Esattorie SpA and Cameri SpA in 1995. Net income amounted to 18.5 billion lire, representing a jump of 75% compared with the 1996 result.

## Consumer credit

### *Finconsumo SpA - Turin (20%)*

This consumer-credit company has achieved first-class profitability and a constantly growing market share.

Its draft financial statements reveal net income of 10 billion lire, representing an RoE exceeding 30%. In early 1998, the Parent Bank purchased a further 30% interest, in an operation which resulted in joint control with the Santander Group. This decision was based on strategic considerations, combined with the company's excellent earnings prospects.

## Others companies

### *SEP Servizi e Progetti SpA-Turin (80%)*

The company, which operates in value-added telematic services, reported 1997 revenues up 42% at 8.4 billion lire (1996: 5.8 billion lire), reflecting a proactive marketing strategy. Net income of 194 million lire compares with 93 million lire in 1996.

### *Apoké Six Srl - Milan (100%)*

This company was formed as part of the Uno Holding Group restructuring plan to take control of Beni Stabili and develop that company's real-estate portfolio. During 1997, it initiated a project aimed at unified management of various properties owned by groups holding loans from the Parent Bank under debt re-scheduling schemes. The draft financial statements report end-1997 shareholders' equity of 3.5 billion lire, and a net loss of 6.1 billion lire derived from provisions for potential losses on equity investments.

### *Apoké Two Srl in liquidation - Milan (100%, including 5.33% via Apoké Six Srl)*

Apoké Two was formed to manage the liquidation of the Uno Holding Group. Its draft 1997 financial statements show negative shareholders' equity of 11.8 billion lire, a considerable improvement - which follows the waiving of certain loans by the Parent Bank - on the position a year earlier. The remaining deficit should be absorbed on finalizing the liquidation, given the re-scheduling of the Uno Group's debts to the Parent Bank; the costs in the latter connection have been reflected in writedowns.

### *Sotim Srl - Milan (100% including 17.7% via Euke Srl)*

Sotim (formerly Situr) is the holding company of a group operating mainly in real-estate and the vacation industry, and was acquired by the Parent Bank in 1996. Its vacation-trade investments include a controlling interest in Valtur.

The draft 1997 financial statements report a net loss of 1.6 billion lire.

Under an agreement relating to the divestment of the company, reached at the end of January 1998, the sale will be accompanied by settlement on

assisted terms of the Sotim Group's debts to San Paolo and other banks. An estimate of the costs on sale is reflected in the Parent Bank's 1997 statement of income.

*Euke Srl in liquidation -  
Milan (100%)*

The company's sole asset is a 17.7% interest in Sotim. The liquidation process should be completed by the middle of 1998, following sale of the interest mentioned. The resulting loss of around 4 billion lire has already been recognized for accounting purposes by the Parent Bank.

*Prospettive 2001 SpA -  
Milan (63.75%)*

This company was formed under the Sotim Group debt-rescheduling plan. It holds all the group's unsecured bank borrowings.

The company will incur a loss of around 13 billion lire from the implementation of the sale agreement relating to Sotim (mentioned above), which includes settlement of the outstanding loans on assisted terms. The Parent Bank has already recognized its share of the loss, for accounting purposes.

*Gedeam I. G. Inc. SA -  
Luxembourg (49.3%)*

This Luxembourg-based holding company has an interest of around 90% in Società Acqua Pia Antica Marcia and also controls a number of Italian real-estate companies. The draft 1997 financial statements report a net loss of around 10 billion lire.

*C. Fin SpA -Rome (100% via  
Crediop)*

C. Fin is a finance company whose share capital of 15 billion lire is owned by Crediop. It continued its receivables management activity in relation to amounts due from EFIM Group companies during 1997. Its 1997 financial statements report a net loss of 1.1 billion lire.

## Significant events after the year-end

### Performance in early 1998

The consolidated results for the first two months of 1998 reflect a trend reversal which is even more marked than that reported by the Parent Bank.

Consolidated net interest income for January and February rose slightly compared with the same period of last year, an improvement not shared by the Parent Bank. Rises similar to those reported by the latter occurred in income from services (up by over 40%) and profits on financial transactions (over 10%), although the latter increase was inflated by exceptional income.

Among the subsidiaries, the banking-sector companies at home and abroad all reported improved margins, as did those operating in savings management and stockbroking. The business in the last-mentioned sector benefited from easy conditions in the financial markets and exceptional growth in dealing volumes.

### Outlook

The Parent Bank's healthy prospects in terms of the various business margins and the bottom line are shared by the Group.

Consolidated net interest and other banking income can be expected to improve, on the strength of contributions from the Bank and subsidiaries based on rising income from services; operating income is also forecast to gain ground. We predict a strong recovery in net income, partly reflecting a return of loan writedowns to more normal levels.

Turin, March 23, 1998

The Board of Directors





## Report of the Board of Statutory Auditors

### on the consolidated financial statements as of December 31, 1997

The 1997 consolidated financial statements, presented for approval by the shareholders and submitted to us within the legal framework, were prepared as required by Decree No. 87 dated January 27, 1992 and the Bank of Italy's regulations dated January 16, 1995.

The consolidated financial statements comprise the balance sheet, the statement of income and the explanatory notes, accompanied by the report on operations and are summarized below:

		<i>millions of lire</i>
<b>CONSOLIDATED BALANCE SHEET</b>		
Assets		256,717,795
Liabilities		246,485,541
Shareholders' equity:		
Attributable to minorities		470,677
Attributable to the Group		9,761,577
Guarantees		22,898,664
Commitments		39,424,283
		<i>millions of lire</i>
<b>CONSOLIDATED STATEMENT OF INCOME</b>		
Revenues		21,346,965
Costs		21,110,484
Profit (loss) attributable to minorities		(68,682)
Net income		167,799

The consolidated financial statements are presented on a comparable basis to those of the previous year. Changes in the scope of consolidation have taken account, in particular, of the sale of Banco Sanpaolo and the initial phases of disposal of certain subsidiary companies.

The explanatory notes describe the consolidation principles and the accounting policies adopted as well as the detailed analysis of the balance sheet and income statement. The notes also include additional information, beyond that normally required, necessary to give a true and fair view of the financial position of the companies included in the scope of consolidation.

The report on operations presented by the Board of Directors provides a full and complete description of the financial and operating position of the companies included in the scope of consolidation, both in relation to 1997 and to events which took place after the end of that year.

We agree with the accounting policies adopted, explained in detail in the explanatory notes, by the Board of Directors in the presentation of the

consolidated financial statements which are consistent with those adopted by the Bank.

The companies consolidated have been correctly identified and include the Bank, its subsidiaries and companies over which it exercises significant control as required by Articles 4 and 19 of Decree Law 87/92.

The financial statements used for the consolidation were those prepared as of December 31, 1997 and approved by the respective Shareholders' Meetings or recommended by the Boards of Directors for approval by subsequent Shareholders' Meetings. These financial statements are examined by the respective Boards of Statutory Auditors and by the external auditors; accordingly, such statements have not been specifically examined by this Boards of Statutory Auditors.

The principles of consolidation conform to legal requirements and have been correctly applied. In particular,;

- the Bank and its subsidiaries in the banking, financial and related sectors have been consolidated on a line-by-line basis;
- shareholdings in subsidiaries which have not been consolidated on a line-by-line basis because they do not operate in the banking, financial and related sectors, shareholdings in companies subject to significant influence and shareholdings in subsidiaries in liquidation are carried at equity;
- all other shareholdings are carried at cost and written down to reflect any permanent losses in value;
- all significant transactions between subsidiaries affecting the balance sheet or income statement and intraGroup transaction are eliminated ;
- adjustments and provisions recorded solely for tax 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 auditors, Arthur Andersen SpA, we confirm that the consolidated financial statements for 1997 reflect the accounts of the Bank and the information received from the other companies included in the scope of consolidation.

Turin, April 4, 1998

The Board of Statutory Auditors

## Report of the Independent Auditors on the consolidated financial statements

Pursuant to Article I of Presidential Decree 136 of March 31, 1975

*(Translation from the original issued in Italian)*

To the Shareholders of  
Istituto Bancario San Paolo di Torino SpA:

1. We have audited the consolidated financial statements of ISTITUTO BANCARIO SAN PAOLO DITORINO SpA ("Istituto") and subsidiaries as of and for the year ended December 31, 1997. 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, reference should be made to our auditors' report dated April 2, 1997. The financial statements of certain subsidiaries and of certain enterprises in which the Istituto has a significant influence, representing respectively 5.3% of consolidated assets and 4.5% of consolidated interest income and similar revenues, have been examined by other auditing firms, who have provided us their reports. Our opinion expressed in this report, insofar as it relates to the amounts included in the consolidated financial statements for such companies, and 4.5% consolidated interest income and other revenue, 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 the consolidated financial statements. Therefore, we certify the consolidated financial statements of the Istituto Bancario San Paolo di Torino SpA and its subsidiaries as of December 31, 1997.
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) The Istituto and the other consolidated companies included in consolidation will charge the tax on stockholders' equity (Lire 87 billion attributable to the Group) against stockholders' equity when paid, as permitted by Decree No. 394/92, converted into Law No. 461/92.
  - b) In the preparation of the consolidated financial statements as of and for the year ended December 31, 1997, the Group has modified certain

accounting criteria with respect to those used in the preceding year. In particular, the method of determining the cost of short-term securities was changed from LIFO (calculated on the basis of the average cost for the year for net increases) to moving average, head office accounts held by foreign branches and investments stated in foreign currencies have been translated at current exchange rates (instead of historic exchange rates) and a reserve has been provided to cover the costs related to long-term service payments to employees.

The reasons for these changes and the related effects on the balance sheet and statement of income are illustrated in detail in the explanatory notes.

- c) On the basis of the requirements of International Accounting Standard IAS 12 (revised in 1996) related to accounting for deferred tax assets and liabilities, a deferred tax asset (amounting to Lire 286 billion) has been recorded in the consolidated financial statements on the temporary differences between the book and the tax values of assets and liabilities. This asset accrued substantially in 1997 as a result of the provision for risks and charges and valuation adjustments of receivables, deductible for tax purposes in future years, together with the rendering tax deductible the amortization of differences deriving from mergers recorded in the financial statements as a result of the payment of the "substitute tax" ("imposta sostitutiva"). The adoption of the same accounting principle in the preparation of the financial statements for 1996 would not have had a material effect at that date.
- d) On February 6, 1998, the Board of Directors of the Istituto formally approved the preparation together with Istituto Mobiliare Italiano S.p.A. of a business, financial and shareholding plan aimed at the integration of the two Banks. This project should receive the approval of the respective Boards of Directors and Extraordinary Shareholders' Meetings of both Banks.

ARTHUR ANDERSEN SpA  
s/Giulio Lubatti - Partner

Turin, March 31, 1998

## **Consolidated financial statements**

## Consolidated balance sheet

			<i>millions of lire</i>
<b>Assets</b>	12/31/97	12/31/96	
10. Cash and deposits with central banks and post offices	761,541	792,952	
20. Treasury bills and similar bills eligible for refinancing with central banks	12,817,023	16,704,758	
30. Due from banks	54,678,831	58,022,178	
a) repayable on demand	8,375,905	7,728,226	
b) other deposits	46,302,926	50,293,952	
40. Loans to customers	131,620,717	132,514,145	
including:			
— loans using public funds	115,626	123,672	
50. Bonds and other debt securities	23,309,113	21,927,033	
a) public entities	15,222,633	14,204,685	
b) banks	5,877,228	6,531,683	
including:			
— own bonds	2,293,480	2,548,748	
c) financial institutions	934,033	360,458	
including:			
— own bonds			
d) other issuers	1,275,219	830,207	
60. Shares, quotas and other equities	1,472,057	1,049,938	
70. Equity investments	720,576	744,959	
a) carried at equity	349,129	255,703	
b) other	371,447	489,256	
80. Investments in Group companies	175,015	524,436	
a) carried at equity	175,015	524,351	
b) other	-	85	
90. Goodwill arising on consolidation	20,580	11,076	
100. Goodwill arising on application of the equity method	153,845	201,299	
110. Intangible fixed assets	460,226	509,310	
including:			
— start-up costs	6,197	8,662	
— goodwill	192	1,816	
120. Tangible fixed assets	2,805,412	3,199,239	
150. Other assets	16,175,404	14,965,789	
160. Accrued income and prepaid expenses	11,547,455	11,051,106	
a) accrued income	10,928,310	10,589,772	
b) prepaid expenses	619,145	461,334	
including:			
— discounts on bond issues	129,180	143,710	
<b>Total assets</b>	<b>256,717,795</b>	<b>262,218,218</b>	

millions of lire

<b>Liabilities and shareholders' equity</b>	<b>12/31/97</b>	<b>12/31/96</b>
110. Due to banks	52,259,234	60,146,731
a) repayable on demand	8,089,803	7,752,106
b) time deposits or with notice period	44,169,431	52,394,625
20. Due to customers	78,170,890	71,073,445
a) repayable on demand	49,668,476	47,155,643
b) time deposits or with notice period	28,502,414	23,917,802
30. Securities issued	78,388,582	84,785,413
a) bonds	49,451,726	49,452,215
b) certificates of deposit	26,691,009	32,383,468
c) other	2,245,847	2,949,730
40. Public funds administered	119,112	121,123
50. Other liabilities	19,644,922	18,020,037
60. Accrued expense and deferred income	12,695,563	12,679,823
a) accrued expense	12,047,204	11,749,582
b) deferred income	648,359	930,241
70. Provision for termination indemnities	724,212	849,945
80. Provisions for risks and charges	955,502	1,025,044
a) pensions and similar commitments	10,708	79,189
b) taxation	492,998	537,563
c) risks reserve arising on consolidation	-	-
d) other	451,796	408,292
100. Reserve for general banking risks	22,005	11,400
110. Subordinated liabilities	3,527,524	3,578,341
120. Negative goodwill arising on consolidation	38,589	54,010
130. Negative goodwill arising on application of the equity method	6,228	15,070
140. Minority interests	470,677	59,831
150. Capital	8,159,929	8,159,929
160. Additional paid-in capital	275,000	275,000
170. Reserves	1,091,916	757,526
a) legal reserve	205,960	176,762
b) reserve for own share/treasury stock	-	-
c) statutory reserves	65,925	36,573
d) other reserves	820,031	544,191
180. Revaluation reserves	111	2,536
200. Net income for the year	167,799	603,014
<b>Total liabilities and shareholders' equity</b>	<b>256,717,795</b>	<b>262,218,218</b>

<b>Guarantees and commitments</b>	<b>12/31/97</b>	<b>12/31/96</b>
110. Guarantees given	22,898,664	19,573,430
including:		
- acceptances	387,093	322,317
- other guarantees	22,511,571	19,251,113
20. Commitments	39,424,283	37,032,894
including:		
- repurchase agreements	-	-

## Consolidated statement of income

			<i>millions of lire</i>
	1997	1996	
10. Interest income and similar revenues	17,205,628	20,599,249	
<i>including from:</i>			
– loans to customers	11,166,506	13,334,814	
– debt securities	3,006,248	3,762,591	
20. Interest expense and similar charges	-13,075,889	-15,967,072	
<i>including on:</i>			
– deposits from customers	-3,448,862	-4,205,524	
– securities issued	-6,344,141	-7,713,688	
30. Dividends and other revenues	106,984	30,889	
a) from shares, quotas and other equities	94,370	21,481	
b) from equity investments	12,614	9,408	
c) from investments in Group companies	-	-	
40. Commission income	2,157,152	1,528,413	
50. Commission expense	-349,649	-283,763	
60. Profits (losses) on financial transactions	343,126	998,933	
70. Other operating income	412,669	369,944	
80. Administrative costs	-4,313,476	-4,464,341	
a) payroll	-2,860,190	-2,985,511	
<i>including:</i>			
– wages and salaries	-1,951,354	-2,050,708	
– social security charges	-786,673	-791,622	
– termination indemnities	-121,060	-131,443	
– pensions and similar commitments	-1,103	-11,738	
b) other	-1,453,286	-1,478,830	
90. Adjustments to intangible and tangible fixed assets	-544,812	-584,558	
100. Provisions for risks and charges	-100,370	-65,211	
110. Other operating expenses	-71,439	-67,163	
120. Adjustments to loans and provisions for guarantees and commitments	-2,008,293	-1,587,820	
130. Writebacks of adjustments to loans and provisions for guarantees and commitments	658,313	611,259	
150. Adjustments to financial fixed assets	-20,266	-42,702	
160. Writebacks of adjustments to financial fixed assets	2,579	54	
170. Income (losses) from investments carried at equity	-204,686	-88,454	
<b>180. Income from operating activities</b>	<b>197,571</b>	<b>987,657</b>	
190. Extraordinary income	460,514	124,327	
200. Extraordinary expenses	-190,296	-142,943	
<b>210. Extraordinary income, net</b>	<b>270,218</b>	<b>-18,616</b>	
230. Change in reserve for general banking risks	-10,605	-400	
240. Income taxes	-220,703	-368,400	
250. Minority interests	-68,682	2,773	
<b>260. Net income for the year</b>	<b>167,799</b>	<b>603,014</b>	



# **Explanatory notes to the consolidated financial statements**

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## **Introduction - Background information on the consolidated financial statements**

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- Form and content of the consolidated financial statements
- Scope of consolidation
- Financial statements used and accounting reference date
- Consolidation principles
- Comparison with the 1996 consolidated financial statements
- Changes in accounting policies
- Audit of the consolidated financial statements
- Translation into English

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## **Part A - Accounting policies**

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- Section 1 - Description of accounting policies
- Section 2 - Adjustments and provisions recorded for fiscal purposes

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## **Part B - Consolidated balance sheet**

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- Section 1 - Loans
- Section 2 - Securities
- Section 3 - Equity investments
- Section 4 - Tangible and intangible fixed assets
- Section 5 - Other assets
- Section 6 - Payables
- Section 7 - Provisions
- Section 8 - Capital, reserves, reserve for general banking risks and subordinated liabilities
- Section 9 - Other liabilities
- Section 10 - Guarantees and commitments
- Section 11 - Concentration and distribution of assets and liabilities
- Section 12 - Administration and dealing on behalf of third parties

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## **Part C - Consolidated statement of income**

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- Section 1 - Interest
- Section 2 - Commissions
- Section 3 - Profits (losses) on financial transactions
- Section 4 - Administrative costs
- Section 5 - Adjustments, writebacks and provisions
- Section 6 - Other consolidated statement of income captions
- Section 7 - Other information regarding the consolidated statement of income

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## **Part D - Other information**

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- Section 1 - Directors and Statutory Auditors

## Introduction - Background information on the consolidated financial statements

### Form and content of consolidated financial statements

The Bank's consolidated financial statements for 1997 have been prepared pursuant to Decree No 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 16, 1995, which replaced the earlier instructions dated July 15, 1992.

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, presented in comparative form with respect to the prior year, provide all the information required by law, including that considered necessary in order to present a true and fair view of the financial and operating situation. The tables required by the Bank of Italy are numbered in accordance with the regulations dated January 16, 1995.

The following schedules are attached to the consolidated financial statements:

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

### Scope of consolidation

The consolidated financial statements comprise the accounts of Istituto Bancario San Paolo di Torino S.p.A. and of those banking and finance companies in which it controls, directly or indirectly, the majority of the voting rights at an ordinary meeting. Companies whose operations contribute to the activities of the Group are also consolidated on the same basis, with the exception of companies in liquidation, which are carried at equity.

Investments in subsidiaries whose activities differ from those of the rest of the Group are valued using the equity method, together with holdings in companies subject to significant influence given that San Paolo controls at least a fifth of their share capital. As an exception, Istituto per il Credito Sportivo is prudently carried at cost, in view of its imminent transformation into a limited company.

