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# Report on Corporate Governance

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23 March 2006

SANPAOLO IMI S.p.A.

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COMPANY REGISTERED IN THE REGISTER OF BANKS  
PARENT BANK OF THE SANPAOLO IMI BANKING GROUP  
REGISTERED IN THE REGISTER OF BANKING GROUPS  
REGISTERED OFFICE: PIAZZA SAN CARLO 156, TURIN, ITALY  
SECONDARY OFFICES:  
- VIALE DELL'ARTE 25, ROME, ITALY  
- VIA FARINI 22, BOLOGNA, ITALY  
SHARE CAPITAL 5,239,223,740.80 EURO FULLY PAID  
TAX CODE, VAT NUMBER AND REGISTRATION NUMBER  
TURIN REGISTER OF COMPANIES: 06210280019  
ABI CODE 1025-6  
MEMBER OF THE INTERBANK DEPOSIT GUARANTEE FUND

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*The entrance of the headquarters of SANPAOLO IMI in piazza San Carlo in Turin*

## Introduction

SANPAOLO IMI has adhered to the aims and indications of the Code of Conduct for Listed Companies from its issue, recognizing the validity of the corporate governance model described therein.

The Company has implemented operating guidelines in line with the principles described in the Code and Consob recommendations on the matter, as well as with domestic and international best practices in general, adopting a governance system that aims to guarantee adequate sharing of responsibilities and powers, correctly balancing the functions of management and control<sup>1</sup>.

On 12 January 2006, law no. 262 of 28 December 2005, "Provisions for the protection of savings and for the regulation of financial markets" became effective (the so-called "Law on Savings"), aimed at ensuring greater transparency to regulated markets and increasing the protection of savings. The law introduced significant innovations in terms of corporate governance. For example, by 12 January 2007, listed companies must include in their Articles of Association changes aimed at providing for a voting list for nomination of the board of directors, with the requirement that at least one of the directors be from the list of minority shareholders; in addition, it must be established that the Chairman of the Board of Statutory Auditors be nominated - in accordance with the procedures established by Consob - from among the auditors elected by the minority shareholders.

Being a company registered with the U.S. Securities and Exchange Commission (SEC) and an issuer of listed financial instruments on the New York Stock Exchange, the SANPAOLO IMI governance system also reflects the provision of U.S. standards on the matter, contained in the 1933 Securities

Act, the 1934 Securities Exchange Act and the 2002 Sarbanes-Oxley Act, as well as the provisions issued by the SEC.

This Report - which is published on the Company's website - illustrates the SANPAOLO IMI corporate governance system and its compliance with the provisions set forth in the Code of Conduct. In order to provide investors with an adequate level of information on the corporate governance model - and also on the basis of the recommendations contained in the "Guide to writing the Corporate Governance Report" issued by Assonime and Securities Issuers - the Report has been formally divided into three parts.

The first part supplies a brief profile of the Company and its organization, as well as of the Group structure. The second part is dedicated to describing the governance system, paying special attention to the attributions and responsibilities of the company bodies, the nomination methods and the duration in office of their components and the rules for their renewal, as well as relationships with shareholders and institutional investors. The third part features the tables summarizing the structure of the Board of Directors, the Internal Committees and the Board of Statutory Auditors, as well as the general application of certain provisions of the Code, with specific reference to the system of powers of attorney and transactions with related parties, the nomination of the Directors and Auditors, the meetings, internal control and investor relations. The Report is accompanied by the Articles of Association.

The information provided in the present Report, unless otherwise indicated, refers to 23 March 2006, the date of its approval by the Board of Directors.

<sup>1</sup> To this end, on 14 March 2006, a new Code of Conduct was issued by the Corporate Governance Committee and promoted by Borsa Italiana to entirely replace the version drafted in 1999 and subsequently amended in 2002. Issuers are required to adopt the new code by the end of the period beginning in 2006, and disclose said information to the market in the report on corporate governance published during 2007.





# Part I

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COMPANY AND GROUP PROFILE

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SANPAOLO IMI - Limited company listed with the Mercato Telematico Azionario organized and managed by Borsa Italiana S.p.A., with Registered office in Turin and Secondary offices in Rome and Bologna - is a Bank registered in the roll of banks and Parent Bank of the SANPAOLO IMI Banking Group, registered in the roll of banking groups. The Company accepts deposits from the public and exercises various forms of credit, in Italy and abroad, and may perform, within the legal limits in force, all transactions and banking and financial services and every other instrumental transaction or transaction linked with achieving the corporate aim.

### Organization

SANPAOLO IMI adopts a traditional administration and control model, which includes a management body, the Board of Directors, and a regulatory body, the Board of Statutory Auditors. More specifically, also in accordance with Italian legislation on listed companies and in light of adherence to the Code of Conduct, the organizational structure of SANPAOLO IMI is characterized in the following terms:

- the Shareholders' Meeting, a body which expresses company intentions the decisions of which, adopted in conformity to the law and the Articles of Association, restrict all shareholders, including those who are absent or dissenting;
- the Board of Directors, nominated by the Shareholders' Meeting for a period of three years and holder of all Company management powers;
- the Chairman of the Board of Directors - nominated by the Shareholders' meeting from among the members of the same Board - is the legal representative of the Company before third parties and for legal purposes, and also presides over the Executive Committee, of which he is a rightful member;
- the Deputy Chairman - nominated by the Board of Directors - is a rightful member of the Executive Committee and assumes all the powers of the Chairman as well as the legal representation of the Company before third parties and for legal purposes in the event of his absence or impediment;
- the Executive Committee and the Technical Committees (Technical Audit Committee, Remuneration and Personnel Policies Technical Committee and Ethical Committee), set up by the Board and made up of its members; the Executive Committee is the body delegated to carry out important administration functions, while the other-

Committees perform advisory services, preliminary enquiries and control activities;

- the Managing Director, nominated by the Board of Directors, which organizes his assignments; is a rightful member of the Executive Committee and takes on all the powers of the Chairman as well as the legal representation of the Company before third parties and for legal purposes in the event of the absence or impediment of the Chairman and Deputy Chairman;
- the General Manager - nominated by the Board of Directors, which also provides for the attribution of the related powers - head of the Company's operating and executive structure;
- the Group Credit Committee, Group Financial and Market Risk Committee, the Group Operational Risk Committee and the Disclosure Committee - the members of which are nominated by the Board of Directors from among the Managers of Head Office Directions and Structures - aim to supervise the coordinated management of operating and/or regulatory problems of particular importance;
- Board of Statutory Auditors - nominated by the Shareholders' Meeting for a period of three years and composed of five Statutory Auditors and two Supplementary Auditors - supervises the observance of the law and the Articles of Association and, generally, the administrative, organizational and accounting system, as well as the Company's internal control system.

The attributions and operating standards of the company bodies are contained in the legal and regulatory provisions, in the Articles of Association, in the Group Regulations and in the decisions made by the competent Authorities; the operating standards of the Shareholders' Meeting are also governed by special Regulations.





*The entrance of the headquarters of Sanpaolo Banco di Napoli*

### Composition of share capital, majority shareholders and agreements between shareholders

The Company's share capital amounts to 5,239,223,740.80 euro fully paid, divided into 1,586,967,318 registered ordinary shares and 284,184,018 preference shares, all with a nominal unit value of 2.80 euro.

To this end, the Board of Directors has resolved to submit to the attention of the Shareholders' Meeting, convened for 27 and 28 April 2006, a proposal for a free share capital increase, for an amount equal to a maximum of Euro 168,418,756.02, via allocation of the valuation reserve established as per art. 7, paragraph 6 of Legislative Decree 38/2005 to capital, pursuant to article 2442 of the civil code.

Preference shares - which give entitlement to vote only in the extraordinary shareholders' meetings - are held by Compagnia di San Paolo, Fondazione Cassa di Risparmio di Padova e Rovigo and Fondazione Cassa di Risparmio in Bologna. The preference, or privilege, consists in the pre-emption right in the case of capital repayment and in the right to an allocation of the net income of 5% of the nominal share value, as well as the right to accumulate the dividend still to be received with that matured over the subsequent two years.

On the basis of the Shareholders' Book and other available information, SANPAOLO IMI has about 230,000 shareholders. A table listing the main shareholders, directly and/or indirectly holding shares of the share capital with voting rights is printed below:

The following agreements between shareholders have been entered into:

- a Convention, known as the "Unity of Intent Agreement", stipulated on 19 April 2004 between Compagnia di San Paolo, Fondazione Cassa di Risparmio di Padova e Rovigo and Fondazione Cassa di Risparmio in Bologna, with a duration of three years;
- an agreement, completed on 21 April 2004 between the aforementioned Fondazioni, Banco Santander Central Hispano S.A. and CDC Ixis Italia Holding S.A. (now Italia Holding S.A., belonging to Groupe Caisse d'Epargne), which will automatically expire and lose its effectiveness on the fifteenth day before the date of the first call of the Bank Shareholders' Meeting called to approve the financial statements for the year ending on 31 December 2006.

An excerpt of the aforementioned agreements is available on the Bank's website.

Shareholders	Percentage of total capital	Percentage of ordinary capital
Compagnia di San Paolo	14,22	6,85
Banco Santander Central Hispano	8,44	9,96
Fondazione Cassa di Risparmio di Padova e Rovigo	7,04	4,00
Fondazione Cassa di Risparmio in Bologna	5,55	2,85
Giovanni Agnelli & C.	4,97	5,86
Assicurazioni Generali	2,00	2,36
Mediobanca	1,75	2,06
Morgan Stanley & Co. International Ltd.	1,75	2,06
Banca Monte dei Paschi di Siena	1,51	1,78
Società Reale Mutua Assicurazioni	1,50	1,77
Caisse Nationale des Caisses d'Epargne	1,50	1,77
Ente Cassa di Risparmio di Firenze	1,50	1,77
Fondazione di Venezia	1,47	1,73





The headquarters of SANPAOLO IMI in piazza San Carlo in Turin

Graphs showing the composition of the shareholder structure of SANPAOLO IMI with reference to specific parameters are shown below:

Figura 1: **Composition of the shareholder structure by adherence to parasocial contracts (ordinary capital)**

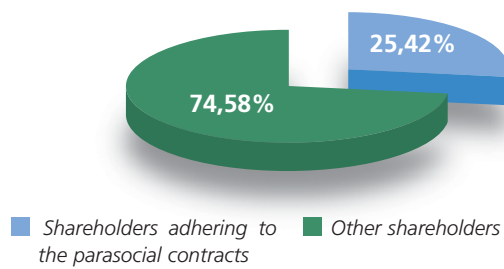
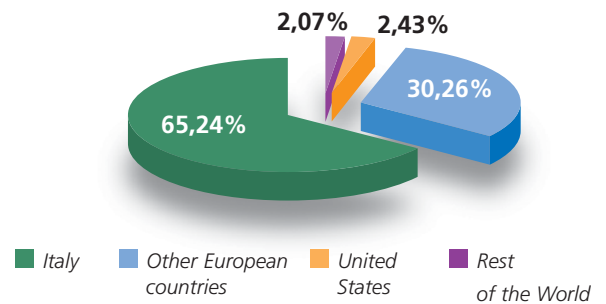


Figura 2: **Composition of the shareholder structure by geographic area (ordinary capital)**



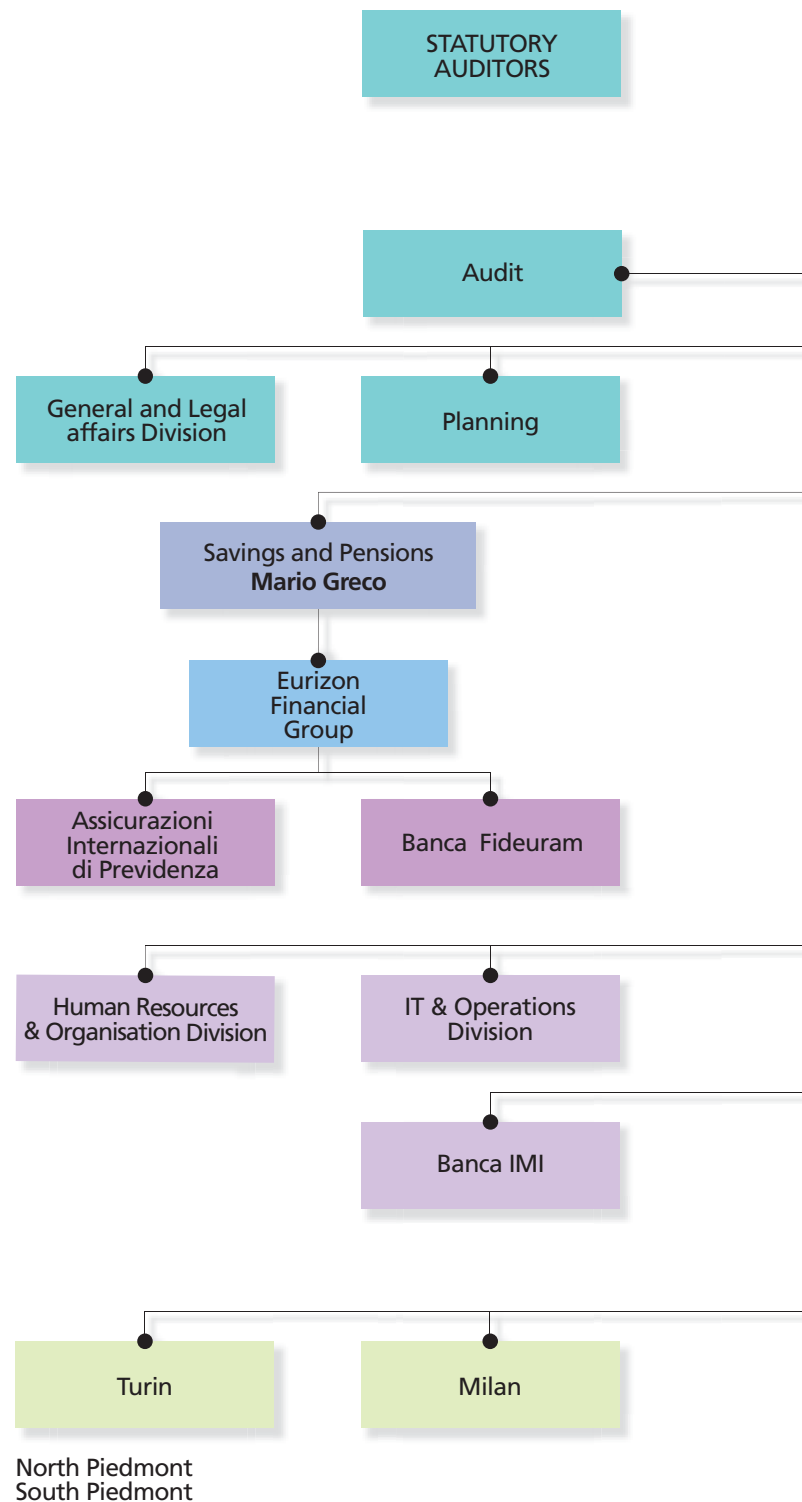
**The role of the Parent Bank and the SANPAOLO IMI Group**