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

Changes in the scope of consolidation during the year have had no significant effect on the consolidated financial statements. They relate to:

- the sale of Banco Sanpaolo SA in December 1997;
- the valuation at equity of Crediop Finance PLC and Sanpaolo US Holding Co, formerly consolidated line-by-line, following the process of liquidation of the companies begun in 1997;
- the liquidation of SPF Promotio Sim;
- the valuation at equity of Inter-Europa Bank Rt, acquired as part of an exchange of holdings with Sanpaolo Bank Holding on June 30, 1997;
- the valuation at equity of Prospettive 2001 SpA, control having been acquired under a restructuring plan for the Situr Group;
- the line-by-line consolidation of Tobuk Ltd, formed during the year by the Sanpaolo Ireland subsidiary to support its expansion in corporate finance;
- the line-by-line consolidation of Leasint Servizi Integrati SpA, acquired from Sanpaolo Leasint during the year.

An interest in Banaco SA, acquired as part of the exchange of holdings with Sanpaolo Bank Holding on June 30, 1997, is carried at cost despite representing significant influence on the part of the Bank by virtue of a holding of at least one fifth, in that it is not regarded as a long-term investment.

The Group's percentage ownership of certain companies previously consolidated line-by-line or carried at equity also changed during the year, following various purchases and divestments. The interests affected are those in Crediop (a reduction from 100% to 60%), BNC Assicurazioni (down from 100% to 30%), Sotim Srl (up from 82.24% to 100%), Sanpaolo Fondi SpA (up from 78.39% to 96.04%); all were previously consolidated line-by-line or carried at equity.

In the case of Crediop, the following effects of the 40% divestment should be taken into account when making comparisons with the 1996 figures:

- a realized gain of around 125 billion lire gross of taxes;
- a reduction of approximately 68 billion lire in consolidated net income, reflecting the minority shareholders' 40% interest in Crediop's adjusted result.

The following companies, previously carried at equity, were sold during 1997: Locat SpA, Sanpaolo Formazione SpA, Serleasing SpA, Stampal SpA and Immobiliare Colonna 92 Srl.

**Financial statements used  
and accounting reference  
date**

The financial statements used for the consolidation were those prepared as of December 31, 1997, and approved at the respective shareholders' meetings or, otherwise, prepared by the Directors for subsequent approval. Such financial statements were adjusted, where necessary, for consistency with the accounting policies applied throughout the Group.

The consolidated statement of income for the year does not include the financial results of Banco Sanpaolo from January 1, 1997 to the date of the disposal given their limited impact on aggregate totals.

In the cases of Banque Sanpaolo, Sanpaolo Ireland and Sanpaolo Leasing, line-by-line consolidation is based on their respective consolidated financial statements. The relevant consolidated financial statements also provided the basis for valuation at equity as regards the Gedeam Investments Group, Sotim, Inter-Europe Bank and Apokè Six.

**Consolidation principles**

*Consolidation differences*

Consolidation differences are determined:

- with reference to the balance sheets at December 31, 1993 of investments consolidated on a line-by-line basis or carried at equity as of December 31, 1994, when the Bank first prepared consolidated financial statements;
- for investments purchased subsequently, 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.

The book value of investments in consolidated companies is eliminated against the corresponding portion of their shareholders' equity. Where possible, any differences arising are allocated to the assets and liabilities of the related consolidated companies.

Any negative differences are classified as "negative differences arising on consolidation" or "negative differences arising on application of the equity method", as appropriate. Similarly, positive differences are classified as "goodwill arising on consolidation" or "goodwill arising on application of the equity method". Goodwill is amortized over five years.

Where negative differences reflect expected future losses, they are classified in the consolidated balance sheet within the "Risk reserve arising on consolidation" and released to the statement of income at the time and to the extent that such losses are realized.

The positive and negative differences arising on consolidation and application of the equity method are described in part B, section 8 of these explanatory notes.

#### *Elimination of intraGroup transactions*

Significant balances and transactions between Group companies are eliminated, as are significant unrealized income and expenses arising from intraGroup transactions.

Moreover, bonds issued by Group companies and held by consolidated Group companies together with intraGroup transactions in derivatives have not been eliminated from the balance sheet and statement of income although the nominal value of intraGroup transactions in derivatives has been eliminated. These eliminations have not had any significant effect on the statement of income and balance sheet of the Group.

#### *Other consolidation principles*

The financial statements of consolidated companies denominated in foreign currencies are translated to by applying the end of the year rates of exchange to the individual balance sheet and statement of income items. Differences arising from translating the shareholders' equity of consolidated companies using the closing rates of exchange are included in the consolidated reserves.

Minority interests in the shareholders' equity and net income of consolidated companies are classified separately.

#### **Comparison with the 1996 consolidated financial statements**

The 1997 results are shown with comparative figures for 1996. The previous year's results included those of Banco Sanpaolo in Spain which was sold at the end of 1997. Its inclusion had a very minor impact on the aggregate figures, so it has been decided not to restate the 1996 balance sheet.

Furthermore, the 1996 consolidated financial statements have been adjusted, where necessary, to ensure consistency between years in the application of consolidation principles and the composition of individual captions. Such adjustments, in compliance with instructions issued by the Bank of Italy, concern the obligatory formats for the balance sheet and the statement of income, as well as the explanatory notes. Specific items restated in the interests of comparability between the two years are noted below:

- rental income received by Banque Sanpaolo amounting to 34,805 million lire appears as other operating income (Caption 70), rather than Interest income and similar revenues (Caption 10);

- depreciation of assets held on finance lease by Banque Sanpaolo, 28,211 million lire, has been taken against Interest income and similar revenues (Caption 10) and Other operating expenses (Caption 110);
- depreciation of buildings rented by Banque Sanpaolo, 28,006 million lire, appears among the Adjustments to intangible and tangible fixed assets (Caption 90), rather than Other operating expenses (Caption 110).

In addition, consistent with the policy adopted in 1996, information on public funds administered is reported in the reclassified balance sheet as part of amounts due to customers, rather than among other liabilities. This treatment aims for consistency with respect to loans to customers, which include loans granted using such funds.

Finally, in the reclassified statement of income:

- dividends on equities bought by San Paolo's London branch in connection with positions taken in derivatives linked to share or share-index performances are included among the gains and losses on financial transactions;
- dividends received are reflected in the interest margin to the extent that they refer to the equity investment and share portfolio;
- the taxes prepaid in connection with the change in accounting policies have all been booked to extraordinary income rather than as a reduction of income taxes payable. This also facilitates the calculation of the actual tax rate as a percentage of pre-tax income.

## Changes in accounting policies

The accounting policies used in the 1997 consolidated financial statements are consistent with those used in the 1996 consolidated financial statements with the following exceptions:

### *Method of calculating the cost of dealing securities*

Dealing securities (not included in complex portfolios) are valued, as in previous years, at the lower of cost and market. These now appear at average cost on a daily basis, rather than at LIFO in annual layers, more closely reflecting the nature of the relevant portfolio management activity.

The effect of the change on the 1997 net income consolidated financial results was a benefit of approximately 37 billion lire.

### *Foreign currency assets and liabilities - financial fixed assets*

Under the accounting policy used until the end of 1996, funds held by foreign branches and consolidated foreign equity investments were

converted at the exchange rates prevailing at the end of each year and exchange rate differences were charged to consolidated reserves; These investments, made against funding in lire, were retained in the balance sheet at the historical exchange rates on the date they were purchased or the capital contributions were made and were therefore subject to exchange risk.

In order to eliminate any residual exchange risk on the currencies concerned when the European single currency is introduced and to neutralize that on other currencies, San Paolo has decided to cover the exchange rate risk of the funds held by foreign branches and their results, as well as foreign investments, by setting up equivalent funding in foreign currency. The only investments to be excluded from this process are some minor items expressed in non-convertible currencies.

Net capital gains made by San Paolo (62 billion lire) have therefore been booked in the consolidated balance sheet among extraordinary income for the portion accruing to the year and relating to the foreign branches and investments in non-consolidated companies (52 billion lire), with a positive effect of 24 billion lire on the statement of income and the consolidated balance sheet. The remainder has been removed from San Paolo's statement of income and placed in group reserves with a positive effect of 5 billion lire on the consolidated balance sheet and a negative effect of 5 billion lire on the consolidated statement of income.

#### *Provision for taxes and dues - deferred taxation*

Until the end of 1996, Group accounting policy was to book deferred taxes only to the extent they were not already covered by prepaid taxes.

International accounting standard IAS 12 (the 1996 revised version) takes effect from 1998 onwards, but it is expressly stated that it can also be applied to earlier years, and therefore also to 1997. It lays down that companies should book the deferred tax on all timing differences between assets or liabilities and their equivalents for tax purposes, irrespective of when these differences might crystallize. For prepaid taxes, the standard lays down the obligation to book a deferred tax asset to the extent that the company may generate taxable income against which the deductible timing difference can be used.

Given that this treatment improves the level of disclosure and in view of a particularly significant amount of timing differences in 1997, the accounting policy has been changed. The balance of deferred and prepaid taxes is now booked to the financial statements, even if this balance consists of a surplus of prepaid taxes.

When applying this new accounting policy, a particularly prudent approach was adopted, also in consideration of the Italian accounting principles on

taxation that are due to be issued soon. The amount of prepaid taxes to be booked to the financial statements to the amount of timing difference on which there is a reasonable certainty that sufficient taxable income will be generated for them to be reabsorbed has therefore been limited.

Booking prepaid taxes as a deferred tax asset is moreover consistent with the principle of matching revenues and expenses. It also appears necessary in the light of their significant quantity caused by loan writedowns in excess of 0.5% of total loans (the limit for fiscal deductibility), non-deductible provisions and writedowns of fixed assets that will be deductible in future years. Not to have taken account of these timing differences would, among other things, have led to an excessive penalization of the results of this year (when the differences arose) compared with future years (which will benefit from their deduction for tax purposes).

Moreover, based on the new tax rules regarding capital gains on the disposal of majority investments and the utilization of merger deficits, there is more likely to be an increase in prepaid taxes rather in deferred taxes in future years.

Furthermore, it should be noted that the overall balance of taxes that refer to positive and negative timing differences permits a reasonable level of comparability between the two sets of financial statements: the income taxes to be accounted for in each period would be substantially the result of applying nominal tax rates to the pre-tax profit.

The change in accounting principle has led to the following effects on the 1997 consolidated statement of income:

- extraordinary income of 5 billion lire as a result of San Paolo's deferred tax situation at December 31, 1996;
- an increase in net income for the year of 286 billion lire thanks to a reduction in income taxes for the year up to the amount of such taxes (200 billion lire) and booking the remainder (86 billion lire) as extraordinary income.

It should also be pointed out that at December 31, 1997 there are still approximately 95 billion lire of prepaid taxes that will be cancelled from the year 2002 onwards. For the sake of prudence, these have not been booked to the financial statements.

#### *Provision for risks and charges - liabilities for staff long-service bonuses*

The Bank's supplementary employment contract for management and office staff obliges San Paolo to pay one month's gross salary to those who complete 25 and 35 years' effective service.



Although this obligation only arises at the time that someone reaches this contractual and it is impossible to quantify the amount of the potential charge to be borne in the future, based on projections, nonetheless, from this year, it has been thought best to take a prudent pension-plan approach to this liability, also in view of the new legislation on pensions and the considerable size and time spread of the charge based on the length of service of personnel.

In fact, while it is impossible to predict who will receive these long-service bonuses on an individual basis, it is still reasonable to expect on the basis of past experience that a certain number of employees will qualify for bonuses. This liability has therefore been estimated on a probability basis, in the same way as pension plans are accounted for.

The annual charge has therefore been calculated on an mathematical and actuarial basis and corresponds to the amounts expected to be paid out in the future, thus allowing the creation of a mathematical reserve, set at 56,147 million lire on the basis of the number of staff currently employed.

This change in accounting policy, from a cash to an accruals basis, has led to the booking of a additional charge of 9 billion lire.

#### **Audit of the consolidated financial statements**

The consolidated financial statements and 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 28, 1995, which appointed the above firm for the three-year period 1995/1997.

#### **Traslation into English**

The consolidated financial statements have been translated into English from the original version in Italian. They have been prepared in accordance with the accounting principles established by Italian law related to consolidated financial statements, which may not conform with generally accepted accounting principles in other countries.



## Part A - Accounting policies

### Section 1 Description of accounting policies

The consolidated financial statements are prepared in accordance with current legislation and with reference to the accounting principles established by the Italian Accounting Profession.

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, 1996 except for the changes discussed in the introduction to these explanatory notes.

### Loans, guarantees and commitments

#### *Loans*

The principal and interest elements of loans 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 the end of the year; considering the nature of collection problems associated with the various forms of lending and the risk of default inherent in performing loans. 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;
- loans subject to “country risk”, being loans to borrowers resident in countries with debt-servicing difficulties, are valued on an overall basis by applying writedown percentages not lower than those specified by the Bank of Italy;
- performing loans, being loans to borrowers who, at this time, do not present specific insolvency risks, are valued on an overall basis, except in relation to specific positions concerning certain companies under observation.

Restructured loans, being those loans that have been consolidated or renegotiated at interest rates lower than those prevailing in the market, are

classified by type in the various risk categories mentioned above and are valued according to the category that they are in. Account is also taken of future losses of interest based on the funding cost of loan.

Loans are written down by reducing the stated value of the related asset.

The original value of loans is reinstated when the reasons for any writedowns cease to apply.

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

#### *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 are held for the long term and are valued at cost, as adjusted by accrued issue discounts and accrued dealing discounts during the year (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 treasury and dealing purposes are stated at the lower of continuous average daily cost, as adjusted to reflect accrued issue discounts during the the year, and market value. Market value is determined as follows:

– securities quoted on regulated markets: the simple average of the prices struck during December;

– securities not quoted on regulated markets: comparison with the fair value of quoted securities with similar characteristics.

Dealing securities included in complex financial portfolios, as defined below, are valued at market price consistent with the accounting treatment of the derivative contracts to which they are linked.

Securities hedged by specific derivative contracts are valued at the lower of cost or market value.

The original value of such securities is reinstated when the reasons for any writedowns cease to apply.

#### *Off-balance sheet transactions*

The valuation of derivative contracts depends on whether they are held in complex financial portfolios or entered to hedge specific assets and liabilities, recorded in the financial statements or off-balance sheet.

Derivative contracts which form part of complex financial portfolios consist of a series of interrelated dealing securities and derivative contracts, held for dealing purposes or as general hedges, which are organized in “books” and coordinated to meet specific objectives. These derivatives are stated at market value.

Derivative contracts entered to hedge specific assets and liabilities, whether recorded in the financial statements or off-balance sheet, are stated on a consistent basis with the assets and liabilities which they hedge. In particular, derivatives which hedge dealing securities are valued at the lower of cost or their market value, while derivatives which hedge deposits, loans and investment securities are stated at cost.

The market value of derivative contracts is determined with reference to the respective quoted prices or, if unavailable, using objective criteria applied on a consistent basis throughout the Group.

Gains and losses resulting from the valuation of derivatives, whether held for dealing or hedging purposes, are classified as profits (losses) on financial transactions.

Differentials and margins arising on dealing derivatives are also classified as profits (losses) on financial transactions. Differentials and margins arising on derivative contracts entered to hedge dealing securities are treated as interest, if they relate to multiple-flow contracts (such as interest rate swaps) or to single-flow contracts where the duration of the underlying assets is less

than one year (such as Forward Rate Agreements); 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 (such as futures and options). Differentials and margins arising on derivative contracts entered to hedge loans, customer deposits and investment securities are treated as interest.

Dealing contracts still to be settled are valued using the policies applicable to securities held in the portfolio.

#### *Repurchase and similar agreements*

Repurchase agreements that require the holder to resell the securities acquired when the agreement matures are reflected as loans and payables in the financial statements. The related income or expense is recognized on an accrual basis.

#### *Securities lending*

Securities loaned are reflected in the financial statements as the combination of two functionally-linked lending or borrowing transactions associated with deposit-taking or funding transactions. These transactions are essentially the same as repurchase agreements and the loaned securities therefore remain in the portfolio of the lender.

### **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 the transformation into a limited company and as a result of mergers. They are 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 and the related tax credits are recorded in the year in which they are collected.

### **Foreign currency assets and liabilities (including off-balance sheet transactions)**

Assets and liabilities denominated in foreign currencies, or in lire indexed to foreign exchange movements, are valued using the spot exchange rates applying at the end of the year.

Equity investments expressed in non-convertible foreign currencies, on the other hand, are stated using the historical exchange rates applying at the time of acquisition.

Off-balance sheet transactions denominated in foreign currency are valued:

- using the spot exchange rates applying at the end of the year, in the case of spot transactions still to be settled or of operations that hedge spot positions;
- using the forward exchange rates applying at the end of the year, in the case of forward currency transactions;
- at market value determined with reference to quoted prices or, if not available, using objective criteria applied on a consistent, in the case of other off-balance sheet transactions.

The effect of the related adjustments is recorded in the statement of income. Differentials on transactions that hedge assets and liabilities are recorded as interest among “differentials from hedging transactions” on an accruals basis, consistent with the treatment of the interest relating to the hedged assets and liabilities.

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

#### **Tangible fixed assets**

Tangible fixed assets are stated at cost, as restated on the transformation of the Bank into a limited company, by applying revaluation laws in prior years, and at the time of mergers. The book value of tangible fixed assets is stated net of accumulated depreciation.

Operating assets are depreciated on a straight-line basis over their residual useful lives.

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 cost, net of accumulated amortization.

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 and development of software using external resources, are generally amortized on a straight-line basis over three years, taking account of the residual life such software is expected to benefit.

The goodwill paid by the Bank to acquire the business activities of Sanpaolo Factoring in 1993 is amortized on a straight-line basis over five years.

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 reflect more closely 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.

**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.

**Payables**

Payables are stated at their nominal value.

**Provision for employee termination indemnities**

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

**Provisions for risks and charges**

*Provision and similar commitments*

This provision covers liabilities in connection with the supplementary pension scheme for the employees of Banque San Paolo. Independent actuarial valuations are carried out at the end of each year in order to determine the provisions required to the technical reserves that cover pension liabilities.

*Taxation*

The provision for taxation covers income taxes for the year, taking account of taxes applicable in the countries in which the Group operates, deferred taxation, and outstanding local fiscal disputes. This provision also covers deferred taxation relating to consolidation adjustments, determined using the tax rate current at the balance sheet date.

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 on the basis of 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 certainty of their use. 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 (such as deferred capital gains) 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, including particularly loan writedowns in excess of the limit of 0.5% of total loans). If deductible timing differences are higher than the taxable timing differences, 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 any excess.

The extraordinary capital tax levied by Decree 394/92, as converted into Law 461/92, is deducted from distributable reserves at the time of payment, as permitted by current regulations, as an alternative to charging the amount against the statement of income.

The substitute tax established by Decree 467/97 on reserves subject to grossing up for tax equilization purposed is paid out of available reserves as permitted by the regulations.

No taxation has been provided in relation to other reserves subject to deferred taxation since, at this time, 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 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, as well as potential liabilities linked to the Bank's participation in the Interbank Deposit Guarantee Fund.

The provision for other personnel charges comprises:

- provisions recorded in prior years in relation to San Paolo's commitment to a compulsory, independent supplementary pension fund to cover unfunded pension liabilities;

- provisions made by San Paolo 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.

The provisions recorded reflect the best possible estimates based on available information.

**Reserve for possible loan losses**

The reserve for possible loan losses does not adjust the value of specific assets and was eliminated on consolidation since it was formed solely for fiscal purposes.

**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.

**Finance leases**

Lease transactions are recorded using lease accounting methodology, whereby the initial loan principal, representing the value of the leased asset, is repaid with reference to an amortization schedule calculated using the interest rate implied in the lease contract. The element of installment payments not representing principal is recognized as interest income on an accrual basis.

**Section 2**  
**Adjustments and provisions**  
**recorded for fiscal purposes**



djustments and provisions recorded solely for fiscal purposes by Group companies have been eliminated on consolidation.

## Part B - Consolidated balance sheet

### Section 1 Loans

The Group's loan portfolio, summarized in consolidated asset captions 10, 30 and 40, net of adjustments, amounts to 187,061,089 million lire and is analyzed below, by type of counterparty:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Cash and deposits with central banks and post offices (caption 10)	761,541	792,952	-4.0
Due from banks (caption 30)	54,678,831	58,022,178	-5.8
Loans to customers (caption 40)	131,620,717	132,514,145	-0.7
Total	187,061,089	191,329,275	-2.2

### Cash and deposits with central banks and post offices (caption 10)

Cash and other liquid funds totalling 761,541 million lire are analyzed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Cash	703,843	673,648	+4.5
Deposits with central banks	44,151	79,800	-44.7
Deposits with post offices	13,547	39,504	-65.7
Total	761,541	792,952	-4.0

### Due from banks (caption 30)

Amounts due from banks, 54,678,831 million lire, are analyzed below by type of counterparty and technical form:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Due from central banks			
– compulsory reserve	4,514,860	3,776,273	+19.6
– other	383,938	70,374	+445.6
Due from other banks			
– repurchase agreements and securities loaned	10,081,235	6,679,398	+50.9
– current accounts	2,057,776	935,977	+119.9
– deposits	33,912,432	43,335,619	-21.7
– loans	3,675,568	3,029,675	+21.3
– subordinated loans	560	560	-
– other	52,462	194,302	-73.0
Total	54,678,831	58,022,178	-5.8

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) deposits with central banks	4,898,798	3,846,647	+27.4
b) bills eligible for refinancing with central banks	-	-	-
c) finance leases	-	-	-
d) repurchase agreements	10,040,067	6,596,058	+52.2
e) securities loaned	41,168	83,340	-50.6

**Loans to customers  
(caption 40)**

Loans to customers, 131,620,717 million lire, are analyzed below, by technical form:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Mortgage loans	51,048,562	51,043,035	-
Current accounts	20,196,788	20,829,780	-3.0
Repurchase agreements and securities loaned	9,182,644	9,552,251	-3.9
Industrial loans	9,049,719	10,610,539	-14.7
Term loans to banks	6,842,521	4,905,829	+39.5
Import-export loans	5,560,836	3,953,678	+40.6
Non-performing loans	4,877,847	4,172,171	+16.9
Advances with recourse	4,052,005	4,029,305	+0.6
Discounted notes (including bills eligible for refinancing with central banks)	1,924,372	2,050,883	-6.2
Finance leases	1,847,898	2,441,944	-24.3
Loans to craft industries	1,411,801	1,454,722	-3.0
Personal loans	866,860	1,070,276	-19.0
Factoring loans	343,047	666,891	-48.6
Subordinated loans	115,367	123,514	-6.6
Loans backed by pledged assets	46,866	45,358	+3.3
Other forms of repurchase agreement	1,120	1,842	-39.2
Other forms of finance	14,252,467	15,562,127	-8.4
<b>Total</b>	<b>131,620,717</b>	<b>132,514,145</b>	<b>-0.7</b>

Finance leases allow for the return of leased assets on termination of the related contracts, and in other circumstances.

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Bills eligible for refinancing with central banks	407,311	312,607	+30.3
b) Finance leases	1,847,898	2,441,944	-24.3
c) Repurchase agreements	9,003,539	9,448,257	-4.7
d) Securities loaned	179,105	103,994	+72.2

*Secured loans to customers (table 1.3 B.I.)*

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Mortgages	27,795,219	29,344,639	-5.3
b) Pledged assets:			
1. cash deposits	570,163	869,215	-34.4
2. securities	1,434,005	2,211,120	-35.1
3. other instruments	1,316,465	1,301,237	+1.2
c) Guarantees given by:			
1. Governments	2,671,687	6,309,940	-57.7
2. other public entities	544,511	539,682	+0.9
3. banks	705,158	830,411	-15.1
4. other operators	13,698,613	15,513,925	-11.7
<b>Total</b>	<b>48,735,821</b>	<b>56,920,169</b>	<b>-14.4</b>

Loans guaranteed by securities include nine positions, totalling 118,314 million lire, gross of writedowns, secured on shares representing the majority of the capital of the companies concerned. In such cases, the Group is the holder of the voting rights in order to protect its interests as a creditor.

In accordance with current legislation (art. 2359 of the Italian Civil Code), such companies are not considered to be subsidiaries for consolidation purposes, since they are not finance companies and do not belong to the San Paolo 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 I of these notes. The related writedowns are effected via direct reduction of the consolidated balance sheet asset value of the loans concerned.

	12/31/97 (L/mil)			12/31/96 (L/mil)		
	Gross value	Total adjustments	Net book value	Gross value	Total adjustments	Net book value
Non-performing loans	8,256,755	3,378,908	4,877,847	7,166,988	2,994,817	4,172,171
Problem loans	4,404,032	878,170	3,525,862	4,865,627	984,261	3,881,366
Loans exposed to country risk - customers	430,997	86,704	344,293	202,702	62,086	140,616
Performing loans	123,272,285	399,570	122,872,715	124,678,547	358,555	124,319,992
Total loans to customers	136,364,069	4,743,352	131,620,717	136,913,864	4,399,719	132,514,145
Non-performing loans and loans exposed to country risk - banks	474,519	76,625	397,894	318,264	117,193	201,071
Total		4,819,977			4,516,912	

Movements during the year in the Group's lending exposure, gross of the related adjustments, are set out below:

	millions of lire						
	Non-performing loans	Problem loans	Loans exposed to country risk - customers	Performing loans	Total loans to customers	Loans exposed to country risk - banks	Total
Gross value-opening balance	7,166,988	4,865,627	202,702	124,678,547	136,913,864	318,264	
Movements during the year							
• debits to existing positions	682,510	767,483	303,791	(a) 2,983,069	4,736,853	200,268	4,937,121
• transfers from non-performing loans	-	221,898	-	52,951	274,849	-	274,849
• transfers from problem loans	1,735,106	-	-	328,743	2,063,849	-	2,063,849
• transfers from performing loans	1,126,022	2,106,997	-	-	3,233,019	336	3,233,355
• transfers to non-performing loans	-	-1,735,106	-	-1,126,022	-2,861,128	-	-2,861,128
• transfers to problem loans	-221,898	-	-	-2,106,997	-2,328,895	-	-2,328,895
• transfers to performing loans	-52,951	-328,743	-	-	-381,694	-	-381,694
• collections	-722,162	-1,280,629	-75,473	-	-2,078,264	-40,375	-2,118,639
Write-offs during the year							
• using adjustments to opening values	-811,926	-195,120	-14	-96,603	-1,103,663	-2,069	-1,105,732
• charged to the statement of income following disposals and settlements	-163,397	-18,375	-9	-29,420	-211,201	-	-211,201
• using adjustments to opening values following bankruptcy proceedings	343,924	-	-	-	-343,924	-53	-343,977
Change in scope of consolidation	-137,613	-	-	-1,411,983	-1,549,596	-1,852	-1,551,448
Gross value-closing balance	8,256,755	4,404,032	430,997	123,272,285	136,364,069	474,519	

(a) Net debits and credits to existing positions.

Restructured loans and those currently being restructured at lower-than-market rates of interest are classified in the various loan categories with reference to the degree of risk identified at year-end. Such loans are adjusted to take account of future losses of interest determined on the basis of the cost of funding.

Total adjustments to loans during the year are detailed in the table below:

	millions of lire						
	Non-performing loans	Problem loans	Loans exposed to country risk-customers	Performing loans	Total loans to customers	Loans exposed to country risk-banks	Total
Total adjustments - opening balance	2,994,817	984,261	62,086	358,555	4,399,719	117,193	4,516,912
Uses during the year to cover losses	-811,926	-195,120	-14	-96,603	-1,103,663	-2,069	-1,105,732
Writebacks of loans following collections:							
• principal	-23,894	-9,790	-3,946	-8,138	-45,768	-570	-46,338
• default interest	-57,493	-1,072	-	-9,920	-68,485	-37,426	-105,911
Exchange differences	15,296	2,746	1,426	2,990	22,458	74	22,532
Transfers to or from other loan categories	353,708	-317,760	787	-58,856	-22,121	-	-22,121
Year-end valuations:							
• default interest written off	424,967	50,939	-	19,661	495,567	-	495,567
• writedowns	657,015	434,566	55,951	254,807	1,402,339	34,599	1,436,938
• writebacks (a)	-94,247	-70,600	-24,951	-48,600	-238,398	-35,176	-273,574
Change in scope of consolidation	-79,335	-	-4,635	-14,326	-98,296	-	-98,296
Total adjustments -closing balance	3,378,908	878,170	86,704	399,570	4,743,352	76,625	4,819,977

(a) Excluding the revaluation of loans previously written off amounting to 130,000 million lire. Were these revaluations to be taken into account, total writebacks would amount to 403,574 million lire.

The report on operations provides a detailed analysis of lending activities and the degree of risk inherent in the loan portfolio; the specific information requested by the Bank of Italy with regard to non-performing loans and default interest, as well as details of loans to residents in nations exposed to country risk, is provided below.

*Non-performing loans (table 1.4 B.1.)*

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Non-performing loans (net amount, including default interest)	4,877,847	4,172,171	+16.9

*Default interest (table 1.5 B.1.)*

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Non-performing loans (net amount)	1,687	4,992	-66.2
b) Other loans (net amount)	4,141	3,419	+21.1

Loans to customers and banks resident in nations exposed to country risk (net amount)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Russian Federation	311,784	230,941	+35.0
Brazil	123,289	15,460	+697.5
Korea	115,640	(*)	n.s.
Thailand	52,559	(*)	n.s.
Bermuda	22,430	6,505	+244.8
Cayman Islands	22,270	26,631	-16.4
Morocco	20,219	5,357	+277.4
Indonesia	16,246	(*)	n.s.
Algeria	14,661	15,321	-4.3
Argentina	14,277	16,019	-10.9
Philippines	7,476	(*)	n.s.
Other countries	17,574	25,453	-31.0
Total	738,425	341,687	+116.1

(\*) Not included among nations exposed to country risk in 1996.

#### Other information relating to loans

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



## Section 2 Securities

Securities owned by the Group, reported in consolidated asset captions 20, 50 and 60, total 37,598,193 million lire, net of losses recorded at year-end, 39,184 million lire, and including writebacks of securities written down in prior years, 4,152 million lire, as detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Treasury bills and similar bills eligible for refinancing with central banks (caption 20)	12,817,023	16,704,758	-23.3
Bonds and other debt securities (caption 50)	23,309,113	21,927,033	+6.3
Shares, quotas and other equities (caption 60)	1,472,057	1,049,938	+40.2
Total	37,598,193	39,681,729	-5.3
of which:			
– investment securities	5,375,779	4,524,089	+18.8
– dealing securities	32,222,414	35,157,640	-8.3

### Investment securities

Investment securities, 5,375,779 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 Group.

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.I.)

	12/31/97 (L/mil)		12/31/96 (L/mil)	
	Book value (a)	Market value (b)	Book value (a)	Market value (b)
I. Debt securities				
I.1 Government securities				
– quoted	3,740,522	3,844,555	3,596,914	3,793,578
– unquoted	-	-	-	-
I.2 other securities				
– quoted	1,152,970	1,167,487	522,188	534,249
– unquoted	482,287	487,751	404,987	412,680
2. Equities				
– quoted	-	-	-	-
– unquoted	-	-	-	-
Total	5,375,779	5,499,793	4,524,089	4,740,507

(a) After year-end writedowns and writebacks.

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

Comparison of the market and net book value of these investment securities reveals a net unrealized, unrecorded gain of 69,336 million lire on securities not hedged by derivative contracts and 54,678 million lire on securities hedged by interest rate swaps. The valuation of these derivatives reveals an unrealized loss of 52,683 million lire.

<i>Changes in investment securities during the year (2.2 B.I.)</i>	<i>millions of lire</i>
A. Opening balance	4,524,089
B. Increases	
B1. purchases	1,123,955
B2. writebacks	2,062
B3. transfers from dealing portfolio	2,589,506
B4. other changes	42,937
C. Decreases	
C1. sales	355,313
C2. redemptions	475,323
C3. adjustments	14,027
including:	
permanent writedowns	14,027
C4. transfers to dealing portfolio	2,000,403
C5. other changes	61,704
D. Closing balance	5,375,779

Subcaptions B4. "Increases - other changes" and C5. "Decreases - other changes" are detailed as follows:

<i>B4. "Increases - other changes"</i>	<i>millions of lire</i>
Net dealing income	9,831
Exchange differences	21,723
Accrued issue discounts	11,383
Total other changes	42,937

<i>C4. "Decreases - other changes"</i>	<i>millions of lire</i>
Net dealing losses	204
Exchange differences	223
Accrued dealing discounts	61,277
Total other changes	61,704

Transfers during the year by the Parent Bank from the investment to the dealing portfolio, 2,000,403 million lire, and from the dealing to the investment portfolio, 2,589,506 million lire, relate to Italian Government fixed-income securities. Such transfers were specifically authorized by decision of the Executive Committee on April 28, 1997, as part of the facility approved by the Board of Directors on August 31, 1995. These securities were transferred at cost following a review of the investment portion held to hedge interest rate risks associated with long-term domestic funding. In particular, it was considered suitable that the maturities of the securities be consistent with those of the funding covered. Had the market value of the securities at the time of transfer been determined using the policies adopted in connection with dealing securities, no losses would have emerged and unrealized gains would have amounted to 56,004 million lire.

The book value of fixed-income investment securities, indicated below

according to type, is higher than their redemption value on maturity by 73,157 million lire, due to issue and dealing discounts that will be recorded on an accruals basis in the consolidated statement of income. This balance reflects gains and losses on redemption value with respect to book value of 36,816 million lire and 109,973 million lire, respectively.

	millions of lire	
	Book value	Redemption value
Government securities		
– quoted	3,740,522	3,668,746
Other securities		
– quoted	1,152,970	1,130,475
– unquoted	482,287	503,401
Total	5,375,779	5,302,622

The adjustments reported in subcaption C3 were required to write down the carrying value of securities deriving from the conversion of loans to the Russian Federation and Macedonia by applying the percentages prescribed by the Bank of Italy.

### Dealing securities

These securities, held for treasury and dealing purposes, amount to 32,222,414 million lire, and comprise:

- 20,562,654 million lire belonging to complex financial portfolios, as defined in the accounting policies discussed in part A, section I of these notes;
- 1,417,311 million lire hedged by specific derivative contracts (asset swaps);
- 10,242,449 million lire not linked to derivative contracts.

Dealing securities (table 2.3 B.I.)

	12/31/97 (L/mil)		12/31/96 (L/mil)	
	Book value (a)	Market value (b)	Book value (a)	Market value (b)
I. Debt securities				
I.1 Government securities				
– quoted	19,388,096	19,457,363	23,859,663	23,972,540
– unquoted	4,370	4,469	745,003	745,281
I.2 other securities				
– quoted	3,588,640	3,605,341	2,799,969	2,874,455
– unquoted	7,769,251	7,798,966	6,703,067	6,710,843
2. Equities				
– quoted	1,468,491	1,482,581	928,411	929,939
– unquoted	3,566	3,566	121,527	121,527
Total	32,222,414	32,352,286	35,157,640	35,354,585

(a) After year-end writedowns and writebacks.

(b) The market value of quoted securities not linked to derivative contracts is determined with reference to the simple average of prices during December.

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 79,353 million lire, gross of the tax effect.

As identified in the table above, there are unrecorded, unrealized gains on dealing securities of 129,664 million lire, in addition to unrecorded, unrealized net gains of 3,058 million lire arising from the valuation of unsettled transactions.

Unrealized losses of 25,157 million lire and writebacks of 2,090 million lire on dealing securities are reflected in the consolidated statement of income, as are losses of 875 million lire and writebacks of 387 million lire in relation to unsettled transactions.

The valuation of complex financial portfolios identified losses and revaluations reflected in the consolidated statement of income of 11,331 million lire and 86,047 million lire, respectively, while the valuation of asset swaps identified losses and writebacks reflected in the consolidated statement of income of 2,453 million lire and 3,631 million lire, as well as unrecorded, unrealized gains of 4,765 million lire.

These valuations are summarized below:

	12/31/97 (L/mil)			12/31/96 (L/mil)		
	Unrealized recognized losses	Recognized revaluations and writebacks	Unrecorded unrealized gains	Unrealized recognized losses	Recognized revaluations and writebacks	Unrecorded unrealized gains
Securities not linked to derivative contracts	25,157	2,090	129,872	15,325	17,674	196,945
Securities to be received and delivered	875	387	3,058	2,162	130	27,144
Complex financial portfolios	11,331	86,047	-	86,976	72,456	-
Asset swap contracts	2,453	3,631	4,765	2,758	13,626	7,960
Total	39,816	92,155	137,695	107,221	103,886	232,049

Own bonds held for dealing purposes amount to 2,293,480 million lire.