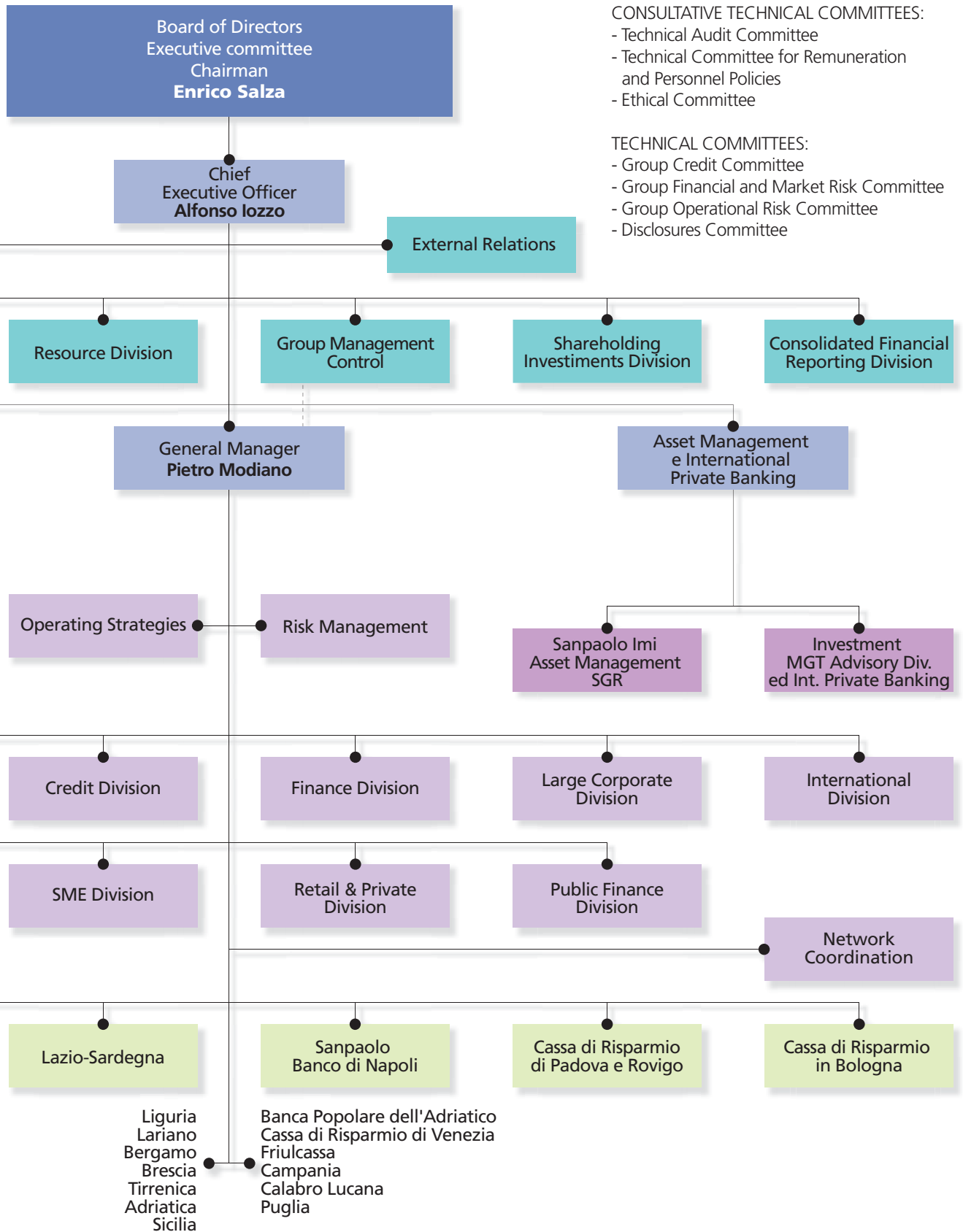
The Company is the Parent Bank of the SANPAOLO IMI Banking Group, composed of the same Parent Bank and the banking, financial and instrumental companies - with registered offices in Italy and abroad - controlled directly or indirectly.

In its capacity as Parent Bank, the Company holds the role of reference-point for the Bank of Italy and, in exercising its direction, address and coordination activities, issues the necessary provisions to the members of the Banking Group for implementing the instructions received from the Bank of Italy in the interest of Group stability. For this purpose SANPAOLO IMI asks the Group companies for news, figures and relevant reports and also verifies compliance with the provisions issued as instructed by the Bank of Italy. The Administrators of the subsidiaries must implement the Parent Bank provisions and supply every piece of information useful to its issue to the Parent Bank.

SANPAOLO IMI also exercises, in accordance with article 2497 and subsequent articles of the Italian Civil Code, management and coordination activities for its direct and indirect subsidiaries, including companies which, on the basis of current laws, are not part of the Banking Group. In this context, it identifies the strategic objectives of the Group, it outlines the business plan and - notwithstanding the respective statutory and operational autonomy - defines the organizational models, objectives and lines of development for each company belonging to the Group, in order to benefit from a single overall entrepreneurial vision.

The SANPAOLO IMI Group, based upon specialization of the professional skills of the production, distribution and service units, is currently organized along the following business lines:





- Commercial Banking** - the Group's "core business", divided into the Retail & Private and Corporate business lines. The Retail & Private business line, serving customers consisting of families, small businesses and privates, also through direct channels such as Internet, phone and mobile banking, makes use of the commercial banks of the Group, based on the model - approved by the Board of Directors of SANPAOLO IMI - of National Regional Bank, inspired by the principle "one bank-one region" and aimed at strengthening the relationship between the individual bank networks and their respective regions; in particular, the Sanpaolo Network has a strong presence in Central and Northern Italy and in the Islands, Sanpaolo Banco di Napoli operates in the mainland South, and North Eastern Italy and the Adriatic coast are mainly served by Cassa di Risparmio di Padova e Rovigo, Cassa di Risparmio in Bologna, Cassa di Risparmio di Venezia, Friulcassa and Banca Popolare dell'Adriatico. The companies Neos Banca, specialized in consumer credit, and Farbanca are also included in this business line. The Corporate business line - which uses a widespread network of specialized operating points - is dedicated to corporate clientele, from small and medium-sized enterprises to major domestic and international groups, includes the Parent Bank foreign network, limited to corporate lending,

Irish subsidiary Sanpaolo IMI Bank Ireland and Sanpaolo IMI Internazionale, established to supervise Group activities in Central Eastern Europe and in the Mediterranean area, and it develops relations with reference organizations and institutions, also through Banca OPI, which provides advisory services and medium- and long-term financing to public bodies and infrastructure. Said scope of activities is also accompanied by the following specialized units: Banca IMI, investment bank of the Group whose business priorities concern the supply of specialist services to companies and institutional customers and development of structured products distributed to retail and corporate customers through the Group's networks, Sanpaolo IMI Private Equity, whose aim is to strengthen and consolidate the Group's activity and presence in the private equity sector, mainly through the promotion and management of closed-end investment funds, and Sanpaolo Leasint, active in the leasing sector. The sector also includes the companies GEST Line, which manages the tax activities of the Group and IMI Investimenti, which is responsible for the management of major industrial shareholdings, and, following the planned corporate integration with Sanpaolo IMI Private Equity, the Group's activities in the private equity sector, mainly through the promotion and management of closed-end securities funds.





- **Savings and assurance:** sector whose scope includes - through subsidiary New Step (to be renamed “Eurizon Financial Group”), reporting directly to the Parent Bank - insurance activities carried out by Assicurazioni Internazionali di Previdenza, company which comprises the insurance companies of the Group, and asset gathering activities carried out by Banca Fideuram, serving customers with a medium/high savings potential, with the objective of bringing all Group competences related to the creation and distribution of assurance and financial products under a central “pole” that is able to more efficiently satisfy customer requirements such as protection of savings, personal assurance and safeguarding of capital.
- **Asset Management and International Private Banking:** which includes Sanpaolo Bank (Luxembourg), active in international private banking, Sanpaolo Fiduciaria and the companies controlled directly by Sanpaolo IMI Asset Management, dedicated to providing asset management products to Group networks and associated networks, as well as to institutional investors and other networks, with the objective of optimizing portfolio performance and, therefore, strengthening

the Group’s position in the sector. On 24 January 2006, the Board of Directors of SANPAOLO IMI resolved to launch the second phase of the project for development of the “Savings and Assurance Pole”, via concentration of the Group’s asset management (and, in particular, of Sanpaolo IMI Asset Management) in Eurizon Financial Group; this will be completed pending the necessary time required to obtain authorization by the Regulatory Body and compliance with the relative obligations.

The shareholdings in Cassa di Risparmio di Firenze, Cassa dei Risparmi di Forlì and Banca delle Marche have been brought under the control of the Parent Bank Central Functions.

The basic principles of the Group’s organization and the fundamental rules of the subsidiaries’ direction and coordination model are contained in the Group Regulations, approved by the Board of Directors. This document defines the Group’s entire structure, the basic principles on which it operates, the areas of competence and the responsibilities of the Central Functions of the Parent Bank, as well as the mechanisms and instruments used to coordinate the entire Group.



*The SANPAOLO IMI branch in Piazza San Carlo in Turin*



## Part II

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GOVERNANCE SYSTEM AND INFORMATION ON THE IMPLEMENTATION OF THE CODE OF CONDUCT

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# Board of Directors

## Composition and duration

The Company is administered by a Board of Directors composed of a number of members variable from 7 to 20, as decided by the Shareholders' Meeting, which will nominate one of them Chairman.

The Board of Directors in office at the time of publication of this Report was nominated by the Shareholders' Meeting of 29 April 2004 and is composed of 17 Directors, listed below with their specific roles:

ENRICO SALZA	<i>CHAIRMAN</i>
MAURIZIO BARRACCO	<i>DIRECTOR</i>
PIO BUSSOLOTTO	<i>DIRECTOR</i>
GIUSEPPE FONTANA	<i>DIRECTOR</i>
ETTORE GOTTI TEDESCHI	<i>DIRECTOR</i>
ALFONSO IOZZO	<i>MANAGING DIRECTOR</i>
VIRILIO MARRONE	<i>DIRECTOR</i>
ITI MIHALICH	<i>DIRECTOR</i>
ANTHONY ORSATELLI	<i>DIRECTOR</i>
EMILIO OTTOLENGHI	<i>DIRECTOR</i>
ORAZIO ROSSI	<i>DEPUTY CHAIRMAN</i>
GIAN GUIDO SACCHI MORSIANI	<i>DIRECTOR</i>
ALFREDO SAENZ ABAD	<i>DIRECTOR</i>
MARIO SARCINELLI	<i>DIRECTOR</i>
LEONE SIBANI	<i>DIRECTOR</i>
ALBERTO TAZZETTI	<i>DIRECTOR</i>
JOSÉ MANUEL VARELA	<i>DIRECTOR</i>

Short biographical and professional notes of the Directors in office are available on the Bank's website.

The term in office of all the members of the Board of Directors is envisaged until the approval of the financial statements for 2006.

The Board of Directors has nominated Piero Luongo, Head of General and Legal Affairs, as Board Secretary.

## Executive and non-executive Directors - the Chairman and the Deputy Chairman

With the exception of the Managing Director - in relation to the role of executive management and activities of the Company, assigned to him by the Articles of Association and decisions of the Board - all the Managing Directors of SANPAOLO IMI must be considered as non-executive, individually having no operational delegated powers and/or no directional functions in the Company; and the pursuance of their respective duties in meetings of the Deliberative Bodies and Technical Committees is reserved to them.

The Chairman of the Board of Directors is also a Non-executive Director: the current Company structure keeps the Chairman's functions distinct from those of the Managing Director. The Chairman has no operational delegated powers, except for, pursuant to the Articles of Association, the responsibilities to coordinate the activities of the Company, the legal representation and the power to take - in agreement with the Managing Director or, in his absence, the General Manager - any urgent provision in the interest of the Company, referring such to the Board of Directors or the Executive Committee at its next meeting.

The Deputy Chairman is also a Non-executive Director, called exclusively to assume the powers of the Chairman, as well as the legal representation of the Company, in the event of his absence or impediment.

## Independent Directors

The Board of Directors periodically checks the existence of the independence of the Non-executive Directors on the basis of the definition contained in the Code of Conduct and also with reference to the instructions supplied by the individuals involved. The market is informed of the result of the aforementioned valuation of independence in a special press release.