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

*millions of lire*

A. Opening balance	35,157,640
B. Increases	
B1. purchases	
– debt securities	
– Government securities	542,007,326
– other securities	73,764,211
– equities	15,626,772
B2. writebacks and revaluations	2,090
B3. transfers from investment portfolio	2,000,403
B4. other changes	1,683,684
C. Decreases	
C1. sales and redemptions	
– debt securities	
– Government securities	548,576,296
– other securities	70,726,003
– equities	15,771,812
C2. adjustments	25,157
C3. transfers to investment portfolio	2,589,506
C5. other changes	330,938
D. Closing balance	32,222,414

Subcaptions B4. “Increases - other changes” and C5. “Decreases - other changes” are detailed as follows:

*B4. “Increases - other changes”*

*millions of lire*

Exchange differences	881,641
Net dealing income	681,166
Transfers from investment portfolio	99,998
Accrued issue discounts	20,869
Other	10
Total other changes	1,683,684

*C5. “Decreases - other changes”*

*millions of lire*

Change in scope of consolidation	298,842
Exchange differences	30,216
Net dealing losses	1,880
Total other changes	330,938

**Other information relating to securities**

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

### Section 3 Equity investments

Equity investments in companies not consolidated line-by-line, reported in consolidated asset captions 70 and 80, amount to 895,591 million lire, stated net of writedowns recorded at year-end, 6,239 million lire, and writebacks of investments written down in prior years, 517 million lire, as detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Equity investments (caption 70)	720,576	744,959	-3.3
Investments in Group companies (caption 80)	175,015	524,436	-66.6
Total	895,591	1,269,395	-29.4
of which:			
– significant investments	524,144	780,054	-32.8
– other holdings	371,447	489,341	-24.1

### 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 Decree 87/92, are indicated in the table below:

Significant investments (table 3.1 B.I.)

millions of lire

Name	Type of relation-ship (a)	Share- holders' equity (b)	Net income (Loss) (b)	Ownership		Voting rights at share- holders' meeting %	Con- solidated book value
A. Companies consolidated							
A.1 Line-by-line							
1) Banque Sanpaolo SA (c)	I	804,583	35,902	San Paolo SpA	100.00	100.00	-
2) C.Fin SpA	I	14,001	-1,144	Crediop SpA	100.00	100.00	-
3) Crediop BV	I	48,021	21,083	Crediop SpA	100.00	100.00	-
4) Crediop Overseas Bank Ltd	I	104,414	7,137	Crediop SpA	100.00	100.00	-
5) Crediop SpA	I	1,076,525	130,168	San Paolo SpA	60.00	60.00	-
6) Intersim SpA	I	53,752	20,083	San Paolo SpA	100.00	100.00	-
7) Sanpaolo Asset Management Sim SpA	I	24,012	746	San Paolo SpA	95.88	95.88	-
				Sanpaolo Bank SA	4.12	4.12	-
8) Sanpaolo Bank (Austria) AG	I	14,247	1,240	Sanpaolo Bank SA	100.00	100.00	-
9) Sanpaolo Bank SA	I	81,952	5,616	San Paolo SpA	100.00	100.00	-
10) Sanpaolo Fiduciaria SpA	I	2,602	118	San Paolo SpA	100.00	100.00	-
11) Sanpaolo Fondi SpA	I	44,099	4,967	San Paolo SpA	96.04	96.04	-
12) Sanpaolo Gestion Internationale SA	I	3,351	925	Sanpaolo Bank SA	100.00	100.00	-
13) Sanpaolo Immobiliare SpA	I	5,784	-39,222	San Paolo SpA	100.00	100.00	-
14) Sanpaolo Invest Sim SpA	I	53,626	14,538	San Paolo SpA	100.00	100.00	-
15) Sanpaolo Ireland Plc (c)	I	862,582	110,463	San Paolo SpA	100.00	100.00	-
16) Sanpaolo Leasing GmbH	I	173	-17	SP Vermög. GmbH	100.00	100.00	-
17) Sanpaolo Leasing SpA	I	116,373	1,456	San Paolo SpA	100.00	100.00	-
18) Sanpaolo Riscossioni Genova SpA	I	8,202	2,127	San Paolo SpA	100.00	100.00	-
19) Sanpaolo Riscossioni Prato SpA	I	3,420	1,617	San Paolo SpA	100.00	100.00	-
20) Sanpaolo US Financial Co.	I	124	7	San Paolo SpA	100.00	100.00	-
21) Sanpaolo Vermögensverwaltung GmbH	I	1,264	1,205	San Paolo SpA	99.00	99.00	-
				Sanpaolo Bank AG	1.00	1.00	-
22) Sep SpA	I	3,205	194	San Paolo SpA	80.00	80.00	-
23) Spb 1650 Van Ness Corp.	I	-	-	San Paolo SpA	100.00	100.00	-
24) Spb Delta Towers Llc	I	2	-	San Paolo SpA	100.00	100.00	-

continued

Name	Type of relationship (a)	Shareholders' equity (b)	Net income (Loss) (b)	Ownership Held by	%	Voting rights at shareholders' meeting %	Consolidated book value
A.2 Proportional method	-	-	-	-	-	-	-
<b>B. Carried at equity</b>							
1) Apokè Six Srl	1	-	-110,640	San Paolo SpA	100.00	100.00	-
2) Apokè Two Srl (in liquidation)	1	-	-60,291	San Paolo SpA	94.67	94.67	-
				Apokè Six Srl	5.33	5.33	-
3) Bani Banque Auxiliaire M. Inchauspe SA	8	28,900	5,429	Banque Sanpaolo	20.00	20.00	5,780
4) Banca Italo Romena SpA (d)	8	29,558	-2,656	San Paolo SpA	20.00	20.00	5,912
5) BNC Assicurazioni SpA (d)	8	316,326	-	San Paolo SpA	30.00	30.00	94,898
6) Conservateur Finance SA	8	28,865	3,892	Banque Sanpaolo	20.00	20.00	5,773
7) Consorzio Usas	8	427	1	San Paolo SpA	20.00	20.00	85
8) Crediop Finance Plc (in liquidation)	1	583	-	San Paolo SpA	100.00	100.00	583
9) Esatri SpA (d)	8	69,748	19,333	San Paolo SpA	31.50	31.50	21,971
10) Euke Srl (in liquidation)	1	14,575	-204	San Paolo SpA	100.00	100.00	14,575
11) Fer Credit SpA (d)	8	14,062	-6,999	Crediop SpA	20.00	20.00	2,812
12) Finconsumo SpA	8	40,300	9,896	San Paolo SpA	20.00	20.00	8,060
13) Galileo Holding SpA (d)	8	-2,590	-21,872	San Paolo SpA	21.52	21.52	-
14) Gedeam I.G. Inc. SA (c) (d)	8	308,924	-18,758	San Paolo SpA	49.26	49.26	152,176
15) Gedit SA	1	-479	-538	San Paolo SpA	90.00	90.00	-
				Apokè Six Srl	10.00	10.00	-
16) Inter-Europa Bank RT (c) (d)	8	94,840	16,407	San Paolo SpA	30.05	30.05	28,500
17) Prospettive 2001 SpA	1	25,098	-13,270	San Paolo SpA	63.75	63.75	16,000
18) Ruegg Bank AG (d)	8	69,875	9,878	San Paolo SpA	32.00	32.00	22,360
19) San Marino Gestion SA	8	1,337	271	Sanpaolo Bank SA	20.00	20.00	267
20) Sanpaolo US Holding Co. (in liquidation)	1	8,576	367	San Paolo SpA	100.00	100.00	8,576
21) Sanpaolo Vita SpA (d)	1	114,706	13,782	San Paolo SpA	100.00	100.00	114,706
22) Società Italiana Monitoraggio SpA (e)	8	2,674	114	Crediop SpA	20.00	20.00	535
23) Sotim Srl	1	25,000	-1,615	San Paolo SpA	82.30	82.30	20,575
				Euke Srl	17.70	17.70	-
24) Sps SpA (in liquidation)	8	-	-	Crediop SpA	20.40	20.40	-
<b>C. Other significant investments</b>							
Total	-	-	-	-	-	-	524,144

- (a) 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. 2359.1.2. of the Italian Civil Code (dominant influence at an ordinary meeting);  
3 = control pursuant to art. 23.2.1. of the Income Tax Consolidation Act (agreements with other shareholders);  
4 = other forms of control;  
5 = common management pursuant to art. 26.1 of Decree 87/92;  
6 = common management pursuant to art. 26.2 of Decree 87/92;  
7 = joint control;  
8 = associated company.
- (b) The shareholders' equity and results for the year are those used for the consolidated financial statements. Shareholders' equity includes that portion of net income due for distribution.
- (c) Consolidated shareholders' equity and results for the year, net of minority interests.
- (d) Preliminary year-end data.
- (e) Financial statements as of December 31, 1996. On the basis of information available, the valuation of these companies as of December 31, 1997 would have had no significant effect on Group shareholders' equity and net income.

**Other equity investments**

Other equity investments held by the Group are listed below:

Name and location of registered offices	millions of lire	
	Percentage ownership	Book value
Banca d'Italia - Rome	1.83	106,414
Banco del Desarrollo SA - Santiago, Chile	16.52	52,400
Istituto per il Credito Sportivo - Rome	21.62	47,744
Biat SA - Tunis	8.42	15,200
Tav SpA - Rome	7.75	14,725
Rimoldi Necchi Srl - Milan	19.79	12,154
Sitaf SpA - Turin	7.24	8,309
Banca Mediocredito SpA - Turin	1.11	8,153
Meliorconsorzio SpA - Rome	3.67	8,061
Ferfina SpA - Rome	5.00	7,170
Fata Group SpA - Turin	13.17	6,953
Cedel International SA - Luxembourg	0.93	5,810
Banksiel SpA - Milan	7.00	5,475
Abete Sviluppo SpA - Milan	9.71	5,000
F.lli Marzoli & C. SpA - Bergamo	7.62	4,000
Metropolis SpA - Rome	2.00	4,000
European Investment Fund - Luxembourg	0.56	3,958
Borsa Italiana SpA - Milan	5.00	3,118
Europolis Invest SA - Paris	7.00	2,806
Interporto di Padova SpA - Padua	6.22	2,604
Fiat Serene SpA - Turin	5.00	2,500
Cassa di Compensazione e Garanzia SpA - Rome	4.55	2,500
Sanità SpA - Rome	2.31	2,308
Montello SpA - Bergamo	10.30	2,280
Cotonificio Olcese Veneziano SpA - Milan	3.67	2,095
Ubae SpA - Rome	2.00	2,000
Servizi Interbancari SpA - Rome	5.00	1,689
Caat SpA - Turin	3.39	1,474
Compagnie Laitiere Europeenne - Paris	0.30	1,467
Villa Erba SpA - Cernobbio	4.57	1,429
Sint SpA - Rome	2.77	1,220
Italconsult SpA - Rome	12.38	1,096
Copernic - Puteaux	2.09	1,060
Cnd - Paris	5.12	1,027
Other minor equity investments		23,248
Total		371,447

The results shown in the tables above for Galileo Holding reflect the adjustment of the company's equity deficit which should even out as a result of the proposed debt restructuring. They also reflect the losses accrued by the Bank deriving from the transfer of loans to investments, but do not take account of the related loan writebacks included in consolidated statement of income caption I 30.

The book values of Apokè Six and Apokè Two reflect the effect of the debt restructuring in progress. These companies are carried at equity, determined on the basis of assets and liabilities that have been adjusted to take account, in particular, of loan writedowns recorded in the Bank's statutory financial statements.



As regards Apokè Two, in particular, the negative shareholders' equity as of December 31, 1997, 11.8 billion lire, has been adjusted by the same amount to take account of unrealized gains on assets to be sold.

The carrying value of Apokè Six, as of December 31, 1997, 3.5 billion lire, has been adjusted by the same amount to take account of likely charges in connection with the debt restructuring currently in progress, since such charges are not included in the equity value indicated above.

The carrying value of Sotim, as of December 31, 1997, 25,695 million lire, has been adjusted by 695 million lire to align it to the price fixed in the preliminary sale contract for the entire group.

### Composition of investment portfolio

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Investment in banks			
1. quoted	-	-	-
2. unquoted	-	-	-
b) Investment in financial institutions			
1. quoted	-	-	-
2. unquoted	9,159	57	n.s.
c) Other investments			
1. quoted	-	-	-
2. unquoted	165,856	524,379	-68.4
Total	175,015	524,436	-66.6

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Investment in banks			
1. quoted	15,200	24,137	-37.0
2. unquoted	293,848	208,050	41.2
b) Investment in financial institutions			
1. quoted	-	-	-
2. unquoted	55,626	99,851	-44.3
c) Other investments			
1. quoted	2,095	83,650	-97.5
2. unquoted	353,807	329,271	7.5
Total	720,576	744,959	-3.3

## Changes during the year in the investment portfolio

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

millions of lire

A. Opening balance	524,436
B. Increases	
B1. purchases	59,464
B2. writebacks	-
B3. revaluations	-
B4. other changes	193,852
C. Decreases	
C1. sales	38,023
C2. adjustments	-
including:	
– permanent writedowns	-
C3. other changes	564,714
D. Closing balance	175,015
E. Total revaluations	-
F. Total adjustments	-

Subcaptions B4. “Increases - other changes” and C3. “Decreases - other changes” are detailed below:

B4. “Increases - other changes”

millions of lire

Waiver by the Bank of loans to Apokè Six Srl	110,620
Waiver by the Bank of loans to Apokè Two Srl (in liquidation)	60,291
Gains deriving from investments carried at equity	14,149
Changes in book value of investments carried at equity	201
Change in scope of consolidation	8,591
Total	193,852

C3. “Decreases - other changes”

millions of lire

Change in scope of consolidation	326,676
Losses deriving from investments carried at equity	203,812
Loss on disposal of Immobiliare Colonna '92 Srl	34,226
Total	564,714

Other equity investments (table 3.6.2 B.I.)

millions of lire

A. Opening balance	744,959
B. Increases	
B1. purchases	161,359
B2. writebacks	517
B3. revaluations	-
B4. other changes	416,815
C. Decreases	
C1. sales	419,377
C2. adjustments	6,239
including:	
– permanent writedowns	6,239
C3. other changes	177,458
D. Closing balance	720,576
E. Total revaluations	212,913
F. Total adjustments	79,177

Subcaptions B4. "Increases - other changes" and C3. "Decreases - other changes" are detailed below:

B4. "Increases - other changes"	millions of lire
Gains on disposals	70,745
Gains deriving from investments carried at equity	18,022
Other changes	22,698
Change in scope of consolidation	305,350
<b>Total</b>	<b>416,815</b>

C3. "Decreases - other changes"	millions of lire
Goodwill arising on consolidation of newly-acquired companies	19,286
Losses deriving from investments carried at equity	33,043
Transfer to dealing portfolio	99,998
Other changes	16,076
Losses on disposals	9,055
<b>Total</b>	<b>177,458</b>

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.

**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 Banking Group, as defined pursuant to article 4 of 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.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Assets			
1. due from banks	-	-	-
of which:			
- subordinated	-	-	-
2. due from financial institutions	-	240,852	n.s.
of which:			
- subordinated	-	-	-
3. due from other customers	343,528	627,332	-45.2
of which:			
- subordinated	-	-	-
4. bonds and other debt securities	-	-	-
of which:			
- subordinated	-	-	-
<b>Total assets</b>	<b>343,528</b>	<b>868,184</b>	<b>-60.4</b>
b) Liabilities			
1. due to banks	-	-	-
2. due to financial institutions	1,898	35,945	-94.7
3. due to other customers	15,651	39,559	-60.4
4. securities issued	-	-	-
5. subordinated liabilities	-	-	-
<b>Total liabilities</b>	<b>17,549</b>	<b>75,504</b>	<b>-76.8</b>
c) Guarantees and commitments			
1. guarantees given	5,642	25,691	-78.0
2. commitments	-	-	-
<b>Total guarantees and commitments</b>	<b>5,642</b>	<b>25,691</b>	<b>-78.0</b>

Amounts due to and from investments (non-Group companies) (table 3.3 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Assets			
1. due from banks (a)	5,153,847	4,983,066	+3.4
of which:			
– subordinated	560	560	-
2. due from financial institutions	561,924	1,064,027	-47.2
of which:			
– subordinated	-	-	-
3. due from other customers	282,929	346,880	-18.4
of which:			
– subordinated	-	-	-
4. bonds and other debt securities	12,773	62,894	-79.7
of which:			
– subordinated	-	-	-
Total assets	6,011,473	6,456,867	-6.9
b) Liabilities			
1. due to banks (b)	3,663,035	7,169,932	-48.9
2. due to financial institutions	159,523	259,608	-38.6
3. due to other customers	128,946	186,015	-30.7
4. securities issued	-	-	-
5. subordinated liabilities	-	-	-
Total liabilities	3,951,504	7,615,555	-48.1
c) Guarantees and commitments			
1. guarantees given	555,553	579,617	-4.2
2. commitments	-	29,584	n.s.
Total guarantees and commitments	555,553	609,201	-8.8

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

(b) Including repurchase agreements 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 report on operations describes the performance of significant investments during the year, while the key financial data of these companies is set out in an attachment to these notes.

#### Section 4

### Tangible and intangible fixed assets

Tangible and intangible fixed assets, reported in consolidated asset captions 120 and 110, amount to 3,265,638 million lire, net of accumulated depreciation, amortization and writedowns totalling to 2,691,971 million lire, of which 469,273 million lire represents the charge for the year. They comprise the following:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Tangible fixed assets (caption 120)	2,805,412	3,199,239	-12.3
Intangible fixed assets (caption 110)	460,226	509,310	-9.6
Total	3,265,638	3,708,549	-11.9

#### Tangible fixed assets (caption 120)

Tangible fixed assets amount to 2,805,412 million lire, net of accumulated depreciation and writedowns totalling 2,221,509 million lire, of which 321,831 million lire represents the charge for the year. They comprise the following:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Property			
– operating	2,369,068	2,743,456	-13.6
– non-operating	194,980	194,335	+0.3
– undergoing renovation	28,336	25,267	+12.1
Furniture and installations			
– vehicles	2,077	3,022	-31.3
– office furniture and machines	106,380	68,999	+54.2
– electronic machines	67,903	80,397	-15.5
– general and specific installations	36,668	83,763	-56.2
Total	2,805,412	3,199,239	-12.3

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

millions of lire

A. Opening balance	3,199,239
B. Increases	
B1. purchases	163,051
B2. writebacks	-
B3. revaluations	-
B4. other changes	105,811
C. Decreases	
C1. sales	126,038
C2. adjustments	
a) depreciation	255,818
b) permanent writedowns	66,013
C3. other changes	214,820
D. Closing balance	2,805,412
E. Total revaluations	2,189,266
F. Total adjustments	
a) accumulated depreciation	2,139,812
b) permanent writedowns	81,697

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

	<i>millions of lire</i>	
	Property	Furniture and installations
Opening balance	2,963,058	236,181
Increases		
– purchases	29,217	133,834
– writebacks	-	-
– revaluations	-	-
– other changes		
– incremental costs	9,189	-
– gains on disposals	1,070	1,516
– other	41,013	53,023
Decreases		
– sales	119,881	6,157
– adjustments		
– depreciation	108,409	147,409
– permanent writedowns	66,013	-
– other changes		
– losses on disposals	4,178	132
– change in scope of consolidation	132,259	11,080
– other	20,423	46,748
Closing balance	2,592,384	213,028
Total revaluations	2,189,266	-
Total adjustments		
– accumulated depreciation	908,294	1,231,518
– permanent writedowns	81,697	-

Total revaluations and adjustments identified in the above table comprise all the revaluations and adjustments recorded over time in relation to tangible fixed assets held at year-end.

Advances paid for the purchase of tangible fixed assets totalled 120 million lire at year-end.

#### **Intangible fixed assets (caption 110)**

Intangible fixed assets totalling 460,226 million lire, net of accumulated amortization totalling 470,462 million lire, of which 147,442 million lire represents the charge for the year. They comprise the following:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Merger differences	298,887	369,659	-19.1
Software	49,659	35,586	+39.5
Start-up and capital increase expenses	6,197	8,662	-28.5
Goodwill	193	1,817	-89.4
Other deferred charges	105,290	93,586	+12.5
Total	460,226	509,310	-9.6

A. Opening balance	509,310
B. Increases	
B1. purchases	103,697
B2. writebacks	-
B3. revaluations	-
B4. other changes	8,987
C. Decreases	
C1. sales	20
C2. adjustments	
a) amortization	147,442
b) permanent writedowns	-
C3. other changes	14,306
D. Closing balance	460,226
<hr/>	
E. Total revaluations	-
F. Total adjustments	
a) accumulated amortization	470,462
b) permanent writedowns	-

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

	Start-up and capital increase expenses	Goodwill	Merger differences	Software	Other deferred charges
Opening balance	8,662	1,816	369,659	35,587	93,586
Increases					
– purchases	31	-	-	41,219	62,447
– writebacks	-	-	-	-	-
– revaluations	-	-	-	-	-
– other changes	-	-	-	8,197	790
Decreases					
– sales	-	-	-	20	-
– adjustments					
– amortization	2,496	1,624	70,772	34,911	37,639
– permanent writedowns	-	-	-	-	-
– other changes	-	-	-	412	13,894
Closing balance	6,197	192	298,887	49,660	105,290
<hr/>					
Total revaluations	-	-	-	-	-
Total adjustments					
– accumulated amortization	5,114	10,977	317,211	66,780	70,380
– permanent writedowns	-	-	-	-	-

Total adjustments identified in the table above comprise all the adjustments applicable to intangible fixed assets not fully amortized at year-end.

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

Other deferred charges include leasehold improvements of 29,724 million lire.