Considering the aforementioned elements, having evaluated the nature of the agreements existing among certain shareholders and considering the offices held by them and the working relations and offices of Executive Director held within the SANPAOLO IMI Group in the last three years, as well as the economic relations held directly or indirectly with the Company, the following are to be considered as Independent Directors:





*The meeting room of the Executive Committee in Turin*

ENRICO SALZA

MAURIZIO BARRACCO

GIUSEPPE FONTANA

EMILIO OTTOLENGHI

ORAZIO ROSSI

GIAN GUIDO SACCHI MORSIANI

MARIO SARCINELLI

ALBERTO TAZZETTI

Each of the above mentioned Directors has undertaken to inform promptly the Board should he cease to be independent.

### Offices of Director or Statutory Auditor held in other companies

The Directors accept the office when they believe that they can devote the necessary time to the proper fulfillment of their duties at SANPAOLO IMI, also considering the other offices held.

In part three of this report, summary table 1 shows the number of the other offices of director or auditor currently held by each Director in companies listed in regulated markets, including those abroad, in banking, financial, insurance and other significant-sized companies. The table 2 below contains the list of the above offices<sup>2</sup>.

In fact, on the basis of the current division of powers within the Parent Bank, the designation of the members of the Board of Directors or the Board of Statutory Auditors of the Bank in the administration and control boards of direct and indirect subsidiaries is reserved to the Board of Directors.

### Functions of the Board of Directors

The Board of Directors is responsible for strategic direction and is the holder of all Company management powers.

In particular, in accordance with the Articles of Association, the following are reserved to the exclusive competence of the Board of Directors:

- the definition of the aims, strategies and development lines of the Group business areas;
- resolutions regarding general management, the approval and modification of a general provision concerning work relationships, the acquisition and sale of sharehol-

dings which change the composition of the Banking Group, the appointment of one or more Deputy Chairmen and one or more Managing Directors, of the members of the Executive Committee and the Technical Committees as well as a General Manager, one or more Deputy General Managers and Central Managers;

- the approval of internal regulations as well as the evaluation of the Company's organizational, administration and accounting structure, with particular reference to the risk control and internal control system;
- the determination of the criteria for the coordination and management of Group companies and for the execution of the instructions issued by the Bank of Italy.

On the basis of the statutory changes following the corporate law reform, the Board of Directors is also competent to approve the resolutions concerning:

- mergers and spin offs, in the cases and according to the methods provided for by current regulations;
- the opening and closure of secondary offices;
- the reduction of capital when a shareholder resigns;
- adaptations of the Articles of Association to regulatory instructions.

Lastly, on the basis of the Articles of Association and the current delegated powers, the Board is also responsible for:

- the nomination and the attribution of mandates and powers to the Executive Committee, the Managing Director and the General Manager as well as the related definition of the limits, means of exercise and periods of time within which the delegated Bodies must report to the Board on the activities carried out during the exercise of the mandates conferred to them;
- the determination of the remuneration of the Managing Director and Directors who hold particular offices, as well as the subdivision of the variable part of the amount due to the individual members of the Board, as proposed by the Remuneration and Personnel Policies Technical Committee and having heard the Board of Statutory Auditors;
- the determination of the amount due to the General Manager and the duration of such office;
- the approval of general risk management policies;
- the supervision on general performance, paying special attention to situations of conflicts of interest, taking into

<sup>2</sup> To this end, it should be noted that the Shareholders' Meeting specifically authorized the Directors - in accordance with the art.2390 c.c. - to hold the office of director or general manager in competing companies.



particular consideration the information received from the Executive Committee, the Technical Audit Committee, the Managing Director and the General Manager and periodically comparing the results achieved with those planned;

- the examination and approval of major economic, balance sheet and financial transactions, defined on the basis of quantitative and qualitative criteria (such as loans of more than one fifth of the equity of the Company, loans of more than 10 million euro, acquisition or loss of control of insurance companies and acquisition of shareholdings of more than 100 million euro); the verification of the adequacy of the Company's and Group's general organizational and administrative structure;
- the presentation to Shareholders of the reports concerning the agenda of the Shareholders' Meetings;
- the approval of relevant transactions carried out by the Parent Bank with related parties.

### Board meetings

The calling of the Board of Directors, ordinarily every two months, or at the request of at least three Directors or the Managing Director, or on the basis of the powers which the law gives to the Statutory Auditors, falls to the Chairman, every time he sees fit. The Chairman, who, in accordance with the Articles of Association, is responsible for the coordination of the work of the Board of Directors, presides over the meetings and sets the agenda - taking account of the motions proposed by the Managing Director and the General Manager, on the basis of the powers of attorney conferred - and ensures that adequate information on the matters under discussion is supplied to all Directors.

The calling of the Directors and Statutory Auditors for the meetings of the Board of Directors is made at least five days before the date set for the meeting, in reasonable time to allow sufficient information on the subjects under discussion and is followed by the dispatch of the documentation necessary to ensure the best informed performance by the Directors in the fulfillment of their tasks. In cases of particular urgency the call may be made with just 24 hours notice, though still ensuring a full treatment of each subject and paying particular attention to the content of the documents which cannot be sent ordinarily.

The Articles of Association allow the meetings of the Board of Directors to be held through telecommunication

networks, as long as the exact identity of those legitimately authorized to attend is guaranteed and it is possible for all participants to intervene, in real time, on all the subjects and to see, receive and transmit documents. At least the Chairman and the Secretary must be present on the premises in which the Board meeting has been called, where it is considered as held.

For the motions approved by the Board to be valid, the majority of the Directors in office must attend the meeting. Motions are approved with the absolute majority of the votes of those in attendance<sup>3</sup>; in the case of a tie, the vote of the chair is final.

The meetings of the Board of Directors are attended by the General Manager for consultation purposes and to make proposals. The Board meetings may also be attended by the Managers of Head Office Directions or Functions, as well as the executives of subsidiaries, to supply information and data concerning the practices submitted for examination by the Board, representatives of the independent auditors and external consultants, in relation to matters on the agenda, which might require specific technical expertise.

The Board of Directors met 15 times during 2005; as in the past, the Directors' attendance of board meetings was significantly high and constant (about 90%), ensuring a systemic contribution by all its members to the management of corporate and Group affairs, fully exploiting the important professional skills available to group advantage.

A similar number of meetings may also be assumed for the current year, three of which have already been held. In compliance with the Regulations of Borsa Italiana, in December 2005 SANPAOLO IMI presented the calendar of corporate events for 2006 to the market (and published it on the website), stating the dates of the board meetings for approval of the economic and financial figures.

<sup>3</sup> *Motions concerning the nomination of the Deputy Chairman or Chairmen, the Executive Committee, the Managing Director(s) and the General Manager are validly approved with the favorable vote of the majority of the Directors in office.*

## Executive Committee

The Board of Directors has nominated from among its members the Executive Committee (of which the Chairman, presiding, the Deputy Chairman and the Managing Director are members ex officio), setting the number of members, delegated powers, term of office, operating rules and powers.

The Executive Committee is currently composed of eight Directors, of which seven non-executive, four of which independent:

ENRICO SALZA  
 PLO BUSSOLOTTI  
 ETTORE GOTTI TEDESCHI  
 ALFONSO IOZZO  
 EMILIO OTTOLENGHI  
 ORAZIO ROSSI  
 GIAN GUIDO SACCHI MORSIANI  
 JOSÉ MANUEL VARELA

The Executive Committee - whose meetings are attended by the General Manager for consultation purposes and to make proposals - exercises its powers in the context of strategies, address and plans laid out by the Board, with the faculty of sub-power of attorney and the obligation to report quarterly to the same Board on the activity performed, the decisions made and the powers of attorney conferred. In particular, the Executive Committee has been given powers concerning loan issue (up to a fifth of the Company's portfolio) and, generally, operational powers regarding Group guarantees to financial institutions, the recovery of loans, legal and prelegal proceedings on non-recovered assets and liabilities, administration procedures against the Company and shareholdings - except in the case of exclusive competence of the Board of Directors - personnel and expenditure. The Executive Committee has also been given, in general, the faculty to assume any urgent provision in the interests of the Company, referring them to the Board at its next meeting.

The Executive Committee, the Statutory Auditors having their powers set by law, is called to meet whenever the Chairman considers appropriate and, by company practice, around twice a month. The Committee met 19 times during 2005<sup>4</sup>, with an average attendance by Directors of 98%

<sup>4</sup> Similarly to that provided for by the Articles of Association for the Board of Directors, the rules governing the operation of the Executive Committee - approved by the Board of Directors on 29 April 2004 - state that Executive Committee meetings may be held through telecommunication networks, as long as the exact identity of those legitimately authorized to attend is guaranteed and it is possible for all participants to intervene, in real time, on all the subjects and to see, receive and transmit documents. At least the Chairman and the Secretary must be present on the premises in which the Executive Committee meeting has been called, where it is considered as held.

## Technical Committees

The Board of Directors is supported in its institutional functions by Technical Committees made up from its members - in the context of the Articles of Association and in accordance with the provisions made in the Code of Conduct - with consultative, management and control functions.

As well as responding to the division of responsibilities between Directors, considering the number of offices held by each of them, Committees are composed on the basis of the Professional characteristics of the Directors, to guarantee adequate control of the respective thematic areas of competence.

### Technical Audit Committee

The Technical Audit Committee, set up in June 1998, is composed of three non-executive Directors, two of which independent:

GIUSEPPE FONTANA (Chairman)  
 MAURIZIO BARRACCO  
 MARIO SARCINELLI

The Managing Director, the General Manager and the Chairman of the Board of Statutory Auditors take part in the meetings.

The Audit Committee has the responsibility of analyzing the problems and relevant practices with the possibility to make specific analyses of subjects to be investigated further, with reference to the evaluation of the internal control system. The Committee also evaluates the adoption of the best corrective measures proposed to deal with omissions and anomalies found in the audit processes, both internally and with the independent auditors.

In particular, the Committee:

- assists the Board of Directors in its role in setting the guidelines and periodic checks of the operational adequacy and effectiveness of the internal control system of the Parent Bank and the Group companies;
- evaluates the working plans prepared by internal control and receives their periodic reports;
- evaluates, together with the auditors and represen-





*The SANPAOLO IMI branch in Via Monte di Pietà in Turin*

tatives of the companies responsible for the matter, the adequacy of the accounting principles used and their consistency for the publication of the consolidated financial statements;

- evaluates the proposals formulated by the independent auditors for their responsibilities, as well as the working plan set out for the audit and the results contained in the report and letter of suggestions;
- maintains close contacts with the Board of Statutory Auditors, through the participation of its Chairman at meetings, so as to allow reciprocal and timely information on the relevant subjects for the system of internal controls;
- refers to the Board of Directors, at least every six months, on the occasion of the approval of the annual and half year report, activity undertaken and the adequacy of the Group's system of internal controls;
- performs further tasks assigned to it by the Board of Directors, particularly in relation with the independent auditors;
- preliminarily evaluates relevant transactions with related parties.

The Technical Audit Committee also performs the tasks and functions assigned to it as a Regulatory Body, in accordance with D. Lgs 231/2001, as regards the administrative responsibility of the companies and presents a specific annual report on the activity performed in this context to the Board of Directors.

As well as intervening on more strictly pertinent matters, the Audit Committee - which met 12 times during 2005 - also examined other general issues, including: the initiatives undertaken by the Bank regarding customers holding bonds; initiatives aimed at implementing the Basel II principles in Sanpaolo Imi; criteria for application of the IAS/IFRS to the SANPAOLO IMI Group; the project for development and subsequent reorganization of companies in the "Savings and Assurance" sector.

### Remuneration and Personnel Policies Technical Committee

The Remuneration and Personnel Policies Technical Committee - which has operated within Sanpaolo Imi since 1998 - is currently made up of three non-executive Directors, one of whom independent:

ITI MIHALICH (Chairman)

ALFREDO SAENZ ABAD

ALBERTO TAZZETTI

The Committee - which met six times in 2005 - has the role of eva-

luating, in agreement with the Chairman of the Board of Statutory Auditors and referring to the Board of Directors, the remuneration of the Directors with particular offices and examining the total remuneration structure of the Directors, also taking account of any presence in the Corporate Bodies of subsidiary Companies.

The Committee, with intervention by the Managing Director and the General Manager, considers in depth the issues concerning the definition of the general direction for top management remuneration and management policies at Company and Group level, as well as the approval and modification of the general arrangements concerning work relationships.

### Ethical Committee

The Ethical Committee, set up in 2001, is currently composed of three non-executive Directors, one of which independent:

ANTHONY ORSATELLI (Chairman)

VIRGILIO MARRONE

LEONE SIBANI

The Committee in question, which met three times during 2005, has the responsibility of investigating and evaluating the principles to be presented to the Board of Directors for the identification of a corporate ethical-environmental policy, monitoring internally to which extent the chosen principles have been adopted and supervising the publication of the Social Report and the guidelines for the external communication of corporate policy in this area. The Ethical Committee is also responsible for proposing, where deemed fit, the definition of codes of conduct and approving adherence to declarations of principles or bodies in the sector and, in virtue of such power, has given its positive judgment on the Ethical Code of SANPAOLO IMI, approved by the Bank's Board of Directors in 2003.

Together with the Social Report, the Ethical Code provides the general reference of the ethical principles and values of the Group and the corpus for the criteria of conduct for its Directors, employees and co-workers in every operating and geographical context and with all people and bodies with which the Group companies operate.

This document has been given to all Group employees, in the belief that total adherence and consistent application of its principles, in relations with customers and other Bank and Group Company interlocutors, creates the basis for a long-term relationship of trust; the Code has also been transmitted to the Group companies so that its contents can be disseminated among the respective Administrative bodies.



## Nomination of the Directors

The SANPAOLO IMI Articles of Association do not contain a specific procedure for nominating Directors, hence this takes place on the basis of the proposals presented during the Shareholders' meeting, with the presentation of the curricula and professional experiences of the candidates.