## Section 5

### Other assets

Consolidated asset captions 150 and 160 total 27,722,859 million lire and comprise the following:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Other assets (caption 150)	16,175,404	14,965,789	+8.1
Accrued income and prepaid expenses (caption 160)	11,547,455	11,051,106	+4.5
Total	27,722,859	26,016,895	+6.6

### Other assets (caption 150)

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Valuation of derivative transactions pertaining to complex financial portfolios	6,828,869	5,263,761	+29.7
Unprocessed transactions (a)	2,232,455	1,798,449	+24.1
Transactions by foreign branches	1,447,868	892,517	+62.2
Amounts in transit between branches (a)	1,326,037	3,045,397	-56.5
Due from tax authorities	1,281,457	1,312,765	-2.4
– tax credits relating to prior years	554,875	768,730	-27.8
– tax withholdings overpaid during the year on bank interest income	377,868	142,694	+164.8
– taxes withheld during the year	151,488	310,881	-51.3
– prepaid current year direct taxes	145,329	90,460	+60.7
– taxes paid in advance on termination indemnities (Law 662/96)	51,897	-	n.s.
Effect of currency hedges, forex swap and cross-currency swap transactions	604,873	365,190	+65.6
Net effect of translating funds from international agencies using current rates, with the exchange risk borne by third parties	238,802	290,387	-17.8
Tax collection accounts	205,249	98,087	+109.3
Deposits with clearing-houses to secure derivative contracts	150,112	122,317	+22.7
Premiums paid on purchased options	138,137	192,419	-28.2
Checks and other instruments held	91,459	202,783	-54.9
Advance payment of current income taxes in excess of that due	86,000	-	n.s.
Items relating to securities transactions	87,316	189,183	-53.8
Other	1,456,770	1,192,534	+22.2
Total	16,175,404	14,965,789	+8.1

(a) Largely allocated at the beginning of 1998.

The above assets have not been written down since they are fully collectible.

In application of the new accounting policy regarding the determination of deferred taxation, which is explained in detail in the introduction to these notes, assets representing 1997 income taxes paid in advance by the Bank, 86,000 million lire, are recorded in the consolidated balance sheet and the portion of such prepaid taxes in excess of income taxes for the year is booked as extraordinary income.



## Accrued income and prepaid expenses (caption 160)

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Accrued income			
– income from derivative contracts (a)	7,644,062	6,685,171	+14.3
– interest from loans to customers	1,555,377	1,872,609	-16.9
– interest on securities	1,055,581	1,311,451	-19.5
– bank interest	583,170	623,511	-6.5
– other income	90,120	97,030	-7.1
Prepaid expenses			
– current income taxes paid in advance	200,000	-	n.s.
– discounts on bond issues	129,180	143,710	-10.1
– charges on derivative contracts	116,628	213,651	-45.4
– commission on placement of securities and mortgage loans	59,063	61,794	-4.4
– other charges	114,274	42,179	+170.9
Total	11,547,455	11,051,106	+4.5

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

Prepaid expenses relating to 1997 taxes paid in advance are recorded in the financial statements in direct reduction of income taxes for the year to their entire extent.

Adjustments for accrued income and prepaid expenses (table 5.3 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Consolidated asset captions	-	-	-
b) Consolidated liability captions	-	-	-

Distribution of subordinated assets (table 5.4 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Due from banks	560	560	-
b) Loans to customers	115,367	123,514	-6.6
c) Bonds and other debt securities	403,995	290,269	+39.2
Total	519,922	414,343	+25.5

## Section 6 Payables

Total deposits and other sources of funds, reported in consolidated liability captions 10, 20, 30 and 40, amount to 208,937,818 million lire and are detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Due to banks (caption 10)	52,259,234	60,146,731	-13.1
Due to customers (caption 20)	78,170,890	71,073,445	+10.0
Securities issued (caption 30)	78,388,582	84,785,413	-7.5
Public funds administered (caption 40)	119,112	121,123	-1.7
Total	208,937,818	216,126,712	-3.3

### Due to banks (caption 10)

Deposits taken from banks amount to 52,259,234 million lire analyzed as follows:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Due to central banks			
– repurchase agreements	3,472,772	7,011,954	-50.5
– other deposits from the Italian Exchange Office	1,517,834	437,879	+246.6
– other deposits from central banks	654,926	602,659	+8.7
– advances	29,848	57,769	-48.3
Due to banks			
– deposits	31,435,648	37,554,949	-16.3
– other loans	4,343,994	5,298,904	-18.0
– repurchase agreements and securities borrowed	3,958,716	3,531,423	+12.1
– long-term loans from international bodies	3,694,376	3,625,891	+1.9
– current accounts	3,076,943	1,919,078	+60.3
– other	74,177	106,225	-30.2
Total	52,259,234	60,146,731	-13.1

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Repurchase agreements	7,357,461	10,458,514	-29.7
b) Securities borrowed	74,027	5,105	n.s.

### Due to customers and securities issued (captions 20 and 30)

Funds obtained from customers, comprising deposits from customers and securities issued, amount to 156,559,472 million lire, as detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Due to customers			
– current accounts	50,545,105	45,480,347	+11.1
– repurchase agreements and securities borrowed	16,752,688	15,013,051	+11.6
– savings deposits	7,398,034	7,867,454	-6.0
– other	3,475,063	2,712,593	+28.1
Securities issued			
– bonds	49,451,726	49,452,215	-
– certificates of deposit	26,691,009	32,383,468	-17.6
– commercial paper	1,697,221	2,135,256	-20.5
– bankers' drafts	519,871	768,433	-32.3
– other securities	28,755	46,041	-37.5
Total	156,559,472	155,858,858	+0.4

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Repurchase agreements	16,573,583	14,898,815	+11.2
b) Securities borrowed	179,105	114,236	+56.8

Securities issued comprise those due or ready for repayment totalling 14,827 million lire.

**Public funds administered  
(caption 40)**

Public funds administered, provided by the State and other public entities, amount to 119,112 million lire, as analyzed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Funds provided by the State	29,429	34,167	-13.9
Funds provided by regional public agencies	10,778	10,083	+6.9
Other funds	78,905	76,873	+2.6
Total	119,112	121,123	-1.7

**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 11 of these notes.

## Section 7 Provisions

Provisions that do not adjust asset accounts, reported in consolidated liability captions 70 and 80, amount to 1,679,714 million lire and are detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Provision for termination indemnities (caption 70)	724,212	849,945	-14.8
Provisions for risks and charges (caption 80)			
– pensions and similar commitments (caption 80.a)	10,708	79,189	-86.5
– taxation (caption 80.b)	492,998	537,563	-8.3
– risks arising on consolidation (caption 80.c)	-	-	-
– other (caption 80.d)			
– provisions for guarantees and commitments	65,941	63,044	+4.6
– provisions for other risks and charges	206,343	175,844	+17.3
– provisions for other personnel charges	179,512	169,404	+6.0
Total	1,679,714	1,874,989	-10.4

### Provision for termination indemnities (caption 70)

	millions of lire
Opening balance	849,945
Increases	
– provisions	74,027
– transfers	1,293
Decreases	
– indemnities paid to employees leaving the Bank	28,229
– advances allowed under Law 297/82	172,557
– transfers	220
– other changes	47
Closing balance	724,212

### Provisions for risks and charges (caption 80)

<i>Taxation (caption 80.b)</i>	millions of lire
Opening balance	537,563
Increases	
– provision for 1997 income taxes	420,703
– exchange differences	4,931
Decreases	
– payment of 1996 income taxes	461,990
– advance payment of 1996 income taxes	5,000
– change in scope of consolidation	3,209
– exchange differences	-
Closing balance	492,998
of which:	
– current direct and indirect taxes	466,998
– fiscal disputes	26,000

The provision for the year includes additional taxation levied under article 9 of Decree 358/97, which introduced the possibility of obtaining recognition for tax purposes of merger differences recorded as of 31 December 1996. This tax, 27%, (99,808 million lire) concerns merger

differences (369,659 million lire) that were recorded as intangible fixed assets as of 31 December 1996 since they represent goodwill deriving from banks absorbed in prior years (Banca Provinciale Lombarda, Banco Lariano and Crediop).

No provision has been made for the capital tax levied under Decree 394/92, as converted into Law 461/92, since it will be deducted from reserves during 1998 (as permitted by art. 4.2 bis of the above Decree, introduced by art. 62.11 of Decree 331/93, as converted into Law 427/93). The combined amount payable by Italian consolidated companies is estimated to be around 87 billion lire.

The provision for the year does not include taxation payable under Decree 467/97 regarding the compulsory release, via payment of a substitute tax, of reserves subject to grossing up for equalization tax purposes on distribution. The substitute tax charge amounts to 14,312 million lire and, as permitted by the regulations, the tax has been paid out of the reserve established under article 7.3, Law 218/90.

In regard to deferred taxation, on the basis of the new accounting treatment adopted in line with international accounting principles, the Group, which has a total of 381 million lire of assets deriving from prepaid taxes, has recorded deferred tax assets amounting to 286 million lire. Such deferred tax assets are limited to the difference between the book value and the value for tax purposes of assets and liabilities which, as far as 1997 taxes are concerned, will be absorbed over the next four years. Accordingly, the unused balance of prepaid taxes amounts to around 95 million lire.

*Provisions for risks and charges - Other provisions (caption 80.d)*

Provisions for guarantees and commitments, 65,941 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, 206,343 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 from the Bank's commitment to the Interbank Deposit Guarantee Fund and in connection with guarantees given by the Parent Bank on the disposal of equity investments.

The provision for other personnel charges, 179,512 million lire, includes: 169,404 million lire to cover the Bank's commitment to the independent supplementary pension fund regarding unfunded pension liabilities; 9,000 million lire provided to the technical reserves, determined on the basis

of mathematical and actuarial criteria, designed to cover long-service bonuses to the Parent Bank's employees; and 1,108 million lire relating to likely costs to be incurred in connection with employees.

**Reserves for possible loan losses (caption 90)**

The reserves for possible loan losses recorded by consolidated companies do not adjust the value of specific assets and have been eliminated on consolidation, since they were provided solely for fiscal purposes.

*Analysis of caption 90 "Reserves for possible loan losses" (table 7.1 B.I.)*

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Non-performing loans	—	—	—
Other loans	—	—	—

*Changes during the year in "Reserves for possible loan losses" (table 7.2 B.I.)*

*millions of lire*

A. Opening balance	—
B. Increases	
B1. provisions	—
B2. other changes	—
C. Decreases	
C1. releases	—
C2. other changes	—
D. Closing balance	—

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

The Group interest in shareholders' equity, reported in consolidated liability captions 100, 120, 130, 150, 160, 170, 180 and 200, amounts to 9,761,577 million lire, while minority interests (caption 140) amount to 470,677 million lire and subordinated liabilities (caption 110) to 3,527,524 million lire, as detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Shareholders' equity			
– capital (caption 150)	8,159,929	8,159,929	-
– additional paid-in capital (caption 160)	275,000	275,000	-
– reserves (caption 170)			
– legal reserve	205,960	176,762	+16.5
– statutory reserves	65,925	36,573	+80.3
– reserve for the purchase of own shares	200,000	-	n.s.
– other reserves	620,031	544,191	+13.9
– revaluation reserves (caption 180)	111	2,536	-95.6
– reserve for general banking risks (100)	22,005	11,400	+93.0
– negative goodwill arising on consolidation (caption 120)	38,589	54,010	-28.6
– negative goodwill arising on application of the equity method (130)	6,228	15,070	-58.7
– net income for the year (caption 200)	167,799	603,014	-72.2
Group interest in shareholders' equity	9,761,577	9,878,485	-1.2
Minority interests (caption 140)	470,677	59,831	+686.7
Subordinated liabilities (caption 110)	3,527,524	3,578,341	-1.4

**Group interest in consolidated**  
**shareholders' equity**

*Capital, equity reserves and net income for the year (captions 100, 150, 160, 170, 180 and 200)*

Capital, additional paid-in capital, the legal reserve, the statutory reserve and the reserve for the purchase of own shares 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 revaluation reserves and the reserve for general banking risks comprise 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.

The increase in minority interests essentially relates to the sale to third parties of 40% of the Crediop investment, the effects of which are described in the introduction to these notes.

*Negative goodwill arising on consolidation (caption 120)*

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Sanpaolo Bank SA	16,987	16,987	-
Crediop Overseas Bank Ltd	10,013	16,689	-40.0
Crediop Finance Plc	-	8,264	n.s.
Sanpaolo Invest Sim SpA	7,246	7,246	-
Intersim SpA	2,317	2,317	-
Sanpaolo Gestion Internationale SA	1,367	1,367	-
Gesdiner SA	-	481	n.s.
Sanpaolo Asset Management Sim SpA	264	264	-
Sanpaolo Leasing GmBH	170	170	-
Sanpaolo Fiduciaria SpA	127	127	-
Sanpaolo Us Financial Co.	98	98	-
Total	38,589	54,010	-28.6

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
BNC Assicurazioni SpA	3,423	11,411	-70.0
Banca Italo Romena SpA	2,044	2,044	-
Serleasing SpA	-	727	n.s.
Finconsumo SpA	560	560	-
Società Italiana di Monitoraggio SpA	191	318	-40.0
San Marino Gestion SA	10	10	-
Total	6,228	15,070	-58.7

Changes concern companies that were sold or ceased activities during the year, or whose equity ratios were reduced during the year.

*Positive goodwill arising on consolidation (asset caption 90)*

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Sanpaolo Fondi SpA	17,890	6,497	+175.4
Sanpaolo Riscossioni Genova SpA	1,831	2,847	-35.7
Sanpaolo Riscossioni Prato SpA	813	1,626	-50.0
Eurosic (subsidiary of Banque Sanpaolo SA)	46	106	-56.6
Total	20,580	11,076	+85.8

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Sanpaolo Vita SpA	138,416	184,555	-25.0
Inter-Europa Bank RT	15,429	-	n.s.
Gedeam I.G. Inc. SA	-	16,744	n.s.
Total	153,845	201,299	-23.6



The positive goodwill indicated above is stated net of the amortization charge for the year: 8,799 million lire in relation to goodwill arising on consolidation and 66,740 million lire regarding goodwill arising on application of the equity method.

Changes concern companies in which the Group's holding was increased or acquired during the year.

*Other information relating to the Group's interest in consolidated stockholders' equity*

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 1997 net income and shareholders' equity and the corresponding consolidated amounts.

*Subordinated liabilities (caption 110)*

Loan	Book value as of 12/31/97 (L/mil)	Original currency millions	Interest rate	Issue date	Maturity date	Book value as of 12/31/96
Notes in Luxembourg francs	47,587	1,000	7.75%	05/26/93	05/26/00	48,242
Notes in Luxembourg francs	47,587	1,000	7.625%	07/09/93	07/09/01	48,242
Notes in Luxembourg francs	47,587	1,000	9%	02/10/92	02/10/00	48,242
Notes in Luxembourg francs	104,692	2,200	9.375%	12/18/91	12/18/98	106,132
Notes in US dollars	291,145	165	floating	07/30/93	07/30/03	253,309
Notes in US dollars	156,568	89	floating	09/24/93	09/24/03	136,221
Notes in US dollars	166,243	94	floating	11/10/93	11/10/05	159,945
Notes in US dollars	211,103	120	floating	08/25/95	08/25/00	244,891
Notes in Canadian dollars	185,017	151	floating	11/10/93	11/10/03	174,619
Notes in Italian lire	699,996	700,000	10.4%	06/30/94	06/30/04	706,262
Notes in Eurolire	197,999	198,000	floating	07/06/95	07/06/00	199,771
Notes in Eurolire	52,000	52,000	floating	12/30/96	12/30/01	52,465
Subordinated loan in Italian lire	125,000	125,000	11.2%	06/01/95	06/01/05	125,000
Subordinated loan in Italian lire	130,000	130,000	floating	05/15/95	05/15/05	130,000
Subordinated loan in Italian lire	210,000	210,000	11.5%	07/01/95	07/01/00	210,000
Subordinated loan in Italian lire	290,000	290,000	floating	07/01/95	07/01/00	290,000
Subordinated loan in Italian lire	245,000	245,000	floating	08/01/95	08/01/00	245,000
Subordinated loan in Italian lire	320,000	320,000	floating	01/02/96	01/02/01	400,000
Total	3,527,524					3,578,341

Contractually, subordinated loans may not be redeemed early, nor converted into capital or any other type of liability.

Subordinated liabilities not included in the calculation of capital for Bank of Italy monitoring purposes amount to 487,739 million lire. The remaining subordinated liabilities comply with the conditions established by the Bank of Italy for inclusion in the supplementary capital defined for monitoring purposes. Some of these loans, 255,943 million lire, are held in the Bank's portfolio.

## Section 9 Other liabilities

liability captions 50 and 60 amount to 32,340,485 million lire and comprise the following:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Other liabilities (caption 50)	19,644,922	18,020,037	+9.0
Accrued expense and deferred income (caption 60)	12,695,563	12,679,823	+0.1
Total	32,340,485	30,699,860	+5.3

### Other liabilities (caption 50)

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Valuation of currency hedges and derivative transactions pertaining to complex financial portfolios	6,065,928	5,185,283	+17.0
Items relating to securities transactions	4,315,711	2,875,985	+50.1
Amounts available for third parties	2,592,628	2,271,697	+14.1
Unprocessed transactions (a)	1,488,414	1,469,414	+1.3
Transactions involving foreign branches	1,114,413	515,641	+116.1
Amounts in transit with branches (a)	661,486	1,910,564	-65.4
Non-liquid balances from portfolio transactions	506,240	226,313	+123.7
Amounts due to employees	370,857	416,427	-10.9
Due to the tax authorities	237,602	648,078	-63.3
Premiums collected on options sold	151,585	249,960	-39.4
Deposits guaranteeing agricultural and construction loans	95,550	139,926	-31.7
Tax payments accounts	70,479	52,691	+33.8
Other	1,974,029	2,058,058	-4.1
Total	19,644,922	18,020,037	+9.0

(a) Largely allocated at the beginning of 1998.

### Accrued expense and deferred income (caption 60)

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

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Accrued expense			
– charges on derivative contracts (a)	7,772,554	6,868,210	+13.2
– interest on securities issued	3,157,030	3,699,979	-14.7
– interest on amounts due to banks	529,244	624,388	-15.2
– interest on amounts due to customers	283,214	256,635	+10.4
– payroll and other operating costs	159,812	136,563	+17.0
– other	145,350	163,807	-11.3
Deferred income			
– interest on discounted notes	170,105	174,294	-2.4
– income from derivative contracts	152,769	472,327	-67.7
– other	325,485	283,620	+14.8
Total	12,695,563	12,679,823	+0.1

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

Adjustments for accrued expenses and deferred income (table 9.3 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Consolidated liability captions	-	-	-
b) Consolidated asset captions	-	-	-

## Section 10 Guarantees and commitments

Consolidated balance sheet captions 10 and 20, relating to guarantees and commitments that involve lending risk, total 62,322,947 million lire and are detailed as follows:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Guarantees given (caption 10)	22,898,664	19,573,430	+17.0
Commitments (caption 20)	39,424,283	37,032,894	+6.5
Total	62,322,947	56,606,324	+10.1

### Guarantees given (caption 10)

Analysis of caption 10 "Guarantees given" (table 10.1 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Commercial guarantees	19,025,193	16,966,725	+12.1
b) Financial guarantees	3,599,117	2,406,844	+49.5
c) Assets lodged in guarantee	274,354	199,861	+37.3
Total	22,898,664	19,573,430	+17.0

Unsecured guarantees given, together with assets lodged to guarantee third-party commitments, comprise the following:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Endorsements and sureties	15,961,663	14,915,846	+7.0
Documentary credits	852,714	612,260	+39.3
Acceptances	387,093	322,317	+20.1
Other	5,422,840	3,523,146	+53.9
Assets lodged in guarantee			
– securities	12,847	19,469	-34.0
– other	261,507	180,392	+45.0
Total	22,898,664	19,573,430	+17.0

### Commitments (caption 20)

Analysis of caption 20 "Commitments" (table 10.2 B.I.)

	12/31/96 (L/mil)	12/31/95 (L/mil)	Change (%)
a) Commitments to grant finance (certain to be called on)	18,950,673	17,547,213	+8.0
b) Commitments to grant finance (not certain to be called on)	20,473,610	19,485,681	+5.1
Total	39,424,283	37,032,894	+6.5

Firm commitments that may or may not be called upon are detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Undrawn lines of credit granted	12,276,535	10,047,446	+22.2
Deposits and loans to be made	9,097,331	8,613,771	+5.6
Securities to be purchased, not yet settled	6,338,895	5,697,371	+11.3
Put options issued	5,066,890	5,527,795	-8.3
Mortgage loans to be disbursed	4,606,656	4,264,609	+8.0
Membership of Interbank Deposit Guarantee Fund	109,151	244,078	-55.3
Other commitments certain to be called on	700,876	499,863	+40.2
Other commitments not certain to be called on	1,227,949	2,137,961	-42.6
Total	39,424,283	37,032,894	+6.5

### Assets lodged to guarantee the Group's liabilities

(table 10.3 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Securities lodged with third parties to guarantee repurchase agreements	10,882,784	13,077,579	-16.8
Securities lodged to guarantee advances from central banks	604,519	367,827	+64.3
Securities lodged with the Bank of Italy to guarantee bankers' drafts	130,000	126,000	+3.2
Securities lodged with the clearing-house for the Italian futures exchange (MIF)	71,000	85,000	-16.5
Total	11,688,303	13,656,406	-14.4

### Unused lines of credit

The Group has unused lines of credit, excluding operating limits, totalling 411,211 million lire, as detailed below:

(table 10.4 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Central banks	110,211	231,013	-52.3
b) Other banks	301,000	442,216	-31.9
Total	411,211	673,229	-38.9

**Forward transactions**

Forward transactions, excluding dealing transactions on behalf of third parties, total 682,795,903 million lire, as detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Purchase/sale of			
– securities	12,083,583	10,873,053	+11.1
– currency	196,186,808	159,954,556	+22.7
Deposits and loans to be disbursed/received	15,891,989	20,023,447	-20.6
Derivative contracts	458,633,523	471,401,303	-2.7
<b>Total</b>	<b>682,795,903</b>	<b>662,252,359</b>	<b>+3.1</b>

(table 10.5 B.I.)

millions of lire

	Hedging	Dealing	Other	Total
1. Purchase/sale of				
1.1 securities				
– purchases	-	6,531,380	-	6,531,380
– sales	-	5,552,203	-	5,552,203
1.2 currency				
– currency against currency	42,741,313	8,742,867	-	51,484,180
– purchases against lire	57,745,991	8,144,527	-	65,890,518
– sales against lire	68,522,972	10,289,138	-	78,812,110
2. Deposits and loans				
– to be disbursed	-	-	9,097,331	9,097,331
– to be received	-	-	6,794,658	6,794,658
3. Derivative contracts				
3.1 with exchange of capital				
a) securities				
– purchases	-	10,672,394	-	10,672,394
– sales	-	11,436,207	-	11,436,207
b) currency				
– currency against currency	2,233,322	773,681	-	3,007,003
– purchases against lire	10,805,981	6,787,936	-	17,593,917
– sales against lire	1,924,369	6,991,282	-	8,915,651
c) other instruments				
– purchases	-	-	-	-
– sales	-	-	-	-
3.2 without exchange of capital				
a) currency				
– currency against currency	-	-	-	-
– purchases against lire	2,351,394	-	-	2,351,394
– sales against lire	55,371	-	-	55,371
b) other instruments				
– purchases	19,864,167	167,002,179	3,745,900	190,612,246
– sales	31,949,657	180,812,583	1,227,100	213,989,340
<b>Total</b>	<b>238,194,537</b>	<b>423,736,377</b>	<b>20,864,989</b>	<b>682,795,903</b>

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

Notional amounts

millions of lire

	Interest rates	Currency	Stockmarket index price	Other
OTC trading contracts				
– Forward (a)	56,217,792	27,176,532	-	-
– Swaps (b)	244,138,349	-	-	-
– Options purchased	21,134,665	6,628,406	-	-
– Options sold	25,669,023	7,291,144	-	-
Exchange traded contracts				
– Futures purchased	28,000	-	-	-
– Futures sold	6,111,000	-	13,200	-
– Options purchased	5,803,857	-	238,442	-
– Options sold	10,957,625	-	244,759	-
Total trading contracts	370,060,311	41,096,082	496,401	-
Total non-trading contracts	71,170,196	171,437,041	560,300	-
Total contracts	441,230,507	212,533,123	1,056,701	-

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

(b) Mainly comprising IRS and CIRS contracts basis swaps and domestic currency swap transactions.

Notional amounts of OTC transactions, related market values and add on

millions of lire

	Interest rate related	Exchange rate related	Stockmarket index price	Other
Notional amounts	441,230,507	212,533,123	-	-
Market value of OTC trading contracts				
- positive	7,786,062	77,407	-	-
- negative	7,445,372	62,401	-	-
Add on	1,352,320	146,703	-	-
Market value of OTC non-trading contracts				
- positive	1,115,528	2,135,354	-	-
- negative	1,365,554	1,823,911	-	-
Add on	926,466	1,732,480	-	-

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 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

millions of lire

	Up to 12 months	Between 1 and 5 years	Beyond 5 years
Interest rate related	210,767,850	152,226,616	51,490,567
Exchange rate related	208,828,845	3,686,793	17,485
Stockmarket index price	-	-	-
Other contracts	-	-	-

	Positive market value	Add on	Credit risk equivalent (a)
Governments, central banks and multilateral banks	69,773	42,713	112,486
Banks	7,848,254	3,054,042	10,902,296
Other operators	3,196,324	1,061,214	4,257,538
Total	11,114,351	4,157,969	15,272,320

The credit risk equivalent reported in the table above includes transactions with an original life not exceeding 14 days.

The above transactions are backed by secured guarantees totalling 231,693 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 Group's equity and defined by the Bank of Italy as "significant exposures", are as follows:

(table 11.1 B.I.)

	12/31/97	12/31/96	Change (%)
a) Amount (millions of lire)	21,704,796	20,593,984	+5.4
b) Number	6	4	+50.0

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.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Governments	21,692,028	18,696,544	+16.0
b) Other public entities	7,506,803	6,698,260	+12.1
c) Non-financial businesses	55,670,078	58,191,994	-4.3
d) Financial institutions	17,316,551	19,120,940	-9.4
e) Family businesses	9,788,475	10,370,989	-5.6
f) Other operators	19,646,782	19,435,418	+1.1
Total	131,620,717	132,514,145	-0.7

#### 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.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Construction and public works	9,644,556	10,728,182	-10.1
b) Sales and distribution services	8,372,512	9,602,464	-12.8
c) Wholesale and retail trade	8,230,783	8,658,870	-4.9
d) Textiles, leather and footwear, clothing	2,740,281	2,817,915	-2.8
e) Energy	2,709,869	2,586,609	+4.8
f) Other sectors	23,885,632	27,216,544	-12.2
Total	55,583,633	61,610,584	-9.8



**Distribution of guarantees given, by category of counterparty**

Guarantees given by the Bank are classified as follows:

(table 11.4 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Governments	97,104	1,055	n.s.
b) Other public entities	283,756	303,404	-6.5
c) Banks	612,896	850,814	-28.0
d) Non-financial businesses	16,016,711	13,444,116	+19.1
e) Financial institutions	2,977,031	2,425,802	+22.7
f) Family businesses	401,227	458,224	-12.4
g) Other operators	2,509,939	2,090,015	+20.1
Total	22,898,664	19,573,430	+17.0

**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:

(table 11.5 B.I.)

	12/31/97 (L/mil)				12/31/96 (L/mil)			
	Italy	Other EU countries	Other countries	Total	Italy	Other EU countries	Other countries	Total
1. Assets								
1.1 due from banks	23,062,178	21,654,677	9,961,976	54,678,831	24,348,002	22,092,454	11,581,722	58,022,178
1.2 loans to customers	108,652,139	14,064,745	8,903,833	131,620,717	112,038,484	15,516,946	4,958,715	132,514,145
1.3 securities	28,780,488	4,469,202	4,348,503	37,598,193	32,904,497	4,151,292	2,625,940	39,681,729
Total	160,494,805	40,188,624	23,214,312	223,897,741	169,290,983	41,760,692	19,166,377	230,218,052
2. Liabilities								
2.1 due to banks	15,575,652	24,602,313	12,081,269	52,259,234	23,492,768	23,400,436	13,253,527	60,146,731
2.2 due to customers	60,917,548	9,868,970	7,384,372	78,170,890	54,678,925	10,071,430	6,323,090	71,073,445
2.3 securities issued	65,011,518	4,075,989	9,301,075	78,388,582	72,690,307	3,838,502	8,256,604	84,785,413
2.4 other accounts	1,439,112	2,207,524	-	3,646,636	1,521,123	2,178,341	-	3,699,464
Total	142,943,830	40,754,796	28,766,716	212,465,342	152,383,123	39,488,709	27,833,221	219,705,053
3. Guarantees and commitments	33,111,766	14,798,747	14,412,434	62,322,947	35,699,771	15,863,134	5,043,419	56,606,324

## Maturities of assets and liabilities

The residual maturities of assets and liabilities as of 31 December 1997 are detailed in the following table:

(table 11.6 B.I.)

millions of lire

	Specified maturity							Unspecified maturity	Total
	On demand	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years Fixed rate	Between 1 and 5 years Floating rate	Beyond 5 years Fixed rate	Beyond 5 years Floating rate		
1. Assets									
1.1 Treasury bonds eligible for refinancing	421,778	305,802	3,978,051	4,478,611	860,410	1,711,940	1,060,431	-	12,817,023
1.2 due from banks	8,651,962	31,528,243	9,008,866	537,488	146,946	92,285	207,561	4,505,480	54,678,831
1.3 loans to customers	24,167,792	30,309,582	10,899,344	15,211,963	20,707,127	11,186,785	13,075,275	6,062,849	131,620,717
1.4 bonds and other debt securities	543,900	777,220	4,049,270	9,089,840	1,870,535	3,466,024	3,512,324	-	23,309,113
1.5 off-balance sheet transactions	-	181,727,180	160,077,599	72,741,176	11,274,421	25,655,949	4,541,070	-	456,017,395
Total assets	33,785,432	244,648,027	188,013,130	102,059,078	34,859,439	42,112,983	22,396,661	10,568,329	678,443,079
2. Liabilities									
2.1 due to banks	9,794,731	29,855,045	9,515,986	1,310,321	1,101,301	507,851	173,999	-	52,259,234
2.2 due to customers	49,911,033	25,606,107	1,747,052	631,895	49,144	225,659	-	-	78,170,890
2.3 securities issued:									
– bonds	1,105,417	688,086	4,925,075	9,123,123	17,711,861	8,963,143	6,935,021	-	49,451,726
– certificates of deposit	370,444	8,731,811	10,697,608	5,971,109	850,001	70,036	-	-	26,691,009
– other securities	548,626	1,697,221	-	-	-	-	-	-	2,245,847
2.4 subordinated liabilities	-	320,000	104,691	352,761	996,102	824,996	928,974	-	3,527,524
2.5 off-balance sheet transactions	-	173,216,395	160,669,618	81,344,594	12,049,898	26,233,995	2,172,938	-	455,687,438
Total liabilities	61,730,251	240,114,665	187,660,030	98,733,803	32,758,307	36,825,680	10,210,932	-	668,033,668

## Assets and liabilities denominated in foreign currencies

The Group's assets and liabilities denominated in foreign currencies are detailed below:

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Assets			
1. due from banks	23,402,260	26,483,866	-11.6
2. loans to customers	27,960,750	24,599,038	+13.7
3. securities	12,986,753	10,909,500	+19.0
4. equity investments	163,274	68,193	+139.4
5. other accounts	131,256	167,108	-21.5
Total assets	64,644,293	62,227,705	+3.9
b) Liabilities			
1. due to banks	34,615,350	34,110,167	+1.5
2. due to customers	17,384,722	17,844,308	-2.6
3. securities issued	10,460,413	9,610,442	+8.8
4. other accounts	1,257,529	1,219,843	+3.1
Total liabilities	63,718,014	62,784,760	+1.5

## 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 exclusively relate to futures contracts and options on futures, as summarized below:

(table 12.1 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Purchases			
1. settled	13,469,306	9,423,602	+42.9
2. not settled	222,883	278,063	-19.8
Total purchases	13,692,189	9,701,665	+41.1
b) Sales			
1. settled	13,669,372	9,654,680	+41.6
2. not settled	145,531	346,768	-58.0
Total sales	13,814,903	10,001,448	+38.1

#### Asset management

The total market value of portfolios managed on behalf of customers is detailed below:

(table 12.2 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Asset management	70,548,162	41,833,641	+68.6

#### 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.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
a) Third-party securities held on deposit	277,238,860	254,062,319	+9.1
b) Third-party securities deposited with third parties	187,560,052	164,107,296	+14.3
c) Portfolio securities deposited with third parties (a)	19,177,086	15,953,378	+20.2

- 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 16,358,921 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.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Debit adjustments			
1. current accounts	1,818,838	1,665,519	+9.2
2. central portfolio	686,779	837,719	-18.0
3. cash	-	-	-
4. other accounts	-	-	-
Credit adjustments			
1. current accounts	686,779	837,719	-18.0
2. transferors of notes and documents	1,818,838	1,665,519	+9.2
3. other accounts	-	-	-

### Other transactions

The Bank has also performed the following services for third parties:

(table 12.4 B.I.)

	12/31/97 (L/mil)	12/31/96 (L/mil)	Change (%)
Third-party portion of syndicated loans arranged by the Group, without representation	1,865,045	1,357,030	+37.4

## 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:

	1997 (L/mil)	1996 (L/mil)	Change (%)
Interest income and similar revenues (caption 10)	17,205,628	20,599,249	-16.5
Interest expense and similar charges (caption 20)	13,075,889	15,967,072	-18.1

### Interest income and similar revenues (caption 10)

Analysis of caption 10 "Interest income and similar revenues" (table 1.1 B.I.)

	1997 (L/mil)	1996 (L/mil)	Change (%)
a) On amounts due from banks including – deposits with central banks	3,017,865 237,484	3,489,523 239,022	-13.5 -0.6
b) On loans to customers including – loans using public funds	11,166,506 257	13,334,814 292	-16.3 -12.0
c) On debt securities	3,006,248	3,762,591	-20.1
d) Other interest income	15,009	12,321	+21.8
e) Net differential on hedging transactions	-	-	
Total	17,205,628	20,599,249	-16.5

Detail of caption 10 "Interest income and similar revenues" (table 1.3 B.I.)

	1997 (L/mil)	1996 (L/mil)	Change (%)
a) On assets denominated in foreign currency	3,657,042	2,981,666	+22.7

Interest income includes 1,146,230 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.)

	1997 (L/mil)	1996 (L/mil)	Change (%)
a) On amounts due to banks	2,897,824	3,446,721	-15.9
b) On amounts due to customers	3,396,928	4,035,115	-15.8
c) On securities issued including: – certificates of deposit	6,233,360 2,283,843	7,575,780 2,901,793	-17.7 -21.3
d) On public funds administered	-	-	
e) On subordinated liabilities	292,776	320,016	-8.5
f) Net differential on hedging transactions	255,001	589,440	-56.7
Total	13,075,889	15,967,072	-18.1

Detail of caption 20 "Interest expense and similar charges" (table 1.4 B.I.)

	1997 (L/mil)	1996 (L/mil)	Change (%)
a) On liabilities denominated in foreign currency	5,262,748	3,938,586	+33.6

Interest expense includes charges of 1,610,418 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

### Commissions

Commission income and expense, detailed below, is reported in captions 40 and 50 of the consolidated statement of income:

	1997 (L/mil)	1996 (L/mil)	Change (%)
Commission income (caption 40)	2,157,152	1,528,413	+41.1
Commission expense (caption 50)	349,649	283,763	+23.2

#### Commission income (caption 40)

Analysis of caption 40 "Commission income" (table 2.1 B.I.)

	1997 (L/mil)	1996 (L/mil)	Change (%)
a) Guarantees given	76,197	89,718	-15.1
b) Collection and payment services	270,417	244,387	+10.7
c) Management, dealing and consultancy services			
1. dealing in securities	102,397	51,768	+97.8
2. dealing in currency	55,039	53,321	+3.2
3. asset management	92,558	78,222	+18.3
4. custody and administration of securities	39,220	43,454	-9.7
5. placement of securities	277,563	113,019	+145.6
6. consultancy services	2,446	109	n.s.
7. "door-to-door" sales of securities and financial products and services	89,803	73,137	+22.8
8. acceptance of instructions	87,586	47,630	+83.9
9. management of mutual funds	421,297	139,501	+202.0
d) Tax collection services	53,363	48,082	+11.0
e) Other services	589,266	546,065	+7.9
Total	2,157,152	1,528,413	+41.1

Subcaption "e) Other services" comprises, in particular:

	1997 (L/mil)	1996 (L/mil)	Change (%)
Loans granted	210,783	204,662	+3.0
Deposits and current account overdrafts	163,909	159,020	+3.1
Current accounts	118,979	108,810	+9.3
Banking functions in relation to mutual funds deposited	38,092	15,003	+153.9
Loan-arrangement activities	6,210	8,468	-26.7
Other services	51,293	50,102	+2.4
Total	589,266	546,065	+7.9

## Commission expense (caption 50)

Analysis of caption 50 "Commission expense" (table 2.2 B.I.)

	1997 (L/mil)	1996 (L/mil)	Change (%)
a) Collection and payment services	89,828	65,709	+36.7
b) Management and dealing services			
1. dealing in securities	28,215	27,405	+3.0
2. dealing in currency	7,134	7,821	-8.8
3. asset management	261	202	+29.2
4. custody and administration of securities	8,284	6,206	+33.5
5. placement of securities	1,391	52	n.s.
6. "door-to-door" sales of securities and financial products and services	150,360	106,193	+41.6
7. management of mutual funds	-	-	
c) Other services	64,176	70,175	-8.5
Total	349,649	283,763	+23.2

Subcaption "c) Other services" comprises, in particular:

	1997 (L/mil)	1996 (L/mil)	Change (%)
Intermediation on financing transactions	22,373	22,347	+0.1
Loans obtained	7,137	13,147	-45.7
Guarantees received	3,772	5,391	-30.0
Loan-arrangement activities	1,973	110	n.s.
Other services	28,921	29,180	-0.9
Total	64,176	70,175	-8.5

### Other information relating to commission

Information concerning commission arising on transactions with Group companies is reported in part C, section 7 of these notes.



**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:

	1997 (L/mil)	1996 (L/mil)	Change (%)
Profits (losses) on financial transactions (caption 60)	343,126	998,933	-65.7

**Profits (losses) on financial**  
**transactions (caption 60)**

Such profits and losses include writebacks of 92,155 million lire, writedowns of 39,816 million lire and the results of dealing transactions totalling 290,787 million lire. In particular:

*Analysis of caption 60 "Profits (losses) on financial transactions" (table 3.1 B.I.)*

*millions of lire*

	Securities transactions	Currency transactions	Other transactions	Total
A1. Revaluations	2,477 (a)		89,678(d)	92,155
A2. Writedowns	-26,032 (b)		-13,784(e)	-39,816
B. Other profits and losses	256,019	97,456 (c)	-62,688 (f)	290,787
Total	232,464	97,456	13,206	343,126
of which:				
1. on Government securities	-272,610			
2. on other debt securities	119,223			
3. on equities	539,583			
4. on security derivatives	-153,732			

(a) Including 2,090 million lire of writebacks on securities and 387 million lire of writebacks on security transactions to be settled.