To this end, it is noted that the Bank creates awareness among its majority shareholders of the opportunity, where possible, to anticipate information on the proposals for nomination and on the profiles of candidates for the office of Member of the Board of Directors, depositing the relative curricula in the Registered Office<sup>5</sup>.

It should be emphasized that - in the light of the current regulations concerning requisites of respectability, professionalism and independence required for the bank directors - the presentation of nominations implies the performance of adequate examination by those presenting candidates regarding the personal and professional characteristics of their candidates. The Board has 30 days from the date of nomination to check that the above-mentioned requisites exist, in conformity to the legal dispositions issued by the Bank of Italy.

At the moment there is no special committee within SANPAOLO IMI for the presentation of nominations to the office of director, given the nature of the task, which falls within the context of the competencies of shareholders, and the alert and attentive character of the latter as regards attendance of the shareholders' meetings and presenting suitable candidates for the corporate office. Their choice is focused on profiles of high standing with a wide range of different professional and managerial experiences in domestic and international contexts.

## Remuneration of the Directors and Top Management

The current system for remuneration of the Directors, according to the provisions of the Articles of Association and within the terms established by the Shareholders' meetings on 29 April 2004 and 29 April 2005, is largely based on the following:

- 1) a fixed annual part;
- 2) a variable part, linked to results achieved, and determined with reference to the bases and parameters approved by the Shareholders' Meeting;
- 3) a fixed sum including allowances for each attendance at meetings of Corporate bodies, while, pursuant to the Articles of Association, the Directors have the right to reimbursement of expenses occasioned by their office.

The Board of Directors supervises the distribution to the Directors of the variable part and, having heard the opinion of the Board of Statutory Auditors and taken the advice from the Remuneration and Personnel Policies Technical Committee, sets the remuneration of the Directors with particular duties as set out in the Articles of Association.

In particular, for 2005, the Board of Directors, upon proposal by the aforementioned Committee, established:

- 1) for the Chairman and Deputy Chairman, a fixed remuneration;
- 2) for the Managing Director, a fixed remuneration and a variable part anchored to the achievement of profitability ratio targets related to the MBO (management by objectives) mechanism envisaged for High level Executives and established in the context of the 2003-2005 Plan as well as the share performance.

The above remunerations are all-inclusive.

The Board of Directors, having heard the opinion of the Board of Statutory Auditors, has set an additional payment for the Directors who are members of the Technical Committees and for the Chairman of the Technical Audit Committee, considering the extensively diversified area of operation of the abovementioned Committee.

<sup>5</sup> During the Shareholders' meeting held on 29 April 2004, the majority shareholders published the list of candidates on 25 April 2004, in the context of the communication related to the agreements signed by the same shareholders, while the relative curricula were issued on 27 April through the Bank's website.

Details of the payments to the Directors are shown in the Explanatory Notes to the Parent Bank Financial Statements.

The determination of the amount due to the General Manager is the responsibility, in accordance with the Articles of Association, of the Board of Directors. The Board, as proposed by the Remuneration and Personnel Policies Technical Committee and having heard the Board of Statutory Auditors, has set for the General Manager, a fixed remuneration and a variable part related, as for the Managing Director, to the achievement of profitability ratio targets related to the MBO mechanism envisaged for High level Executives and established in the context of the 2003-2005 Plan as well as the share performance.

The remuneration system of the Company and Group's High level Executives and management is characterized by the clear personalization of the retributive schedule, based, as well as on a fixed part, on the extensive use of the variable component. The current management by objectives model is, in particular, closely related to the strategic aims of the Industrial Plan, with the application of a corrective mechanism that links the payment of the cited variable component to the achievement of a global business objective, made up, for 2004, of the Group's ordinary gross income.

## Managing Director, General Manager and organizational structure

In an increasingly complex and structured reference scenario with potentially growing risk profiles, the current Group business model aims for specialization of operations, with particular focus on banking and on the savings and assurance sector, through an organizational structure that satisfies the requirements of unitariness, uniformity and synergies in terms of policy as well as of governance and control of the Group, consistently with that provided for by the Bank of Italy in relation to banking groups.

Within the context of such an organizational structure, Managing Director Alfonso Iozzo is responsible for global coordination of Group activities, according to the guidelines provided by the Board of Directors. In particular, he is responsible for defining the Bank and the Group's activities of strategic direction, governance and control, supervising the Group planning process, monitoring the consistent development of plans and

budgets and the central control of risks. The Managing Director is also responsible for activities in the savings and assurance sector (Assicurazioni Internazionali di Previdenza, Banca Fideuram and Sanpaolo IMI Asset Management), as well as, in general, governance of equity investments

The General Manager Pietro Modiano, head of the operating and executive structure - is responsible for all Functions pertinent to the commercial bank, with the relative governance and support structures, as well as the banking networks operating on domestic and transnational territory and specialist companies controlling specific markets, territories and businesses such as public entities (Banca Opi), investment banking (Banca Imi), private equity (Sanpaolo Imi Private Equity), consumer credit (Neos Banca), leasing (Sanpaolo Leasing) and tax collection (Gest Line).

In particular, in accordance with the Articles of Association and on the basis and in the context of the powers granted to him by the Board of Directors, the General Manager:

- holds the power to propose loan and personnel management and also presents proposals to the administrative bodies with regard to pertinent matters;
- performs operations and deeds of ordinary administration;
- implements the decisions made by the Board of Directors, the Executive Committee, or the Managing Director and coordinates the activities of the Group subsidiaries, respecting the criteria and general directions set by the Board of Directors;
- coordinates, supervises and manages work relations with employees;
- delegates, for the implementation of his functions and the exercise of his powers or those delegated to him, powers to employees.

The General Manager attends the meetings of the Board of Directors and the Executive Committee with consultative functions and to make proposals, in conformity to the provisions of the Articles of Associations; he takes part in the work of the Technical Audit Committee, intervenes in the Remuneration and Personnel Policies Technical Committee and is also Chairman of the Group Credit Committee, of the Group Financial and Market Risk Committee and of the Group Operational Risk Committee.

The General Manager also heads the Management Committee, an advisory structure consisting of the Managers of Head Office Structures and Regional Areas of the Bank, as well as the General Managers of bank networks, with the objective pursuing continuous improvement of the processing and sharing



process, in terms of management, as regards operating strategies of the Bank. In particular, this Committee is responsible for defining development projects, recommending strategic options and applying the operating guidelines of the banking business to the Group as a whole, ensuring commitment by management even in terms of their transformation into plans and the subsequent control regarding implementation.

In the case of absence or impediment, the General Manager is replaced by the Central Managers depending on the case in question.

In the light of the division of expertise described above, the Board has attributed to the Managing Director and the General Manager powers to be exercised within the context of the strategies, the addresses and plans laid out by the same Board, with faculty of sub-power of attorney and the obligation to report quarterly to the Board on the activity performed, the decisions made and the powers of attorney conferred.

The Managing Director and the General Manager are attributed powers concerning loan issue and operational powers, Group guarantees to financial institutions, financial risk management and control, recovery of loans, legal and prelegal proceedings on non-recovered assets and liabilities, administration procedures against the Company and costs, as well as powers in matters concerning personnel and structures within the context of the management directions approved by the administrative bodies.

The Managing Director and the General Manager have been assigned, in general and within the context of their respective attributions, or in the execution of decisions made by superior Bodies, all powers necessary for the ordinary management of the Company, unless otherwise reserved specifically to other Bodies pursuant to the Articles of Association or by exclusive mandate of the Board of Directors.

The Managing Director, on the basis of the powers mandated, and the General Manager, in the matters reserved to him, formulate the proposals for approval by the Board of Directors and the Executive Committee.

## Other Committees

In the context of the mechanisms and instruments to guarantee the global coordination of the Group, there are special Committees set up in the context of the Company's top management, with the task of controlling the coordinated management of operating themes of particular importance.

### Group Credit Committee

The Group Credit Committee is a technical body with powers concerning the assignment of concessions which, in terms of type/amount/duration, exceed the limits attributed to the individual operating units of the Bank, the preliminary examination of transactions falling within the expertise of the Parent Bank boards and the credit transactions of subsidiaries, which require particular supervision.

The Committee also favors the definition, implementation and coordination of the Group lending policies and aims to promote initiatives to improve the global quality of the loan portfolio, the methods to prevent deterioration of credit and improve the effectiveness of the recovery processes, the general management criteria of "larger exposures with Group companies" and the evolutions of the lending activity of the Group and the individual companies.

The Group Credit Committee is also competent on the matter of Country Risk and Bank and Financial Institution Risks, together with the power to preventively examine the assignment proposals for which the corporate boards are responsible.

The Committee is called to meet, usually once a week, by the General Manager - who presides over the Committee and sets the agenda - and is made up of the Managers of the Bank structures competent for each matter; other Managers provide consultative functions or intervene on a permanent basis. Lastly, the Managers of specialist units and other Group representatives indicated by the Chairman may attend the meetings.

### Group Financial and Market Risk Committee

The Group Financial and Market Risk Committee has a decision-making and informative role and is generally responsible for ensuring that the Company has an integrated view of the global risk undertaken by the Group.

In particular, the Committee's main activities regard the coordination of the Group's risk strategies and policies, checking the guidelines for defining the methods and criteria for measuring the risks developed by the Parent Bank's risk management; checking the effective adaptation of the aforementioned criteria and methods, as well as the control procedures by the Group's individual operating units; regularly checking the Group's global risk profile and its main operating units; evaluating the extraordinary adoption of operations to contain risks which become necessary as a consequence of particular market trends; defining the structure of

the Parent bank's "operating limits" and its business lines, as well as the guidelines to be followed by the subsidiaries in setting "operating limits". This Committee is also assigned, by specific mandate of the Board of Directors, the task of monitoring the Group operating risk, in line with the indications of the New Basel Capital Accord.

The Committee is called to meet, usually once a month, by the General Manager - who presides over the Committee and sets the agenda - and is made up of the Managers of the Bank structures competent for each matter; other Managers of the main units of the Bank and the Group indicated by the Chairman intervene on a permanent basis and, lastly, other Bank and Group representatives may attend by invitation.

### Group Operational Risk Committee

In 2005, the Group Operational Risk Committee was established, in line with the recommendations of the New Basel Accord regarding the capital of banks, with the task of evaluating exposure to operational risk and directing and coordinating the principal measures for intervention, mitigation and transfer of said risk. The Committee is also responsible for monitoring and defining the overall framework in terms of the methodological, organizational and structural aspects.

The Committee, normally called to meet on a quarterly basis by the General Manager, who presides over the Committee and sets the agenda, consists of the Managers of the Bank structures competent for each matter

### Disclosures Committee

The Committee, established as implementation of US regulations, with which the Bank must comply as a result of being listed in the New York Stock Exchange (NYSE) and registered with the US Securities and Exchange Commission (SEC), is in charge of assisting the Bank's corporate officers and management in fulfilling their duties and responsibilities in terms of control of accuracy and timeliness of disclosures, carried out in compliance with Italian and US regulations.

Created in 2002 and consisting of the Heads of several Central Management and Central Functions of the Parent Bank, including the Head of Finance Management and Administration, in his capacity as Chief Financial Officer, the Committee performs this role by expressing a technical opinion on the disclosure controls and procedures, as well as supervising the preparation of the main accounting documents. In particular, the Committee certifies to the Managing Director, in his capacity as Chief Execu-

tive Officer, and to the Chief Financial Officer, before sending the Annual Report on form 20-F to the SEC, that it has evaluated the effective nature of the disclosure procedures and controls to ensure correct registration and communication of important financial information regarding the Bank and the Group.

## The financial reporting control system

As part of corporate governance actions aimed at strengthening the quality and level of control over financial reporting to the markets, the Group has implemented measures to regulate the set of administration and control activities, taking advantage of opportunities provided by the alignment to provisions of the US Sarbanes Oxley Act.

Furthermore, this move anticipates the growing requirements of the administrative control system, promoted in Europe with issuance of the 8th Directive by European Parliament and in Italy with the "Law on Savings", in response to the growing attention by national and international regulators to corporate reporting of an administrative and financial nature, for the protection of the investors and, more generally, of the market.

The initiatives are aimed at implementation of an administrative-financial governance model at the Group level, uniquely organized and strongly integrated, especially with respect to the control system that oversees the company reporting processes that handle the production of obligatory requirements and financial reporting at the market level.

Realization of the aforementioned administrative-financial governance model took place under the observance of management, with direction and supervision responsibilities, and of the Disclosures Committee, also established for the purpose of supporting company offices in the fulfillment of their responsibilities and duties regarding in terms of control of the accuracy, completeness, transparency and timeliness of disclosure activities carried out as part of administrative and financial corporate reporting.

Planning and coordination of the overall program of initiatives, implemented across the entire Group in accordance with a setup aimed at providing full visibility and command over the financial reporting control system, was assigned to a specific Function created under Financial Management and Administration of the Parent Bank (the head of which occupies the role of Chief Financial Officer). Said structure was also as-

signed the responsibility of coordinating supervision of the actual effectiveness of controls implemented in the production of data for corporate reporting to the public and analyzing the efficiency of the aforementioned corporate governance processes for the production of financial reports, particularly with respect to the principles of administrative-financial governance and technological-application governance.

Expansion of the administrative-financial governance model throughout the entire Group through uniform application of the methods and standards used in creating documents hinged on adoption of an application architecture that supports management and maintenance of the volume of corporate information, ensuring quality documents through effective organization of the most advanced computer systems.

On this basis, with awareness and visibility of the relationships that link the administrative-financial representation to the organizational description of business processes and the configuration of the financial reporting control system, Management is in a position to issue public disclosure on the status of its internal controls, initially in accordance with the Sarbanes Oxley Act and, in the future, in compliance with the aforementioned provisions of Law 262/2005.

SANPAOLO IMI has thus undertaken a broad action program, which represents a competitive edge, aimed at implementing an innovative governance and control system for financial reporting, in order to ensure the highest qualitative standards for disclosures

## The internal control system

The internal control system is a fundamental and vital element to the company processes aimed at guaranteeing, through the control of related risks, the correct management of the Bank and the Group in view of achieving the set aims and, at the same time, the defense of the interests of stakeholders.

As a bank, SANPAOLO IMI is subject to a specific Bank of Italy regulation which, as regards the issue in question, in line with the recommendations adopted internationally, is marked by a limited prescriptive indication in favor of principles of reference and by stimulating the top management for the development of highly efficient and effective control

systems: in accordance with the Supervisory Regulations issued by the Bank of Italy, competitiveness, medium- and long-term stability and the possibility of guaranteeing healthy and prudent management cannot be obtained without a correctly functioning internal control system and the development of a solid company culture on the matter.

At SANPAOLO IMI the internal control system and the appointed structure are particularly widespread and organized to effectively control the typical risks inherent in the corporate activity and monitor the economic and financial situation of the Company and the Group. This system, viewed as an organic set of organizational controls, procedures and behavioral rules, constitutes an integral part of operations and involves all sectors and corporate structures, each of which is called upon to ensure constant and continuous monitoring for its own relevant area.

Responsibilities in terms of internal auditing are assigned to a special structure known as Audit Management which, reporting hierarchically to the Managing Director and functionally to the Technical Audit Committee, is necessarily independent of the operating structures and in carrying out its activities, it is not denied access to data, archives and company assets.

Audit Management has the responsibility for evaluating the functioning of the complete system of internal controls of the Group, controlling operations and risk management performance, the respect of procedures and the regulations drawn up by the Bank and the subsidiaries, as well as bringing to the attention of the Board of Directors and Top Management possible improvements in controlling risks.

The Management is split into the following Functions: Parent Bank and Bank Networks Audits, with the mission of evaluating the internal control system to control risks and identify anomalous trends and violations of procedures with reference to the corporate centre units of the Parent Bank, the Italian Network structures and those of the Foreign Network; Subsidiaries Audit, with the mission of coordinating the auditing functions of the subsidiaries, in order to guarantee consistent controls and adequate attention to the various types of risk, also through an independent investigation and verification activity by way of examination of periodical informative flows, as well as interventions on the premises of the same Companies. Compliance, with the mission of ensuring the conformity of company processes with legal provisions and the supervisory regulations that govern the various sectors of activity of the Bank.

A quarterly report on the results of the activity is presented to the Technical Audit Committee and the Board of Directors, whose meetings are attended, on such occasions, by the head of Audit Management, who shows the Directors the report and provides the necessary clarification, acknowledging any comments.

There are regular, continuous reports between Audit Management and the other control bodies and, in particular, to the Board of Statutory Auditors, to which constant information and cooperation are ensured through the attendance of the Audit Committee meetings by the Chairman of the Board and the periodical report by the Head of Audit Management, in the context of the sessions of the same Board, on the results of the activities performed.

On the matter of internal controls, the instructions issued by Bank of Italy also devote particular attention to the tasks of the Parent Bank, called upon to exercise - in the framework of the general activities of management and coordination of competence - strategic control of the evolution of the various areas of activity in which the Group operates and of the risks pending on the portfolio of activities exercised, operational control aimed at ensuring the maintenance of the conditions of economic, financial and capital balance both of the individual companies and the Group as a whole, as well as technical-operational control aimed at evaluating the various risk profiles brought to the group by the individual subsidiaries. The effective control of the whole Group's strategic choices and the operating balance of the various components is ensured by the internal audit system.

At Group level, SANPAOLO IMI has adopted a control system which aims to avoid overlapping or duplicating operations and achieving an audit activity which is as standardized as possible, assigning the Parent Bank a strong role in coordinating the independent internal auditing functions of the subsidiaries.

To this end, the "SANPAOLO IMI Group internal audit activity regulations" regulates the roles and responsibilities of internal auditing in SANPAOLO IMI, in its dual role of holding company and bank, as well as at the Group level. As set forth in said Regulations, a specific organizational procedure which regulates the flows of information between the Parent Bank and the subsidiaries has been formalized and a risk assessment instrument to evaluate the level of functionality of the company's internal controls system has been developed, with increasingly pressing coordination of the individual internal company auditing functions via supervision of the respective operating plans.

SANPAOLO IMI, in order to verify consistency of behaviors within Group companies in terms of the indications and directions provided as well as effectiveness of the internal control systems, carries out periodic assessments of the components of the Group and sends an annual report to the Bank of Italy regarding assessments carried out on subsidiaries, which also contains the comments of the Board of Directors and the Board of Statutory Auditors.

As regards the Group bank-networks, which have recently been involved in a progressive integration process, the respective internal auditing activities have been centralized in the Parent Bank's Audit Management, to guarantee standardized rules, methods and techniques, simultaneously optimizing Group synergies. The above is valid subject to the envisaged information flows with the respective company bodies, in particular the Boards of Statutory Auditors and the Audit Committees, and the relative decisions of competence.

## Organization, Management and Control Model pursuant to Legislative decree no. 231/2001 and relative Regulatory Body

Legislative Decree no. 231/2001 introduced, into the Italian regulations, a unique system of administrative responsibility of legal bodies for crimes committed by those in leading positions, in their own interest or to their advantage, within their relative structures or by those subject to their management or regulation. Said Decree has, however, indicated that the related companies may be held free from responsibility if they have adopted and effectively implemented "organization and management models suitable to prevent these types of crimes".

SANPAOLO IMI, also taking into account the existing internal control system, has approved the Principles of reference for adoption of the organization, management and control models pursuant to the aforementioned Decree, as well as conferral, as referred to above, of the qualification of Supervisory Body to the Technical Audit Committee, with contextual attribution to the same of the powers and prerogatives necessary to perform the supervisory activities with regard to the operation and observance of the models and their updating in compliance with the provisions of the Decree. As such, the

Technical Audit Committee will present to the Board of Directors an annual report on the activities carried out.

The aforementioned Models, which express the activities conducted by the Bank in order, among other things, to highlight and analyze the design of the control system in place, supplying a framework of reference for the specific control procedures developed in relation to the various areas of activity, have been brought to the attention of all Bank employees with the aim of regulating the performance of corporate activity and preserving the results achieved and the relationship of trust created with customers and the reference community.

During 2005 and in the early months of 2006, the Board of Directors of the Bank resolved an update of the Principles, also in light of legislative changes that extended the administrative responsibility of companies to new types of crimes. Consequently, an update was carried out in relation to the mapping of corporate areas potentially risk-sensitive to the crimes outlined in the aforementioned Decree, evaluating, in particular, possible activities at risk with respect to the new penal and administrative crimes of abuse of privileged information and manipulation of the market.

The update also regarded the composition and operation of the Technical Audit Committee as Regulatory Body: in order to reinforce the requirements of independence and autonomy of judgment of the same, the requirement of independence has been enforced for all Directors comprising the Committee, and not only for a majority of them. The Bank also decided, in cases where the Technical Audit Committee acts as Regulatory Body and the effective components are temporarily unable to attend the sessions, to nominate three supplementary members - identified in the persons of Alberto Abbate, Oreste Cagnasso and Enrico Fioravanti -, selected from individuals "external" to the Company and who possess the same requisites of integrity and independence required for effective members and the required professional knowledge. The Board of Directors is responsible for appointing said supplementary members and, should the unavailability of an effective component have a foreseeable duration of greater than three months, said Board will co-opt the oldest supplementary member, who will cease from holding the position once the situation leading to the co-opting ceases to exist.

## Transactions with related parties

The Board of Directors - based on the definition contained in IAS 24 - has identified the parties related to the Bank and defined a Group procedure for the deliberation of transactions with such related parties, aimed at setting competencies and responsibilities, as well as indicating the information flow between the structures of the Bank and the companies directly and indirectly controlled

Significant transactions with related parties performed by the Parent Bank are reserved to the deliberative competence of the Board of Directors, upon prior examination by the Audit Committee.

Significant transactions are those with at least the following thresholds:

- a) 50,000 euro, in the case of atypical or unusual transactions;
- b) 10 million euro, in the case of loans and other transactions, at standard conditions, undertaken with related parties outside of the group, associated parties and joint ventures;
- c) 500 million euro, in the case of loans transactions at standard conditions undertaken with Group-related parties, associated parties and joint ventures, or 50 million euro in the event of other transactions at standard conditions undertaken with Group-related parties, associated parties and joint ventures.

In addition, the Board of Directors has also decided to submit to the deliberative proposal indicated transactions for amounts greater than 25 million euro, if these are undertaken with parties belonging to company groups of shareholders that exercise significant influence on the Bank.

Significant transactions entered into by subsidiaries with the related parties of the Parent Bank have been reserved to the deliberative competence of the Board of Directors of the company concerned; in any case, subsidiaries must submit their proposals to the approval of the Parent Bank in the case of transactions with values which are at least equivalent to the limits stated below:

- a) 50,000 euro for atypical or unusual transactions;
- b) 10 million euro for all transactions at standard conditions.

As part of the procedure, in the preliminary stage of atypical or unusual transactions, the competent structures must be assi-



sted by independent experts called to express an opinion on the economic conditions and/or legitimacy and/or the technical aspects of the transaction. For significant transactions, the Head of the Parent Group Structure competent to propose or approve the transaction, will assess whether or not to make use of the assistance of independent experts on the basis of the non-repetitive nature and relevance of the transaction.

The resolution proposals related to transactions with related parties, even when they are delegated to company bodies other than the Board of Directors, must state that the transaction is with a related party and always include a brief description of the characteristics, methods, terms and conditions of the transactions, indicating the related parties with whom the transaction is entered into, the reasons for and economic effects of the accomplishment of the transaction, the methods used to determine the price and the evaluations of its adequacy, as well as any indications supplied by independent experts.

It should be noted that, if the related party is one of the subjects who exercise management, administration and control functions within the Bank, the special, stricter regulations contained in the Supervisory Regulations on the duties of banking exponents pursuant to Art. 136 of D. Lgs 385/1993 of the Testo with the favorable vote of all the members of the Board of Statutory Auditors. The abovementioned provision also allows for the obligations provided for by the Italian Civil Code with regard to the interests of the directors, where envisaged, under Art. 2391, which emphasizes the obligation - carefully and systematically respected in the context of SANPAOLO IMI - of full representation, by the Directors, of any interest held, on own or third-party behalf, which might be of importance in the exercise of the management function, with reference to a specific transaction<sup>6</sup>.

It should also be noted that, in accordance with the abovementioned Art. 136, those performing administration, management and control functions within banks or companies belonging to the Group may not issue bonds or purchase/sale deeds directly or indirectly with the company to which they belong, or perform financing transactions with other Group companies or banks in absence of approval by the boards of the contracting company or bank, adopted with the methods indicated above. In such cases the bond or deed must be approved by the Parent Bank, as issued by the Board of Directors.

Following the approval of the transactions with related parties,

the Functions of the Parent Bank and the subsidiaries must present a quarterly report to the Technical Audit Committee and the Board of Directors of the Parent Bank, in accordance with Art. 150 of D. Lgs 58/1998, and must, if necessary, implement immediate or periodical informative duties to the market.

A description of transactions with related parties is included in the Explanatory Notes to the Consolidated and Separate Financial Statements.

## Treatment of confidential information

Institutional communication activities in SANPAOLO IMI - including the treatment of price sensitive information - are the exclusive responsibility of the Chairman, based on the technical evaluations adopted, within the scope of the respective competence, by the Board of Directors and the Managing Director.

They engage the External Relations and Investor Relations functions for this purpose. In particular, the former is responsible for management of the process aimed at providing continuous information to the press and to the relevant Regulatory Bodies, as well as, more specifically, preparation and submission for approval to the Board of Directors and to the Managing Director of press releases to be issued in the market; the latter, on the other hand, is responsible for ensuring the correct exchange of information with institution investors rating agencies and market operators, especially as regards disclosure and publication of statistical or forecasted data and information.

The External Relations function is also responsible for the dissemination of price sensitive communications in observance of the provisions issued by the supervisory and market management bodies.

Confidential information is treated following an internal procedure approved by the Board of Directors in conformity to best practice, the regulatory principles and recommendations contained in the communications issued by the Regulatory Authorities. This procedure, affirming the obligation of confidentiality, in the corporate interest and the interest of Directors and Statutory Auditors, highlights the value which the Company recognizes in terms of principles of

<sup>6</sup> With reference to the prohibition, contained in the Sarbanes-Oxley Act (Section 402) for registered companies in accordance with US law, to perform, renew or renegotiate loans to own directors of the board or executive officers, the Securities and Exchange Commission has introduced a specific exemption - used by SANPAOLO IMI - concerning loans to foreign employees.



market efficiency and transparency as well as the criteria of duty, clarity and continuity of information, on which communication toward the public is based. The procedure also exemplifies the main circumstances when the obligation to communicate arises and the means of communication.

In implementing the legal and regulatory provisions, in addition to the above-mentioned procedure, specific instructions have been transmitted to subsidiaries to ensure an efficient informative flow and timely respect for the requirements of transparency by the Group to the market.

Lastly, the accounting information that the Bank must communicate to the NYSE and the SEC on the basis of U.S. standards must be price sensitive and made available to the public also in Italy. Likewise, in applying an equivalence principle, all relevant information that has to be made public by the Bank in accordance with domestic standards is immediately supplied to the above mentioned foreign Authorities.

## Internal dealing and insiders list

Regulations related to the disclosure requirements for transactions undertaken by relevant individuals are currently contained, following the regulatory amendments introduced by Law no. 62/2005, in the Consolidated Financial Law (Legislative Decree no. 58/1998), as well as in the regulatory measures issued by Consob, effective since 1 April 2006.

The regulations - which fall under the scope of the provisions set forth for the prevention and identification of market abuse phenomena (abuse of privileged information and manipulation of the market) - aim to provide transparency, through disclosure to Consob and to the public, of transactions involving shares issued by the issuer or other related financial instruments, carried out by "relevant people" or by people closely linked to these.