(b) Including 25,157 million lire of writedowns of securities and 875 million lire on security transactions to be settled.

(c) Income relating to currency derivatives, 133,942 million lire, net of losses on currency transactions, 36,486 million lire.

(d) Including 86,047 million lire of revaluations on complex financial portfolios and 3,631 million lire of writebacks on asset swaps.

(e) Losses of 11,331 million lire on complex financial portfolios and of 2,453 million lire on asset swaps.

(f) Balance of profits and losses on dealing in derivatives, other than those on securities and foreign currency (IRS, CIRS, FRA and IRO). This caption includes 353,029 million lire of charges on equity swaps, compared with 475,851 million lire of profits from dealing in equities.

## Section 4

### Administrative costs



Administrative costs, detailed below, are reported in caption 80 of the consolidated statement of income:

	1997 (L/mil)	1996 (L/mil)	Change (%)
Payroll costs (caption 80.a)	2,860,190	2,985,511	-4.2
Other administrative costs (caption 80.b)	1,453,286	1,478,830	-1.7
Total	4,313,476	4,464,341	-3.4

### Payroll costs (caption 80.a)

*Analysis of payroll costs*

	1997 (L/mil)	1996 (L/mil)	Change (%)
Wages and salaries	1,951,354	2,050,708	-4.8
Social security charges	786,673	791,622	-0.6
Termination indemnities			
– provision for termination indemnities	74,027	89,082	-16.9
– indemnities accrued and paid during the year	7,381	9,748	-24.3
– contribution to the Bank's pension fund	39,652	32,613	+21.6
Pensions and similar commitments	1,103	11,738	-90.6
Total	2,860,190	2,985,511	-4.2

*Average number of employees by category (table 4.1 B.I.)*

	1997	1996	Change (%)
a) Executive	239	252	-5.2
b) Managers	4,171	4,439	-6.0
c) Other employees	18,764	19,237	-2.5
Total	23,174	23,928	-3.2

**Other administrative costs (caption 80.b)**

	1997 (L/mil)	1996 (L/mil)	Change (%)
Rental of premises	137,326	136,606	+0.5
Maintenance of operating assets	80,526	78,292	+2.9
Software maintenance and upgrades	66,084	79,619	-17.0
Postage and telegraph charges	60,143	57,729	+4.2
Consultancy services	50,509	44,805	+12.7
Telephone	47,110	51,946	-9.3
Advertising and entertainment	46,257	30,877	+49.8
Data transmission charges	44,085	44,993	-2.0
Public utilities	43,152	42,612	+1.3
Security services	38,820	37,349	+3.9
Equipment leasing charges	35,995	33,920	+6.1
Insurance premiums - banks and customers	34,070	24,402	+39.6
Legal and judiciary expenses	32,336	31,159	+3.8
Office supplies	31,059	34,190	-9.2
Cleaning of premises	29,618	30,215	-2.0
External data processing	24,560	25,721	-4.5
Databank access charges	23,929	25,624	-6.6
Maintenance of properties owned by the Bank	23,898	33,565	-28.8
Transport and counting of valuables	20,558	24,995	-17.8
Courier and transport services	16,333	16,538	-1.2
Maintenance of leasehold premises	13,168	21,638	-39.1
Investigation/commercial information costs	12,996	14,038	-7.4
Contributions and membership fees to trades unions and business associations	7,324	8,710	-15.9
Other expenses	72,173	88,051	-18.0
<b>Total</b>	<b>992,029</b>	<b>1,017,594</b>	<b>-2.5</b>
Indirect duties and taxes			
– stamp duties	207,053	203,559	+1.7
– non-recoverable VAT on purchases	165,376	158,748	+4.2
– taxes on stock exchange contracts	30,130	22,857	+31.8
– local property taxes	19,523	18,155	+7.5
– tax amnesty charge (pres. decree 601/73)	17,179	14,358	+19.6
– other	21,996	43,559	-49.5
<b>Total</b>	<b>461,257</b>	<b>461,236</b>	<b>-</b>
<b>Total other administrative costs</b>	<b>1,453,286</b>	<b>1,478,830</b>	<b>-1.7</b>

## Section 5

### Adjustments, writebacks and provisions

Adjustments and provisions, amounting to 2,673,741 million lire, are reported in captions 90, 100, 120 and 150 of the consolidated statement of income, while writebacks, amounting to 660,892 million lire, are reported in captions 130 and 160, as detailed below:

	1997 (L/mil)	1996 (L/mil)	Change (%)
Adjustments to intangible and tangible fixed assets (caption 90)	544,812	584,558	-6.8
Provisions for risks and charges (caption 100)	100,370	65,211	+53.9
Adjustments to loans and provisions for guarantees and commitments (caption 120)	2,008,293	1,587,820	+26.5
Writebacks of adjustments to loans and provisions for guarantees and commitments (caption 130)	658,313	611,259	+7.7
Adjustments to financial fixed assets (caption 150)	20,266	42,702	-52.5
Writebacks of adjustments to financial fixed assets (caption 160)	2,579	54	n.s.

#### Adjustments to intangible and tangible fixed assets (caption 90)

	1997 (L/mil)	1996 (L/mil)	Change (%)
Adjustments to intangible fixed assets			
– amortization of start-up and capital increase expenses	2,496	12,731	-80.4
– amortization of goodwill	1,624	2,693	-39.7
– amortization of merger differences	70,772	70,772	-
– amortization of software costs	34,911	29,726	+17.4
– amortization of other deferred charges	37,639	45,147	-16.6
– amortization of goodwill arising on consolidation	8,799	5,139	+71.2
– amortization of goodwill arising on application of the equity method	66,740	70,319	-5.1
Adjustments to tangible fixed assets			
– depreciation of property	108,409	141,146	-23.2
– permanent writedowns of property	66,013	70,572	-6.5
– depreciation of furniture and installations	147,409	136,313	+8.1
Total	544,812	584,558	-6.8

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, 100,370 million lire, recorded during the year are designed to increase 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 by the Parent Bank in connection with the disposal of equity investments. The caption also includes 9,000 million lire designed to cover long-service bonuses to the Bank's employees.

## 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.)

	1997 (L/mil)	1996 (L/mil)	Change (%)
a) Adjustments to loans	1,992,116	1,581,280	+26.0
of which:			
– general adjustments for country risk	83,802	25,614	+227.2
– other general adjustments	223,878	68,437	+227.1
b) Provisions for guarantees and commitments	16,177	6,540	+147.4
of which:			
– general provisions for country risk	170	78	+117.9
– other general provisions	-	810	n.s.
Total	2,008,293	1,587,820	+26.5

Adjustments to loans concern: writedowns with respect to their book value, 1,436,938 million lire; losses deriving from bankruptcy proceedings, 343,977 million lire; and losses on the sale of loans and settlements with customers, 211,201 million lire. Provisions of 16,177 million lire relate to expected losses on guarantees.

In addition to the above adjustments, default interest of 495,567 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)

	1997 (L/mil)	1996 (L/mil)	Change (%)
Revaluation of loans previously written down	273,574	360,204	-24.1
Revaluation of loans previously written off	130,000	-	n.s.
Revaluation of provisions for guarantees and commitments	11,558	1,205	+859.2
Collection of default interest previously written down	105,911	129,801	-18.4
Collection of loan principal previously written off	90,932	81,616	+11.4
Collection of loan principal previously written down	46,338	38,433	+20.6
Total	658,313	611,259	+7.7

## Provisions to reserves for possible loan losses (caption 140)

Provisions to reserves for possible loan losses recorded by consolidated companies have been eliminated on consolidation, since they were provided solely for fiscal purposes.

## Adjustments to financial fixed assets (caption 150)

### Adjustments to investment securities

Adjustments to investment securities, 14,027 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 Bank of Italy.

*Adjustments to equity investments*

Adjustments to equity investments, 6,239 million lire, relate to the writedown of holdings in the following non-consolidated companies to take account of permanent losses in value:

	millions of lire
Sgr SpA	2,792
Impresa Castelli SpA	1,350
Copernic	440
Tecnocittà Srl	420
Nomisma SpA	323
Feic SpA	149
Tecnation SpA	133
Imc	125
Società Centro Storico Napoli SCrl	103
Other minor equity investments	404
Total	6,239

**Writebacks of adjustments to financial fixed assets  
(caption 160)**


*Writebacks of investment securities*

Writebacks of investment securities, 2,062 million lire, relate to unsecured securities issued at the time of debt restructuring by residents of countries at risk for which the Bank of Italy has reduced the percentage of expected losses. Such writebacks concern, in particular, securities issued by customers resident in Ecuador, Bulgaria, Albania and Croatia.

*Writebacks of equity investments*

Writebacks of equity investments, 517 million lire, relate to Montello SpA, 480 million lire, and other minor investments, 37 million lire.

**Section 6**  
**Other consolidated**  
**statement of income**  
**captions**

 consolidated statement of income captions 30, 70, 110, 190, 200, 230 and 240, not discussed above, comprise:

	1997 (L/mil)	1996 (L/mil)	Change (%)
Dividends and other revenues (caption 30)	106,984	30,889	+246.3
Other operating income (caption 70)	412,669	369,944	+11.5
Other operating expenses (caption 110)	71,439	67,163	+6.4
Extraordinary income (caption 190)	460,514	124,327	+270.4
Extraordinary charges (caption 200)	190,296	142,943	+33.1
Change in the reserve for general banking risks (caption 230)	-10,605	-400	n.s.
Income taxes for the year (caption 240)	220,703	368,400	-40.1

**Dividends and other revenues (caption 30)**

	1997 (L/mil)	1996 (L/mil)	Change (%)
Shares, quotas and other equities			
– dividends	62,404	16,815	+271.1
– tax credits	31,966	4,666	+585.1
Equity investments, other than those consolidated line-by-line or carried at equity			
– dividends			
– Mediaset SpA	1,984	1,781	+11.4
– Banco Ambrosiano Veneto SpA	1,309	1,309	-
– Permasteelisa SpA	920	-	n.s.
– Italferr SpA	791	-	n.s.
– Istituto Centrale Banche e Banchieri SpA	481	481	-
– Finlombarda Leasing SpA	383	42	+811.9
– Istituto per il Credito Sportivo	360	360	-
– Meliorconsorzio SpA	353	264	+33.7
– other	1,673	2,123	-21.2
– tax credits	4,360	3,048	+43.0
Total	106,984	30,889	+246.3

**Other operating income (caption 70)**

(table 6.1 B.I.)

	1997 (L/mil)	1996 (L/mil)	Change (%)
Expenses recovered from customers			
– stamp duties	196,071	193,431	+1.4
– other taxes	48,262	38,405	+25.7
– legal costs	19,261	19,034	+1.2
– other recoveries	26,193	16,054	+63.2
Property rental income	46,657	47,174	-1.1
Reimbursement of services rendered to third parties	32,025	2,487	n.s.
Gains on the sale of leased assets	3,983	6,304	-36.8
Income from merchant banking activities	318	3,491	-90.9
Other income	39,899	43,564	-8.4
Total	412,669	369,944	+11.5

## Other operating expenses (caption 110)

(table 6.2 B.I.)

	1997 (L/mil)	1996 (L/mil)	Change (%)
Losses on the sale of leased assets	32,204	29,894	+7.7
Leasing charges on furniture and fittings	3,827	3,170	+20.7
Losses from merchant banking activities	-	-	-
Leasing charges on property	-	74	n.s.
Other expenses	35,408	34,025	+4.1
<b>Total</b>	<b>71,439</b>	<b>67,163</b>	<b>+6.4</b>

## Extraordinary income (caption 190)

(table 6.3 B.I.)

	1997 (L/mil)	1996 (L/mil)	Change (%)
Out-of-period income			
– income taxes for the year paid in advance	86,000	-	n.s.
– use of tax reserve and deferred taxation relating to prior years	5,000	-	n.s.
– collection of interest relating to prior years	-	27,174	n.s.
– other out-of-period income	78,370	74,519	+5.2
Amounts not payable	15,429	2,735	+464.1
Gains on:			
– disposal of financial fixed assets - equity investments	212,529	9,573	n.s.
– translation into foreign currency of endowment funds of foreign branches	53,832	-	n.s.
– disposal of financial fixed assets - investment securities	6,149	-	n.s.
– disposal of tangible fixed assets	2,586	9,896	-73.9
– translation into foreign currency of foreign equity investments	619	-	n.s.
– disposal of other assets	-	430	n.s.
<b>Total</b>	<b>460,514</b>	<b>124,327</b>	<b>+270.4</b>

## Extraordinary expenses (caption 200)

(table 6.4 B.I.)

	1997 (L/mil)	1996 (L/mil)	Change (%)
Charges connected with the Bank's commitment to the Interbank Deposit Guarantee Fund	73,727	-	n.s.
Settlements relating to legal disputes	29,204	18,402	+58.7
Out-of-period expenses	24,340	36,568	-33.4
Extraordinary contribution to the Interbank Guarantee Fund	11,201	-	n.s.
Amounts not collectible	844	10,062	-91.6
Losses on:			
– disposal of financial fixed assets - equity investments	44,277	74,033	-40.2
– disposal of tangible fixed assets	4,310	3,681	+17.1
– translation into foreign currency of endowment funds of foreign branches	2,371	-	n.s.
– disposal of other assets	16	197	-91.9
– translation into foreign currency of foreign equity investments	6	-	n.s.
<b>Total</b>	<b>190,296</b>	<b>142,943</b>	<b>+33.1</b>


Losses on the disposal of financial fixed assets relate to equity investments.



**Income taxes for the year (caption 240)**

	1997 (L/mil)	1996 (L/mil)	Change (%)
Provisions	356,053	321,671	+10.7
Local taxes applicable to foreign branches	64,650	46,729	+38.3
Total provisions	420,703	368,400	+14.2
Current year prepaid taxes rediscounted	-200,000	-	n.s
Total	220,703	368,400	-40.1

**Section 7 - Other information regarding the consolidated statement of income**

 Other information provided below regarding the consolidated statement of income covers the geographical distribution of revenues 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 revenues, based on the location of the Bank's branches and of consolidated companies, is as follows:

(table 7.1 B.I.)

	1997 (L/mil)				1996 (L/mil)			
	Italy	Other EU countries	Other countries	Total	Italy	Other EU countries	Other countries	Total
Interest income and similar revenues	12,983,315	2,815,533	1,406,780	17,205,628	16,517,200	2,793,928	1,288,121	20,599,249
Dividends and other revenues	17,775	89,177	32	106,984	22,469	8,420	-	30,889
Commission income	1,991,101	148,184	17,867	2,157,152	1,371,037	139,451	17,925	1,528,413
Profits (losses) on financial transactions	232,668	103,061	7,397	343,126	908,398	64,293	26,242	998,933
Other operating income	333,038	78,592	1,039	412,669	303,650	64,388	1,906	369,944
Total revenues	15,557,897	3,234,547	1,433,115	20,225,559	19,122,754	3,070,480	1,334,194	23,527,428

**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, that are not consolidated line-by-line, together with those relating to investments in non-Group companies, are detailed below:

	1997 (L/mil)			1996 (L/mil)		
	Group companies	Non-Group companies	Total	Group companies	Non-Group companies	Total
Income						
– interest income and similar revenues	3,030	301,275	304,305	9,622	399,386	409,008
– dividends and other revenues	-	10,087	10,087	-	9,408	9,408
– commission income	42,540	176	42,716	3,273	153	3,426
– other operating income	637	1,765	2,402	4,146	859	5,005
Total	46,207	313,303	359,510	17,041	409,806	426,847
Expenses						
– interest expense and similar charges	10,156	383,520	393,676	6,000	373,379	379,379
– commission expense	98	657	755	-	365	365
– other operating expenses	-	-	-	9,483	14	9,497
Total	10,254	384,177	394,431	15,483	373,758	389,241

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 remuneration of Directors and Statutory Auditors for the performance of their duties on behalf of the Bank and subsidiary companies is reported below:

(table 1.1 B.I.)

	1997 (L/mil)	1996 (L/mil)	Change (%)
Directors	2,682	2,743	-2.2
Statutory Auditors	951	1,061	-10.4

#### Loans and guarantees given

(table 1.2 B.I.)

	1997 (L/mil)	1996 (L/mil)	Change (%)
Directors	532,868	418,687	+27.3
Statutory Auditors	51	58	-12.1

The amounts indicated above include loans granted to and guarantees given by the Group to the Directors and Statutory Auditors, 469 million lire, and to companies and banks identified pursuant to article 136 of the Consolidated Banking Act, 532,450 million lire, including the drawdown against credit lines granted to the latter.

Turin, March 23, 1998

The Board of Directors



## Attachments



## Statement of changes in Group share of consolidated shareholders' equity

	<i>millions of lire</i>							
	Capital	Additional paid-in capital	Reserves	Revaluation reserves	Reserve for general banking risks	Negative goodwill arising on consolidation and on application of the equity method	Net income for the year	Total
Shareholders' equity as of December 31, 1996	8,159,929	275,000	757,526	2,536	11,400	69,080	603,014	9,878,485
Allocation of 1996 net income:								
– dividends paid							-228,478	-228,478
– reserves			374,536				-374,536	-
Changes in shareholders' equity of consolidated companies and other minor adjustments			32,261	-2,425	10,605	-24,263		16,178
Use of reserves to cover payment of capital taxes			-85,711					-85,711
Substitute tax paid from reserves			-14,312					-14,312
Differences arising on the translation of foreign currency financial statements			27,616					27,616
Net income for the year							167,799	167,799
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

## Statement of consolidated cash flows

billions of lire

### APPLICATION OF FUNDS

<b>Use of funds generated by operations</b>		<b>558</b>
Dividends paid	228	
Use of reserves to cover payment of capital taxes	86	
Substitute tax paid from reserves	14	
Use of reserve for termination indemnities	201	
Use of provisions for risks and charges	29	
<b>Increase in funds applied</b>		<b>3,159</b>
Loans to customers	453	
Intangible fixed assets	98	
Investment securities	864	
Goodwill arising on consolidation and on application of the equity method	38	
Other assets	1,706	
<b>Decrease in funds taken</b>		<b>7,938</b>
Due to banks	7,888	
Subordinated liabilities	50	

<b>Total</b>		<b>11,655</b>
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**SOURCES OF FUNDS**

<b>Funds generated by operations</b>		<b>2,297</b>
Net income for the year	168	
Provision for termination indemnities	74	
Net adjustments to loans and provisions for guarantees and commitments	1,350	
Provisions for risks and charges	100	
Adjustments to tangible fixed assets	322	
Adjustments to intangible fixed assets	223	
Adjustments to financial fixed assets	17	
Changes in shareholders' equity of consolidated companies and other minor adjustments	16	
Exchange differences on translating the equity of consolidated companies	27	
<b>Increase in funds taken</b>		<b>2,607</b>
Due to customers and securities issued	699	
Other liabilities	1,497	
Minority interests	411	
<b>Decrease in funds applied</b>		<b>6,751</b>
Cash and deposits with central banks	31	
Due from banks	3,343	
Dealing securities	2,936	
Equity investments	369	
Tangible fixed assets	72	
<b>Total</b>		<b>11,655</b>

## Reconciliation of the bank's financial statements and the consolidated financial statements

	Net income for the year	Shareholders' equity
<i>millions of lire</i>		
Balance as of December 31, 1997 (per financial statements of the Bank)	52,636 (a)	9,592,236
Effect of consolidating subsidiary companies line-by-line	256,083	350,702
Effect of valuing other significant investments using the equity method	63,420 (b)	61,154
Elimination of intraGroup dividends		
- gross dividends	-253,959 (c)	-95,673
- tax credits	38,768	
Translation of the Bank's interest in the endowment funds of foreign branches using December 31, 1997 exchange rates	-9,783	
Elimination of items recorded solely for fiscal purposes	38,091 (d)	65,431
Consolidation adjustments, net of notional tax effect:		
- elimination of intraGroup placement commission	9,992	-40,467
- other	48,090	5,308
Amortization of goodwill arising on consolidation and on application of the equity method	-75,539	-177,114
Balance as of December 31, 1997 (per consolidated financial statements)	167,799	9,761,577

(a) Net income for the year before the provision of 52,636 million lire, pursuant to Law 218/90.