In compliance with said provisions, the Board of Directors has approved the criteria to which the internal organizatio-

nal procedure must comply, aimed at identifying the "financial instruments" subject to disclosure of internal dealing<sup>7</sup> and determining the "relevant people" of the Parent Bank and of the subsidiaries required to carry out the disclosure set forth by the regulations<sup>8</sup>, as well as "designated subject involved in the receipt, management and dissemination of information". This procedure will aim to define and regulate, with mandatory effectiveness, the spheres of competences, flows of information and interactions between the "designated subject" and the "relevant people", as well as the communications to Consob and to the market; in addition, the same will identify the SANPAOLO IMI structures responsible for monitoring and disclosure of the transactions carried out on company financial instruments with respect to which the Bank itself assumes the role of "relevant person", in its capacity as Parent Bank or holder of an interest of at least 10% of the capital of a listed company.

SANPAOLO IMI, in accordance with the regulations in force, has also established a registry of people who, due to their employment or professional position or to the functions carried out, have permanent or occasional access to privileged information regarding the Company. The Board of Directors has approved the reference criteria of the specific procedure that will define the criteria for management of said registry and establishing competencies, responsibilities and flows of information between Bank structures, with particular reference to the saving and regular updating of the registry and to notification to people registered of their registration, as well as the obligations involved in having access to privileged information and possible sanctions resulting from its unauthorized use.

## Relations with shareholders and the financial community

SANPAOLO IMI has always paid particular attention - by setting up internal company structures dedicated to this specific purpose - to seamlessly managing relations with shareholders, institutional investors and the main operators in the domestic and international financial community, and to guaranteeing the systematic dissemination

<sup>7</sup> The scope of relevant financial instruments includes ordinary and preference shares of SANPAOLO IMI, American Depositary Receipts (ADRs) of the Company traded on the New York Stock Exchange and ordinary shares of Banca Fideuram as well as the other financial instruments related to said shares.

<sup>8</sup> In accordance with regulations and with relative procedure, relevant subjects include members of the Board of Directors, effective members of the Board of Statutory Auditors, the General Manager and the Head of Finance Management and Administration, in his capacity as Chief Financial Officer, as well as Compagnia di San Paolo, shareholder holding an interest of greater than 10% of the share capital of SANPAOLO IMI.

of thorough and prompt information on Group activities, strategies and results, also in the light of the indications formulated on the matter by the Consob and the principles contained in the "Market Information Guide" on corporate information published in 2002 by Forum Ref. These tasks are currently attributed to Investor Relations and to the Company Secretariat.

During 2005 the Company pursued its opening towards the market, especially in conjunction with publication of the financial statements and periodical results, organizing meetings with investors and financial analysts in the main geographic areas.

In addition, SANPAOLO IMI has decided to further encourage communication with investors and with the public, by pursuing a practice of correct, accurate and transparent communication, via adequate preparation and prompt, timely updating of the website [www.gruppo-sanpaoloimi.com](http://www.gruppo-sanpaoloimi.com). Development of this information channel reflects the Company's attention to international best practices as regards investor relations, as well as the requirements linked to fulfillment of the corporate reporting obligations set forth in the current regulations.

Through this site - which is also available in an English version - the Bank provides and updates news on the Group's structural and operating profile and on the composition of the Bank's shareholder structure, economic-financial information (financial statements, half year and quarterly reports, share performance and opinions expressed by rating agencies), press releases issued by the Company and the annual calendar of relevant corporate events, as well as information on relevant or extraordinary transactions. The site also provides news on meetings periodically organized with financial analysts, in which anyone who is interested can participate directly or by conference call.

The site also includes a section expressly dedicated to the Bank's corporate governance, in which anyone can access information on the corporate governance model adopted, along with this Report and the documents and information concerning its organizational structure in general and, more specifically, the procedures and principles of conduct which the Company adopts with reference to specific issues (internal dealing code, conduct during transactions with related parties, Ethical Code).

The website contains telephone contacts, along with an e-mail address ([investor.relations@sanpaoloimi.com](mailto:investor.relations@sanpaoloimi.com)) for users to request information or documentation

## Shareholders' Meetings

Despite the presence of extensive diversification in the methods of disclosing information to the market, SANPAOLO IMI adheres to the principle by which Shareholders' Meetings represent a privileged opportunity for profitable communication between shareholders and Directors, as well as a way of informing shareholders of news on the company, respecting the principle of informative equality and the regulations on price sensitive information.

In light of the above, SANPAOLO IMI encourages and facilitates extensive participation by shareholders in the Meetings. In fact, shareholders who have attended recent meetings are promptly issued calls to subsequent meetings and receive the informative materials prepared in view of the work to be performed, also with the objective of providing them with the information necessary to exercise their voting rights.

Shareholders' Meetings are called with publication of an announcement in the Official Gazette, in at least two national daily newspapers and in two of the most important foreign daily newspapers. Documentation relative to the items on the agenda, together with the call for the meeting, is published on the Bank's website.

The Articles of Association of SANPAOLO IMI allow participation in the Shareholders' Meeting by those shareholders with voting rights and for which a notice from the authorized intermediary certifying their legitimation has been received by the Company within the specified time scheduled for the beginning of the Meeting. Taking into account the petitions of shareholders and institutional investors, the Articles do not envisage - as would be permitted by current laws - any preventive deposit of shares and/or relative certifications for the purposes of attendance in the Meeting by shareholders.

The Shareholders' Meetings are attended by the Company Directors and Statutory Auditors, who make a useful contribution to the meeting. Moreover - to allow best use of the discussion and to regulate the meeting and allow all the shareholders in attendance to express his/her opinion and ask for clarification regarding the agenda - SANPAOLO IMI has implemented a Shareholders' Meeting Regulation which is made available to shareholders before every meeting, together with the documentation prepared specifically for the Shareholders' Meeting. This Regulation is not an appendix to the Articles of Association and has been approved by the Ordinary Shareholders' Meeting which is

competent to approve any related amendments, also to guarantee greater flexibility and prompt adaptation of the text to regulatory amendments, as well as the needs that the experience of its application might suggest.

The Regulation - available on the Bank's website - governs, among others, the intervention in and attendance of the Shareholders' Meeting, the verification of the legitimate right to intervene and access to the meeting room, the voting methods, interventions by the Directors and Auditors and also the Chairman's powers.

The Company does not deem it necessary to proceed to

specific initiatives designed to amend the capital percentage ceilings contemplated by the current regulation for actions and prerogatives to safeguard minorities.

During 2005, the Shareholders' Meeting met on 29 April: the subjects discussed during the April meeting included, in particular, the approval of the financial statements for 2004 and the nomination of the Board of Statutory Auditors for 2005/2006/2007.

The attendance of the Meeting by shareholders is constantly significant: in particular, the Shareholders' Meeting in April was attended by 52.90% of the ordinary capital.



*Palazzo Donghi, the headquarters of Cariparo in corso Garibaldi in Padova*



## Board of Statutory Auditors

### Nomination, composition and duration

The Board of Statutory Auditors - composed of five Statutory Auditors and two Supplementary Auditors - is elected by the Shareholders' Meeting through the voting list and in observance of a procedure which envisages the timely publication of the candidacies and ensures a representation within it of representatives of minority shareholders. The Auditors hold office for three financial years and may be re-elected.

The lists of candidates - which can be presented by the shareholders who, either alone or with other shareholders, represent at least 1% of the shares with voting rights in the Ordinary Shareholders' Meeting - must be published in at least two national daily newspapers, including one financial newspaper, at least 10 days before the day fixed for the Shareholders' Meeting on first call, and deposited at the registered office together with the curriculum vitae of each candidate and declarations with which the individual candidates accept their candidacy and affirm, under their own responsibility, the absence of causes of ineligibility and incompatibility, as well as the existence of the requirements prescribed by current regulations and the Articles of Association to hold the office of Statutory Auditor.

The Board of Auditors currently in office - nominated for 2005/2006/2007 by the Shareholders' Meeting held on 29 April 2005<sup>9</sup> - is composed of:

MAURIZIO DALLOCCHIO	Chairman
AURELIANO BENEDETTI	Auditor
GIANLUCA FERRERO	Auditor
AUGUSTO FRANCHINI	Auditor
PAOLO MAZZI	Auditor

CARLO PAVESIO	Supplementary Auditor
PAOLO PICCATTI	Supplementary Auditor

Short biographical and professional notes of the Auditors are available on the Bank's website.

The term in office for the members of the Board of Auditors is envisaged until approval of the financial statements for 2007.

The Shareholders' Meeting of 29 April 2005 established the payment due to the members of the Board of Auditors for the three-year period of office, also approving the payment to each Auditor of a fixed amounts (including allowances) for attendance of every meeting and without affecting the Auditors' right to reimbursement of produced by the office.

Details of the payments to the Auditors are shown in the Explanatory Notes to the Financial Statements.

### Functions and powers of the Board of Statutory Auditors

The Board of Statutory Auditors - which met 12 times during 2005 with an 87% average attendance by Auditors - is called upon to supervise observance of the law and of the Articles of Association, respect of the principles of correct management and adequacy of the organizational structure, for the areas of competence, of the internal control system and the Company's administrative-accounting system, the methods of concrete implementation of the corporate governance rules set forth by codes of conduct drafted by management companies in regulated markets or by trade associations, to which the Company declares to comply, as well as the adequacy of the provisions given by the Company to its subsidiaries to fulfill the disclosure and reporting obligations provided for by the law.

<sup>9</sup> Three lists were presented during the meeting on 29 April 2005: list no.1 by shareholder Compagnia di San Paolo, then holder of 7.37% of the ordinary share capital, list no.2 by shareholder IFIL Investments S.p.A., then holder of 6.309% of the ordinary share capital and list no. 3 - deposited on 18 April 2005 by shareholders Nextra Investment Management SGR S.p.A., Aletti Gestielle SGR S.p.A., Arca SGR S.p.A., Aureo Gestioni SGRp.A., Dws Investments Italy SGR S.p.A., Ersel Asset Management SGR S.p.A., Fineco Asset Management SGR S.p.A., Hermes Administration Services Ltd., Mediolanum Gestione Fondi SGRp.A., Mediolanum International Funds Ltd., Monte Paschi Asset Management SGR S.p.A., Pioneer Asset Management S.A., Pioneer Investment Management SGRp.A., then holders of a total of about 1.50% of the ordinary share capital. Auditors Maurizio Dallochio, Augusto Franchini and Paolo Mazzi and Supplementary Auditor Paolo Piccatti were taken from list no.1; Auditors Aureliano Benedetti and Gianluca Ferrero, as well as Supplementary Auditor Carlo Pavesio, were taken from list no.2.

<sup>10</sup> The Articles of Association of SANPAOLO IMI allow the Board of Statutory Auditors (similarly to what occurs for the Board of Directors) to validly hold their meetings via telecommunications. As long as the exact identity of those legitimately authorized to attend is guaranteed, and it is possible for all participants to intervene, in real time, on all issues and to see, receive and transmit documents, the meeting is considered to have been held in the premises from which it was called, assuming the presence of at least one Auditor.



In carrying out its duties, the Board of Statutory Auditors has extensive powers of inspection and internal investigation, even directly with respect to subsidiaries, and it may call - upon notification to the Chairman of the Board of Directors - the Shareholders' Meeting, the Board of Directors and the Executive Committee, appeal against the resolutions of the Shareholders' Meeting and the Board and report irregularities in management to the Court, also with reference to subsidiaries. In addition, the Board immediately informs Consob and the Bank of Italy of any irregularities in supervisory activities. The powers of convocation and request for collaboration may be exercised even individually by each member of the Board of Statutory Auditors, except for convocation of the Shareholders' Meeting, which must be done by at least two members.

The Board of Auditors attends all the meetings of the Board of Directors and the Executive Board and therefore is constantly informed of the activities carried out by the Company. Moreover, in compliance with Art. 150 of D. Lgs 58/1998 and the Articles of Association and in order to guarantee that all the information needed to exercise effectively its functions are made available to the Board of Statutory Auditors, the Board of Directors refers promptly, at least quarterly, to the Board on the activities performed and the major economic, financial and balance sheet transactions performed by the company or the subsidiaries; in particular the Directors report transactions in which they are interested on their own behalf or that of third parties.

To implement the legal provisions and the Articles of Association, a special organization procedure has been created; it defines the competencies and responsibilities of the Bank functions involved in the informative process between the Board of Directors and the Board of Statutory Auditors. The activities referred by the Board are, in any case, promptly reported to the Board of Statutory Auditors in a specific communication addressed to its Chairman.

The informative activity in question is organized into reports on Group activities, which analyze the operating trend and major economic, financial and balance sheet transactions, the exercise of powers of attorney within the Parent Bank and potentially conflicting transactions, with particular reference to transactions with related parties. The extensive informative activity in question is not just functional to the performance of the Board of Statutory Auditors' supervisory activities, but also allows all the Directors to carry out aware and informed observation of company operations.

In line with the requirements set forth by the Sarbanes Oxley Act, SANPAOLO IMI is obliged to set up an audit committee which meets specific standards of autonomy and independence provided, also for the foreign issuers, by the US law. To this end, the Company resolved to assign to the Board of Statutory Auditors the functions of audit committee in line with US regulations, that mainly consist in the control of the processes of the financial statement reporting and auditing of the Company. The Board of Statutory Auditors is in fact qualified to perform those functions, in view of the ordinary competencies and responsibilities assigned to itself by Italian law as well as of the professionalism and independence of its members. To this end, the Board of Directors and the Board of Statutory Auditors have approved an internal protocol to regulate the activities of the Board of Statutory Auditors related to the role of audit committee, so that the same may fully perform the duties assigned, particularly in dealings with auditors and in the management of complaints regarding financial reporting, in line with US and national regulations. In addition, the Board has been granted a relative credit line by the Shareholders' Meeting, to be used for remuneration of independent external consultants, if any, for execution of the aforementioned audit committee duties required by the relevant US regulations.

The Board of Statutory Auditors holds the powers given to itself in accordance with the Sarbanes Oxley Act and the provisions issued by the SEC, with the subsequent adoption of responsibilities with respect to the US authority, without affecting the ordinary competencies and responsibilities assigned to the latter by Italian law.

#### **Offices of Director or Statutory Auditor held in other companies**

Considering that the assumption of a considerable number of offices could jeopardize the diligent performance of their tasks, the Articles of Association state that the members of the Board of Statutory Auditors may not hold more than five offices as Auditor in other listed companies. The need to ensure unitary control of the Group has also led to the express exclusion of offices held in subsidiaries from the above restriction: under this assumption, the presence of the Parent Bank Auditors represents a useful instrument with which the Board of Auditors is able to acquire the information needed to fulfill the functions of competence.

In part three of this Report, summary table 3 shows the number and listing of the other offices of director or auditor currently held by each member of the Board of Statutory Auditors in companies listed in Italian markets.



*The headquarters of Carisbo in via Farini in Bologna*

## Audits

Being a listed Company, the accounting control activity of SANPAOLO IMI must, by law, be carried out by independent auditors who are responsible for checking that the company accounts are properly kept during the year, that the operating facts are correctly booked and also for ensuring that the financial statements and the consolidated financial statements correspond with the results of the accounting entries and the checks carried out and that the same accounting documents conform to the pertinent regulatory standards. The independent auditors issue appropriate reports to express an opinion on the financial statements and the consolidated financial statements as well as on the half year report.

The independent auditing firm currently appointed by SANPAOLO IMI is PricewaterhouseCoopers S.p.A., the office of which will expire with the Shareholders' Meeting convened for approval of the 2006 financial statements.

Assignment of the auditing appointment is proposed by the Board of Directors, also following assessments by the Audit Committee, on the basis of bids presented by the independent auditors interested; the proposal, together with the opinion of the Board of Statutory Auditors, is presented to the Ordinary Shareholders' Meeting during the approval of the financial statements.

The independent auditors have the right to obtain from the Directors documents and information useful to the auditing activity and may carry out any checks, inspections and controls; it promptly informs the Consob, Bank of Italy and the Board of Statutory Auditors - with which it exchanges data and information of importance to their respective tasks - of any facts considered discommendable.

Notwithstanding the above, assignment to the independent auditors of further tasks other than auditing ("non-audit services"), compatible with their corporate purpose, must be approved by the Board of Directors upon approval by the Board of Statutory Auditors.

With the aim of monitoring the auditing assignments and any other assignment of professional services (audit and non audit services) conferred to independent auditors working for the Group companies, or to companies, professional offices and other organizations which have stable relations with these independent auditors in Italy and abroad (associates), SANPAOLO IMI has set up a specific Directive,

in order to ensure - besides standardization of the independent auditing of the financial statements with regard to the assignment by the Parent Bank - full respect of the Italian standards on independent auditors appointed to perform the mandatory audits of Group companies, as well as the correct fulfillment of the U.S. standards.

Allowing them autonomy for the conferment of assignments to independent companies as well as the competencies and checks to be performed by them as regards relations with their own auditors, the Directive states that subsidiaries must ask for the preventive opinion of the Parent Bank's Board of Statutory Auditors before conferring an audit assignment to an independent auditor or should they intend to make use of non audit services of an independent auditor already appointed to perform the audits of a Group company, or have them performed by its "associates". The opinion of the Board of Statutory Auditors is aimed at ensuring that the new assignment is consistent with the general picture of the group controls and does not alter the conditions of independence required from Group auditors.





# Part III

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SUMMARY TABLES

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TABLE NO1: STRUCTURE OF THE BOARD OF DIRECTORS AND THE TECHNICAL COMMITTEES

Director	Office	Executive	Non Executive	Independent	Number of other offices	Executive Committee	Technical Audit Committee	Remuneration and Personnel Policies Technical Committee	Ethical Committee
ENRICO SALZA	Chairman		●	●	1	●			
MAURIZIO BARRACCO	Director		●	●	2		●		
PIO BUSSOLOTTO	Director		●		4	●			
GIUSEPPE FONTANA	Director		●	●	2		●		
ETTORE GOTTI TEDESCHI	Director		●		4	●			
ALFONSO IOZZO	Man. Director	●			3	●			
VIRGILIO MARRONE	Director		●		2				●
ITI MIHALICH	Director		●		20			●	
ANTHONY ORSATELLI	Director		●		6				●
EMILIO OTTOLENGHI	Director		●	●	4	●			
ORAZIO ROSSI	Deputy Chairman		●	●	2	●			
GIAN GUIDO SACCHI MORSIANI	Director		●	●	3	●			
ALFREDO SAENZ ABAD	Director		●		5			●	
MARIO SARVINELLI	Director		●	●	3		●		
LEONE SIBANI	Director		●		4				●
ALBERTO TAZZETTI	Director		●	●	2			●	
JOSÉ MANUEL VARELA	Director		●		8	●			

<b>NUMBER OF MEETINGS HELD DURING 2005</b>	Board of Directors: <b>15</b> Executive Committee: <b>19</b> Technical Audit Committee: <b>12</b> Remuneration and Personnel Policies Technical Committee: <b>6</b> Ethical Committee: <b>3</b>
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**TABLE NO. 2: LIST OF THE OTHER OFFICES OF DIRECTOR OR AUDITOR WHICH THE DIRECTORS OF SANPAOLO IMI HOLD IN OTHER LISTED COMPANIES ON REGULATED MARKETS, ALSO ABROAD, IN BANKING, FINANCIAL AND INSURANCE COMPANIES, AS WELL AS THOSE OF CONSIDERABLE SIZE**

Director	Office	Company
ENRICO SALZA	Managing Director	Tecno Holding S.p.A.
MAURIZIO BARRACCO	Director	R.C.S. Quotidiani S.p.A.
	Sole Director	ARIN - Azienda Risorse Idriche Napoli S.p.A.
PIO BUSSOLOTTO	Director	Cassa di Risparmio di Padova e Rovigo S.p.A.
	Director	Cassa di Risparmio di Firenze S.p.A.
	Director	Banca delle Marche S.p.A.
	Director	Assicurazioni Internazionali di Previdenza S.p.A.
GIUSEPPE FONTANA	Director	Banca Fideuram S.p.A.
	Director	Banca Popolare di Sondrio S.c.r.l.
ETTORE GOTTI TEDESCHI	Chairman	Santander Consumer Bank S.p.A.
	Deputy Chairman	Alerion Industries S.p.A.
	Director	Cassa Depositi e Prestiti S.p.A.
	Director	Endesa Italia S.p.A.
ALFONSO IOZZO	Chairman	Sanpaolo Banco di Napoli S.p.A.
	Chairman	Banca Opi S.p.A.
	Director	Assicurazioni Internazionali di Previdenza S.p.A.
VIRGILIO MARRONE	Director	Fiat S.p.A.
	Director	Exor Group - Luxembourg S.A.
ITI MIHALICH	Chairman	Società Reale Mutua di Assicurazioni
	Chairman	Banca Reale S.p.A.
	Chairman	Rem Assicurazioni S.p.A.
	Chairman	Reale Immobili S.p.A.
	Chairman	Blue Assistance S.p.A.
	Chairman	La Piemontese Assicurazioni S.p.A.
	Chairman	La Piemontese Vita S.p.A.
	Chairman	Compagnia Italiana di Previdenza, Ass.ni e Riass.ni S.p.A.
	Chairman	ICT Immobiliare S.p.A.
	Chairman	Reale Seguros Generales S.A.
	Chairman	Reale Vida - Compania de Seguros y Reaseguros S.A.
	Chairman	Union Aseguradora, Sociedad Anonima de Seguros Generales
	Chairman	Reale Sum - Agrupacion de Interes Economico
	Chairman	Inmobiliaria Grupo Asegurador Reale S.A.
	Chairman	Immobiliare Mirasole S.p.A.
	Deputy Chairman	Ala Assicurazioni S.p.A.
	Director	Sara Assicurazioni S.p.A.
Director	Sara Vita S.p.A.	
Director	Humanitas S.p.A.	
ANTHONY ORSATELLI	Membre du Directoire	Caisse Nationale des Caisses d'Epargne S.A.
	Chairman of the Board of Directors	Nexgen Financial Holding Limited
	Chairman of the Board of Directors	Nexgen Re Limited
	Member of the Board of Directors	CDC Ixis AM US Corporation
	Member of the Board of Directors	Euroclear Plc.
	Member of the Board of Directors	CDC Ixis Financial Guaranty North America Inc.

**TABLE NO. 2: LIST OF THE OTHER OFFICES OF DIRECTOR OR AUDITOR WHICH THE DIRECTORS OF SANPAOLO IMI HOLD IN OTHER LISTED COMPANIES ON REGULATED MARKETS, ALSO ABROAD, IN BANKING, FINANCIAL AND INSURANCE COMPANIES, AS WELL AS THOSE OF CONSIDERABLE SIZE**  
(Continue)

Director	Office	Company
EMILIO OTTOLENGHI	Chairman	Vis S.p.A.
	Chairman	La Petrolifera Italo Rumena S.p.A.
	Director	Argus Fund S.p.A.
	Director	Sapir S.p.A.
ORAZIO ROSSI	Chairman	Cassa di Risparmio di Padova e Rovigo S.p.A.
	Chairman	Sanpaolo Imi Internazionale S.p.A.
GIAN GUIDO SACCHI MORSIANI	Chairman	Neos Banca S.p.A.
	Chairman	Gest Line S.p.A.
	Director	CNC Consorzio Nazionale Concessionari Servizio Riscossione Tributi
ALFREDO SAENZ ABAD	Vice Presidente Segundo y Consejero Delegado	Banco Santander Central Hispano S.A.
	Deputy Chairman	Santander Central Hispano Investment S.A.
	Deputy Chairman	Compañía Española de Petróleos S.A.
	Chairman	Banco Banif S.A.
	Consejero	France Telecom Operadores de Telecomunicaciones S.A.
MARIO SARCINELLI	Director	Ina Vita S.p.A.
	Director	Cassa Depositi e Prestiti S.p.A.
	Director	Data Management S.p.A.
LEONE SIBANI	Chairman	Sanpaolo Imi Private Equity S.p.A.
	Director	Sanpaolo Imi Internazionale S.p.A.
	Director	Banca Popolare dell'Adriatico S.p.A.
	Director	Biesse S.p.A.
ALBERTO TAZZETTI	Chairman	Sicurezza Lavoro S.r.l.
	Director	Centrale del Latte di Torino & Co. S.p.A.
JOSÉ MANUEL VARELA	Director	Santander Consumer Finance S.A.
	Director	Santander Consumer Elcon Finans A.S. - Norway
	Director	Santander Consumer PTF Bank S.A. - Poland
	Director	Santander Consumer CC-Bank AG - Germany
	Director	Santander Consumer Bank S.p.A.
	Director	Interbanco - Portugal
	Director	Banque Commerciale du Maroc S.A.
	Director	CC - Credit R.T. - Hungary



**TABLE NO. 3: LIST OF THE OTHER OFFICES OF DIRECTOR OR AUDITOR WHICH THE MEMBERS OF THE BOARD OF AUDITORS OF SANPAOLO IMI HOLD IN OTHER LISTED COMPANIES ON ITALIAN REGULATED MARKETS**

<b>Auditor</b>	<b>Number of Offices</b>	<b>Office</b>	<b>Company</b>
MAURIZIO DALLOCCHIO	7	Chairman	Vemer Siber S.p.A.
		Director	Marcolin S.p.A.
		Director	Snia S.p.A.
		Director	Sorin S.p.A.
		Director	Sirti S.p.A.
		Director	Gabetti Holding S.p.A.
		Chairman of the Board of Statutory Auditors	Esprinet S.p.A.
AURELIANO BENEDETTI	1	Chairman	Cassa di Risparmio di Firenze S.p.A.
GIANLUCA FERRERO	-	-	-
AUGUSTO FRANCHINI	-	-	-
PAOLO MAZZI	1	Auditor	Safilo Group S.p.A.
CARLO PAVESIO	2	Director	BasicNet S.p.A.
		Director	Pininfarina S.p.A.
PAOLO PICCATI	1	Auditor	Ifil Investments S.p.A.