(b) The effect on net income for the year of valuing other significant investments using the equity method, 63,420 million lire, reflects the following:

- elimination of 267,554 million lire of adjustments and writebacks to financial fixed assets recorded in the financial statements of the companies concerned;
- net losses of 204,686 million lire deriving from valuing such investments using the equity method (net of 552 million lire of losses attributable to minority interests).

(c) Net of dividends pertaining to minority interests, 2,000 million lire

(d) Net of amounts attributable to minority interests, 25,394 million lire.

## BRANCH NETWORK (\*)

### Italian network

#### Piedmont

Turin (90)	Castagnole Piemonte	Livorno Ferraris	Roccavione
Acqui Terme	Castellamonte	Lombriasco	Romagnano Sesia
Alba (3)	Castellazzo Bormida	Luserna San Giovanni	Salassa
Alessandria (6)	Castelnuovo Don Bosco	Manta	Sale
Alpignano	Castelnuovo Scrivia	Mappano	Saluzzo
Andezeno	Castiglione Torinese	Mathi	San Damiano d'Asti
Arona	Cavallerleone	Mombasiglio	San Giacomo di Roburent
Arquata Scrivia	Cavour	Mombercelli	San Giorgio Canavese
Asti (5)	Cellamonte	Moncalieri (5)	San Maurizio Canavese
Avigliana	Centallo	Moncalvo	San Mauro Torinese
Baldissero Torinese	Cercenasco	Mondovi' (2)	San Raffaele Cimena
Bardonecchia	Cesana Torinese	Monleale	San Salvatore Monferrato
Beinasco (2)	Ceva	Monta' d'Alba	San Sebastiano Po
Biella (2)	Chieri (2)	Montafia	San Secondo di Pinerolo
Bistagno	Chiomonte	Montegrosso d'Asti	Sanfre'
Bobbio Pellice	Chivasso (2)	Monticello d'Alba	Santena
Borgaro Torinese	Cigliano	Murisengo	Santhia'
Borgo San Dalmazzo	Cirie' (2)	Nichelino (4)	Sauze d'Oulx
Borgofranco	Claviere	Nizza Monferrato	Savigliano
Borgomanero	Coassolo	Nole Canavese	Sestriere
Borgone di Susa	Coazze	Novara (5)	Settimo Torinese (4)
Borgosesia	Collegno (3)	Novi Ligure (2)	Sommariva Bosco
Boscomarengo	Condove	Occhieppo Superiore	Stresa
Bra (2)	Corio	Omegna	Strevi
Brandizzo	Cossato	Orbassano (2)	Suno
Briga Novarese	Costanzana	Ottiglio	Susa
Bubbio	Costigliole d'Asti	Oulx	Ticineto
Burolo	Crescentino	Ovada	Tortona
Busca fraz. San Chiaffredo	Cumiana	Perosa Argentina	Trana
Bussoleno	Cuneo (4)	Perrero	Trecale
Buttiglieria Alta	Cuorgne'	Pianezza	Trino Vercellese
Calosso d'Asti	Dogliani	Pinasca	Trofarello
Caluso	Domodossola	Pinerolo (3)	Valduggia
Cambiano	Druento	Pino Torinese	Valenza (2)
Candelo	Feletto canavese	Piossasco (2)	Valfenera
Candiolo	Felizzano	Poirino	Valle Mosso
Canelli	Fenestrelle	Pont Canavese	Varallo
Cantoira	Forno Canavese	Pontestura	Venaria Reale (4)
Caraglio	Fossano (2)	Pozzolo Formigaro	Verbania Intra
Caramagna Piemonte	Fresonara	Pragelato	Vercelli (3)
Caresana	Galliate	Pralormo	Vico Canavese
Carignano	Gattinara	Quincinetto	Vignale Monferrato
Carmagnola (2)	Giaveno	Racconigi	Vigone
Carru'	Grugliasco (2)	Riva presso Chieri	Villadossola
Casale Monferrato (3)	Incisa Scapaccino	Rivalta	Villafranca d'Asti
Caselle Torinese (3)	Ivrea (5)	Rivara	Villafranca Piemonte
Castagnole Lanze	La Loggia	Rivarolo Canavese	Villanova d'Asti
Castagnole Monferrato	Lanzo Torinese	Rivarossa	Villar Dora
	Leini'	Rivoli (2)	Villar Focchiardo

Villar Perosa  
Vinovo  
Virle Piemonte  
Viu'  
Volpiano  
Volvera

### **Val d'Aosta**

Antey S.Andre'  
Aosta (4)  
Arnad  
Aymavilles  
Brusson  
Chambave  
Champoluc  
Chatillon  
Cogne  
Courmayeur  
Donnas  
Etroubles  
Gressoney La Trinite'  
Gressoney St. Jean  
Hone  
Issogne  
Morgex  
Nus  
Pollein - autoporto  
Saint Pierre  
Saint Vincent  
Sarre  
Valtournenche  
Villeneuve

### **Lombardy**

Abbiategrosso  
Agnadello  
Albese  
Albino  
Albiolo  
Albizzate  
Almenno S.Bartolomeo  
Alzano Lombardo  
Ambivere  
Antegnate  
Anzano del Parco  
Appiano Gentile  
Arconate  
Arena Po  
Arese  
Argegno  
Arluno  
Azzanello  
Bareggio  
Basiano  
Belgioioso  
Bellagio  
Beregazzo con Figliaro  
Bergamo (14)  
Berlingo

Bernate Ticino  
Besano  
Besnate  
Binago  
Boffalora Sopra Ticino  
Bollate (3)  
Boltiere  
Bonate Sotto  
Bonemerse  
Borghetto Lodigiano  
Borgo San Giacomo  
Borgosatollo  
Bormio  
Bosisio Parini  
Brembate di Sopra  
Brembilla  
Brembio  
Breme  
Brescia (6)  
Bresso  
Brignano Gera d'Adda  
Broni  
Brugherio  
Brusaporto  
Burago di Molgora  
Buscate  
Busnago  
Busto Arsizio (7)  
Busto Garolfo  
Cabiате  
Cadenabbia  
Calolziocorte  
Calusco d'Adda  
Calvatone  
Candia Lomellina  
Cantu'  
Canzo  
Capiago Intimiano  
Capriolo  
Caravaggio  
Carbonara al Ticino  
Carlazzo  
Carobbio degli Angeli  
Caronno Pertusella  
Casalmaggiore  
Casalmaiocco  
Casalpusterlengo  
Casazza  
Casciago  
Caselle Landi  
Casnigo  
Casorate Primo  
Casorezzo  
Cassano d'Adda  
Cassina de' Pecchi  
Cassina Rizzardi  
Castel Goffredo  
Castellanza  
Castelleone

Castelli Calepio  
Castelnuovo Bocca d'Adda  
Castiglione d'Adda  
Castiglione delle Stiviere  
Castiglione Olona  
Cava Manara  
Cavallasca  
Cavenago d'Adda  
Cenate Sotto  
Cermenate  
Cernobbio  
Cernusco sul Naviglio (2)  
Cerro al Lambro  
Cerro Maggiore (2)  
Certosa di Pavia  
Cesano Maderno  
Cesate  
Chiari  
Chignolo D'Isola  
Chignolo Po  
Chiuro  
Cilavegna  
Cinisello Balsamo  
Cislago  
Cittiglio  
Civate  
Codogno  
Colico  
Cologne  
Cologno al Serio  
Cologno Monzese  
Colzate  
Comazzo  
Comerio  
Commessaggio  
Como (10)  
Cornaredo (2)  
Cornate d'Adda  
Corsico (2)  
Corte de' Frati  
Crema (3)  
Cremona (4)  
Dairago  
Dalmine  
Daverio  
Desenzano del Garda  
Desio  
Dosolo  
Endine Gaiano  
Erba  
Fagnano Olona  
Faloppio  
Ferno - san Macario  
Ferrera Erbognone  
Filago  
Fino Mornasco  
Fiorano al Serio  
Fontanella  
Gaggiano

Gallarate  
Gambara  
Gambolo'  
Garbagnate Milanese  
Garlasco  
Garlate  
Gavardo  
Gavirate  
Gazzada Schianno  
Germignaga  
Ghedì  
Giussano  
Gorgonzola  
Gorle  
Grandate  
Grassobbio  
Gravedona  
Gromo  
Grontardo  
Gropello Cairoli  
Grumello del Monte  
Guanzate  
Gussago  
Introbio  
Inverigo  
Inveruno  
Iseo  
Lainate Barbaiana  
Landriano  
Lanzo d'Intelvi  
Lecco (3)  
Legnano (5)  
Lenno  
Limbiate  
Locate di Triulzi  
Locate Varesino  
Lodi (2)  
Lomazzo  
Lomello  
Lumezzane  
Lurago Marinone  
Lurano  
Lurate Caccivio  
Macherio  
Magenta (2)  
Magnago  
Mairago  
Maleo  
Malnate  
Mandello del Lario  
Mantua (2)  
Mapello  
Marcheno  
Mariano Comense  
Maslianico  
Meda  
Mede Lomellina  
Mediglia  
Medolago

Melegnano  
Melzo  
Menaggio  
Merate  
Merlino  
Merone  
Mesero  
Mezzago  
Milan (44)  
Missaglia  
Moltrasio  
Montano Lucino  
Montello  
Montichiari  
Montorfano  
Monza (2)  
Monzanbano  
Morbegno  
Mortara (2)  
Motta Baluffi  
Mozzanica  
Mozzate  
Mozzo  
Muggio'  
Musso  
Nerviano (3)  
Nibionno  
Novedrate  
Offanengo  
Oggiono  
Olgiate Comasco  
Olmo al Brembo  
Ome  
Omago  
Orzinuovi  
Ospedaletto Lodigiano  
Ossona  
Ostiano  
Ottobiano  
Paderno Dugnano (2)  
Pagazzano  
Palazzolo sull'Oglio  
Pantigliate  
Parabiago (2)  
Pare'  
Paullo  
Pavia (6)  
Peja  
Peschiera Borromeo  
Piadena  
Piolto  
Pizzighettone  
Pogliano Milanese  
Ponte Noss  
Ponte San Pietro  
Ponteranica  
Pontevico  
Pontida  
Pontirolo Nuovo

Porlezza  
Porto Mantovano (2)  
Pozzaglio  
Pozzo d'Adda  
Pregnana Milanese  
Premolo  
Presezzo  
Quinzano d'Oglio  
Renate  
Rescaldina (2)  
Rho  
Ripalta Cremasca  
Rivanazzano  
Robbio Lomellina  
Rogno  
Romano di Lombardia  
Roncadelle  
Ronco Briantino  
Rovato  
Rovellasca  
Rovello Porro  
Sabbioneta  
San Bassano  
San Colombano al Lambro  
San Donato Milanese (2)  
San Fedele Intelvi  
San Fermo della Battaglia  
San Giorgio di Lomellina  
San Giorgio su Legnano  
San Giovanni Bianco  
San Giuliano Milanese  
San Rocco al Porto  
San Nazzaro de' Burgondi  
Sant'Angelo Lodigiano  
Santa Cristina e Bissone  
Santa Maria della Versa  
Santo Stefano Ticino  
Saronno (2)  
Sartirana Lomellina  
Secugnago  
Sedriano  
Senago  
Seregno  
Seriato  
Sesto Calende  
Sesto San Giovanni  
Settala  
Solto Collina  
Somma Lombardo  
Soncino  
Sondrio  
Sordio  
Soresina  
Sotto il Monte  
Sovere  
Spino d'Adda  
Stezzano  
Stradella  
Sumirago

Suzzara  
Tavernerio  
Terno d'Isola  
Tomo  
Torre Boldone  
Tradate  
Trescore Cremasco  
Treviglio (2)  
Treviolo  
Trezzano sul Naviglio  
Trezzo sull'Adda  
Tribiano  
Turate  
Uboldo  
Uggiate Trevano  
Vailate  
Valbondione  
Valbrembo  
Valle Lomellina  
Valsolda - S.Mamete  
Vanzaghella  
Vanzago  
Varese (3)  
Varzi  
Verdello  
Verderio Superiore  
Viadana  
Vigevano (2)  
Viggiu'  
Villa Carcina  
Villa Cortese  
Villa di Serio  
Villa Guardia  
Villanterio  
Villasanta  
Villongo  
Vimercate  
Vittuone  
Vizzolo Predabissi  
Voghera (2)  
Volta Mantovana  
Zanica  
Zogno

### **Liguria**

Alassio  
Albenga (3)  
Albisola Marina  
Andora  
Arenzano  
Arma di Taggia  
Bordighera  
Borghetto Santo Spirito  
Busalla  
Cairo Montenotte  
Campomorone  
Ceriale  
Cervo Ligure  
Chiavari

Diano Marina  
Finale Ligure (2)  
Genova (23)  
Imperia (2)  
La Spezia  
Laigueglia  
Lavagna  
Loano (2)  
Masone  
Mele  
Millesimo  
Pietra Ligure  
Rapallo  
Recco  
Riva Trigoso  
Rossiglione  
Sanremo (4)  
Santa Margherita Ligure  
Sarzan  
Savona (4)  
Sestri Levante  
Vado ligure  
Vallecrosia  
Varazze  
Ventimiglia

### **Trentino Alto Adige**

Bolzano (3)  
Trento

### **Veneto**

Albignasego  
Bassano del Grappa  
Belluno  
Bussolengo  
Caldogno  
Campodarsego  
Castel d'Azzano  
Castelfranco Veneto  
Conegliano  
Este  
Fumane  
Legnago  
Montebelluna  
Montecchio Maggiore  
Padua (7)  
Peschiera del Garda  
Pieve di Sacco  
Rovigo  
San Dona' di Piave  
San Giovanni Lupatoto  
San Martino Buon Albergo  
Schio  
Soave  
Spinea  
Thiene  
Treviso (3)  
Venice (2)  
Venice/Mestre (3)

Verona (7)  
Vicenza (4)  
Villafranca di Verona

### **Friuli Venezia Giulia**

Gorizia  
Pordenone  
Trieste (2)  
Udine (3)

### **Emilia Romagna**

Bologna (9)  
Borgonovo Val Tidone  
Correggio  
Ferrara  
Fidenza  
Forlì  
Formigine  
Modena (2)  
Parma (3)  
Piacenza  
Ravenna  
Reggio Emilia  
Rimini  
Spilamberto

### **Tuscany**

Arezzo  
Empoli  
Florence (9)  
Livorno (2)  
Lucca  
Pisa (2)  
Pistoia  
Prato (2)  
Vaiano  
Viareggio

### **Umbria**

Città di Castello  
Foligno  
Perugia

### **Marche**

Ancona (3)  
Ascoli Piceno  
Civitanova Marche

Pesaro  
San Benedetto del Tronto

### **Lazio**

Anagni  
Ariccia  
Ceccano  
Civitavecchia  
Ferentino  
Frosinone (2)  
Grottaferrata (2)  
Guidonia Montecelio  
Latina  
Pomezia  
Rocca di Papa  
Rome (59)  
Terracina  
Tivoli  
Viterbo

### **Abruzzo**

L'Aquila  
Pescara (3)

### **Molise**

Campobasso  
Termoli

### **Campania**

Afragola  
Arzano (2)  
Avellino  
Aversa  
Boscoreale  
Caivano  
Caserta  
Casoria  
Castellammare di Stabia  
Cercola  
Frattamaggiore  
Frattaminore  
Giugliano in Campania  
Marano di Napoli  
Marigliano  
Mugnano Napoli  
Naples (15)  
Ottaviano

Poggiomarino  
Pomigliano d'Arco  
Portici  
Pozzuoli  
Salerno (2)  
San Giorgio a Cremano  
San Giuseppe Vesuviano  
Santa Maria Capua Vetere  
Somma Vesuviana  
Sorrento  
Striano  
Terzigno  
Torre del Greco

### **Puglia**

Altamura  
Andria  
Bari (6)  
Barletta  
Bisceglie  
Bitonto  
Brindisi (2)  
Calimera  
Casamassima  
Corato  
Foggia (4)  
Gioia del Colle  
Lecce (3)  
Manfredonia  
Martina Franca  
Modugno Sportello Weber  
Molfetta  
Monopoli  
Orta Nova  
San Severo  
San Nicandro Garganico  
Taranto (2)  
Terlizzi  
Trani

### **Basilicata**

Lavello  
Potenza

### **Calabria**

Catanzaro  
Crotone

Reggio Calabria (3)

### **Sicily**

Acquedolci  
Agrigento  
Alcamo  
Bagheria  
Caltagirone  
Caltanissetta  
Canicattì  
Capizzi  
Castelbuono  
Castelvetrano  
Castrofilippo  
Catania (3)  
Cattolica Eraclea  
Cerami  
Delia  
Enna  
Galati Mamertino  
Gela  
Leonforte  
Menfi  
Messina (2)  
Modica  
Montallegro  
Nicosia  
Palermo (9)  
Pettineo  
Raffadali  
Ragusa  
Realmonte  
Regalbuto  
Ribera  
Sant'Alessio Siculo  
Santo Stefano di Camastra  
Saponara  
Sciacca  
Syracuse  
Trapani  
Valguamera Caropepe  
Villarosa

### **Sardinia**

Assemini  
Cagliari (6)  
Sassari (2)

## International network

### Europe

Austria  
Vienna Branch

Belgium  
Brussels Branch

Germany  
Frankfurt and  
Munich Branches

Greece  
Athens Branch

Netherlands  
Amsterdam Branch

United Kingdom  
London Branch

Russia  
Representative Office  
in Moscow

Sweden  
Representative Office  
in Stockholm

Turkey  
Representative Office  
in Istanbul

Poland  
Representative Office  
in Warsaw

### The Americas

Bahamas  
Nassau Branch

Brazil  
Representative Office  
in Sao Paulo

Canada  
Representative Office  
in Toronto

United States  
New York Branch  
Representative Office  
in Los Angeles

### Asia

China  
Representative Office  
in Beijing  
Representative Office  
in Shanghai

Japan  
Tokyo Branch  
Representative Office  
in Tokyo

India  
Representative Office  
in Bombay

Singapore  
Singapore Branch

Thailand  
Representative Office  
in Bangkok

**Banque Sanpaolo, France - Distribution network**

Annecy	Cannes	Marseilles (4)	Sallanches
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Avignon	Dijon	Montpellier	Tassin
Bordeaux	Grenoble	Nice (2)	Toulon (2)
Caluire	Lyon (7)	Paris (23)	



## INVESTOR INFORMATION

Information on the San Paolo Group is available from our Investor Relations department:

Tel: + 39 - 11 - 555-2822

Telefax: + 39 - 11 - 555-2989