**NUMBER OF MEETINGS HELD DURING THE CALENDAR YEAR: 12**

**QUORUM REQUIRED FOR THE PRESENTATION OF LISTS BY MINORITIES FOR THE ELECTION OF ONE MORE MEMBERS (EX ART. 148 TUF - CONSOLIDATED FINANCIAL LAW): 1%**

TABLE NO. 4: OTHER PROVISIONS OF THE CODE OF CONDUCT

	Yes	No	Summary of the reasons for any disagreement with the Code recommendations
<b>System of powers of attorney and transactions with related parties</b>			
HAS THE BOARD OF DIRECTORS ATTRIBUTED POWERS OF ATTORNEY, SETTING THEIR LIMITS, METHODS OF EXERCISE AND FREQUENCY OF INFORMATION?	●		
HAS THE BOARD OF DIRECTORS RESERVED THE RIGHT TO EXAMINE AND APPROVE TRANSACTIONS OF PARTICULAR ECONOMIC, BALANCE SHEET AND FINANCIAL IMPORTANCE (INCLUDING TRANSACTIONS WITH RELATED PARTIES)?	●		
HAS THE BOARD OF DIRECTORS ESTABLISHED GUIDELINES AND CRITERIA FOR IDENTIFYING "SIGNIFICANT" TRANSACTIONS?	●		
ARE THE ABOVE GUIDELINES AND CRITERIA DESCRIBED IN THE REPORT?	●		
HAS THE BOARD OF DIRECTORS CREATED SPECIAL PROCEDURES FOR EXAMINING AND APPROVING TRANSACTIONS WITH RELATED PARTIES?	●		
ARE THE PROCEDURES FOR APPROVING TRANSACTIONS WITH RELATED PARTIES DESCRIBED IN THE REPORT?	●		
<b>Procedures for the most recent nomination of directors and auditors</b>			
WERE THE CANDIDACIES FOR THE OFFICE OF DIRECTOR DEPOSITED AT LEAST TEN DAYS IN ADVANCE?		●	The Bank's Articles of Association does not contain a specific procedure for nominating Directors, so this takes place on the basis of the proposals presented during the Shareholders' Meeting, with the presentation of the curricula and professional experiences of the candidates. The Bank creates awareness among its majority shareholders of the opportunity, where possible, to anticipate information on the proposals for nomination and on the profiles of candidates for the office of Member of the Board of Directors, depositing the relative curricula in the Registered Office. During the Shareholders' Meeting on 29 April 2004, the curricula of the candidates were published on the Bank's website.
WERE THE CANDIDACIES FOR THE OFFICE OF DIRECTOR ACCOMPANIED BY THOROUGHLY DETAILED INFORMATION?	●		
WERE THE CANDIDACIES FOR THE OFFICE OF DIRECTOR ACCOMPANIED BY AN INDICATION OF SUITABILITY FOR THE QUALIFICATION AS INDEPENDENT?		●	
WERE THE CANDIDACIES FOR THE OFFICE OF AUDITOR DEPOSITED AT LEAST TEN DAYS IN ADVANCE?	●		
WERE THE CANDIDACIES FOR THE OFFICE OF AUDITOR ACCOMPANIED BY THOROUGHLY DETAILED INFORMATION?	●		
<b>Meetings</b>			
HAS THE COMPANY APPROVED A MEETING REGULATION?	●		
IS THE REGULATION ATTACHED TO THE REPORT (OR IS THERE AN INDICATION OF WHERE IT CAN BE OBTAINED/DOWNLOADED FROM)?	●		
<b>Internal control</b>			
HAS THE COMPANY NOMINATED APPOINTEES TO CARRY OUT THE INTERNAL CONTROL ACTIVITY?	●		
ARE THE APPOINTEES HIERARCHICALLY NON DEPENDENT ON MANAGERS OF OPERATING AREAS?	●		
ORGANIZATIONAL UNIT APPOINTED FOR INTERNAL CONTROL (PURSUANT TO ART. 9.3 OF THE CODE)			Audit Management Manager: Aldo Gallo
<b>Investor Relations</b>			
HAS THE COMPANY NOMINATED AN INVESTOR RELATIONS MANAGER?	●		
ORGANIZATIONAL UNIT AND REFERENCES (ADDRESS/TELEPHONE/FAX/E-MAIL) OF THE INVESTOR RELATIONS MANAGER			Investor Relations - Manager: Dean Quinn Piazza San Carlo n. 156 10121 Torino tel. 0115552593 - fax 011555 52737 - e-mail dean.quinn@sanpaoloimi.com



*The headquarters of SANPAOLO IMI in Viale dell'Arte in Rome*





# Attachment

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ARTICLES OF ASSOCIATION

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# Section I

## Costitution - Registered Office

### Life and purpose of the Company

#### ARTICLE 1

**1.1** The Company is called “SANPAOLO IMI S.p.A.” and is established as a company limited by shares.

**1.2** The Company is a Bank according to the terms of Legislative Decree 385 of September 1, 1993.

#### ARTICLE 2

**2.1** The Company has its registered office in Turin and secondary offices in Rome and Bologna.

**2.2** Within the observance of the regulations in force, branches and representative offices in Italy and abroad may be opened or closed.

#### ARTICLE 3

**3.1** The life of the Company is fixed until December 31, 2050.

**3.2** The extension of the life of the Company must be approved by the Extraordinary Meeting of Shareholders with a legal majority.

#### ARTICLE 4

**4.1** The Company has as its purpose the collection of deposits from the public and the business of lending in its various forms, in Italy and abroad.

**4.2** The Company may undertake, within the limits of the regulations in force, all banking and financial transactions and services as well as any other transaction in the way of business and in whatever way related to the achievement of its corporate objective.

**4.3** The Company - in its capacity as Reporting Bank for Bank of Italy purposes of the SANPAOLO IMI Banking Group according to the terms of Article 61 of Legislative Decree 385 of September 1, 1993 - issues, in the exercise of its function of management and coordination, instructions to the members of the Group for the execution of the instructions issued by the Regulatory Authorities in the interests of stability of the Group itself as a whole.

#### ARTICLE 5

**5.1** The Company can issue bonds and other securities according to the regulations in force.

## Section II

# Equity capital and share

### ARTICLE 6

**6.1** The share capital is Euro 5,239,223,740.80 fully paid, divided into 1,586,967,318 registered ordinary shares and 284,184,018 registered preference shares with a nominal unit value of Euro 2.8. The share capital may be increased through the issue of shares with rights different from those included in the shares already issued.

**6.2** The shares are issued in dematerialised form.

**6.3** The preference shares are placed centrally in one or more deposits administered by the Company and the Company is the only authorised depository. The sale of preference shares is to be communicated without delay to the Company by the selling shareholder and triggers the automatic one for one conversion of the preference shares into ordinary shares, except in the case where it is disposed to a company whose capital is wholly controlled. On July 1, 2012, the preference shares will be converted one for one into ordinary shares with the same characteristics as the ordinary shares in circulation at that moment.

**6.4** In the case of paid issues of capital, when there is no exclusion or limit on option rights, the holders of preference shares have option rights on preference shares with the same characteristics or, if not or differently, in order, preference shares with different characteristics, savings shares or ordinary shares.

**6.5** Pursuant to the mandate conferred by the Shareholders' Meeting on 30 April 2002, the Board of Directors has the power to increase the share capital by means of a paid up rights issue, in one or more issues, up to a maximum amount of Euro 51,440,648.00 (fifty one million, four hundred and forty thousand and six hundred and forty eight Euro) nominal value, through the issue of ordinary shares reserved, according to Article 2441, par. 8, of the Civil Code and Article 134 of Legislative Decree 58 of February 24, 1998, to employees of the Company or also to employees of subsidiary companies according to Article 2359 of the Civil Code who participate in the share incentive schemes approved by the Board itself. This power may be exercised before April 27, 2007.

**6.6** Following the deliberations of the Board of Directors on December 18, 2001, based on the mandate of the Shareholders' Meeting on 31 July 1998, and 17 December 2002 and 14 November 2005, on the basis of the mandate given by the Shareholders' Meeting on April 30, 2002, the capital share may be increased up to a maximum nominal amount of Euro 40,447,400.00 (forty million, four hundred forty seven thousand, four hundred).

### ARTICLE 7

**7.1** In the case of an increase in the share capital, approved by the Shareholders' Meeting, the methods and the conditions related to the issue of new capital, the dates and the methods of payment, will be determined by the Board of Directors.

**7.2** In the case of late payment, annual interest, set by the Board of Directors but in any case not exceeding 3% more than the official reference rate, will be applied. The legal consequences for any shareholder who does not execute the payments due and the responsibility of the assignors or endorsers of shares not released remain the same.

**7.3** Delivery may be made against goods different from cash.

**7.4** The Company can acquire its own shares within the limits and according to the procedures established by the laws in force.

## Section III

# Shareholders' Meeting

### ARTICLE 8

**8.1** The Shareholders' Meeting is ordinary or extraordinary according to the terms of the law and can be called in Italy not necessarily at the registered office.

**8.2** The ordinary Shareholders' Meeting is called at least once a year within 120 days of the end of the financial year. In cases allowed by Law, the Shareholders' Meeting can be called within 180 days.

**8.3** The extraordinary Shareholders' Meeting is called to approve matters reserved to it by law.

**8.4** Allowing for the faculty of summons established by specific legal requirements, the Shareholders' Meeting must be called by the Chairman of the Board of Directors or by his Deputy, within the terms and according to the procedures laid down by the current regulatory provisions.

### ARTICLE 9

**9.1** Shareholders with the right to vote may attend the Shareholders' Meeting when notice given by the authorised intermediary attesting to their legitimate status is given to the Company within the timetable envisaged for the commencement of the Shareholders' Meeting.

**9.2** Shareholders may be represented in the Meeting in observance of legal dispositions.

### ARTICLE 10

**10.1** Every ordinary share confers the right to one vote. Preference shares do not have voting rights in ordinary shareholders' meetings.

### ARTICLE 11

**11.1** The validity of the Shareholders' Meeting, both ordinary and extraordinary, and both at the first call and at the second call or, for the extraordinary, third call, as established by law, as also for the validity of related motions, is determined by the law.

**11.2** For the nomination of the corporate officers a relative majority is sufficient. In the case of a tie, the older candidate will be elected. For the nominations to the Board of Statutory Auditors, the procedure follows that established by Article 20.

## ARTICLE 12

- 12.1** The Shareholders' Meeting, whose workings are governed by law and the relevant Regulation approved in the ordinary session, is chaired by the Chairman of the Board of Directors or by his Deputy.
- 12.2** The Shareholders' Meeting nominates, on the motion of the Chairman, when held appropriate, two or more scrutineers and a Secretary not necessarily shareholders.
- 12.3** The assistance of the Secretary is not necessary when the minutes of the Shareholders' Meeting are taken by a Notary Public. The Notary is designated by the Chairman of the Shareholders' Meeting.
- 12.4** It is the responsibility of the Chairman to verify regular constitution, ascertain the identity and legitimacy of those present, to check proceedings and certify the voting results. To this end, the Chairman may use appropriately appointed persons.
- 12.5** If debate concerning the agenda of the day is not finished within the day, the Shareholders' Meeting can proceed to a further meeting on the following non-holiday day.

## ARTICLE 13

- 13.1** The discussions of the Shareholders' Meeting must be recorded in the minutes signed by the Chairman, by the scrutineers, if nominated, and by the Secretary or Notary Public.
- 13.2** Copies and extracts of the minutes, when not taken by a Notary, will be certified with the declaration of conformity, signed by the Chairman and by the Secretary.

# Section IV Administration

## ARTICLE 14

- 14.1** The Company is directed by a Board of Directors composed of a number of members between seven and 20 according to motions approved by the Shareholders' Meeting. The Shareholders' Meeting itself appoints one of them as Chairman.
- 14.2** The Directors' term of office is three periods and they may be re-elected.
- 14.3** Termination, substitution, resignation and annulment on the part of the Directors are governed according to the law.
- 14.4** If, because of resignation or other reasons, there is no longer a majority of the Directors elected by the Shareholders' Meeting, the whole Board of Directors ceases and the Directors still in office must urgently call a Shareholders' Meeting to nominate the new Board of Directors.



**ARTICLE 15**

- 15.1** The Board of Directors may appoint, from among its members, one or more Deputy Chairmen.
- 15.2** The Board of Directors nominates one or more Managing Directors, determining his or their roles, as well as the Executive Committee, laying down the number of its members, its authority, its duration, rules and powers. In the Executive Committee the Chairman and the Deputy Chairman or Deputy Chairmen sit ex officio as well as the Managing Director or Managing Directors.
- 15.3** The Board of Directors may also elect from among its members special Technical Committees, with a consultative and deliberative and supervisory role.
- 15.4** The Board of Directors may nominate a General Manager fixing the period of office, duties, powers and compensation. If necessary, it may also revoke the same.
- 15.5** The General Manager takes part in meetings of the Board of Directors and Executive Committee in a consultative role and, as provided for in the Articles and By-Laws, as a proponent.
- 15.6** The Board of Directors can nominate, on proposal of the General Manager, one or more Deputy General Managers as well as Central Managers, fixing their duties and powers.
- 15.7** For determined categories of acts or business, powers may also be delegated, in law, to Senior Management, individual employees and other personnel, with set limits and method of exercise of their mandate, proving that those so mandated may act individually or together in committee.
- 15.8** For special and/or subsidized loans set by specific regulations, delegated mandate and lending powers may be set to Group lending bodies, within the limits and with the criteria agreed among the parties.
- 15.9** The Board will determine the means by which decisions taken by mandated persons will be brought to the attention of the Board itself.
- 15.10** The Delegated Bodies and the General Manager will ensure that the organizational, administrative and accounting structure is adequate and refer to the Board of Directors and the Board of Statutory Auditors, on a quarterly basis, on general management performance and expected development, as well as on the most significant transactions made by the company and its subsidiaries.
- 15.11** Members of the Board of Directors and of the Executive Committee will receive annual compensation set by the Shareholders' Meeting, in part fixed and part variable.
- 15.12** The Shareholders' Meeting may determine, in addition to the compensation above, a fixed amount for each Director according to attendance at meetings; Directors also have the right to reimbursement of expenses occasioned by their office and daily payments as set by the Shareholders' Meeting.
- 15.13** The remuneration of the directors with particular offices in accordance with the Articles and By-Laws is set by the Board of Directors, following the Board of Statutory Auditors.

## ARTICLE 16

**16.1** The Board of Directors has all powers for the management of the Company.

**16.2** The Board of Directors has exclusive authority:

- definition of the objectives, strategies and development lines of the business areas of the Group;
- general management directions, approval and modification of the general norms governing work, the acquisition and sale of shareholdings which may modify the composition of the Banking Group, nomination to offices as per Article 15;
- approval of internal regulations as well as evaluation of the organisational, administrative and accounting profile of the Company with particular reference to risk control and internal controls;
- setting criteria for the coordination and direction of the Group Companies and execution of instructions from the Bank of Italy.

**16.3** The Board of Directors, in addition to the exclusive competence as per paragraph 2 above, is also empowered to take the following motions:

- merger and sale in line with current regulations;
- opening and closing of secondary offices;
- reduction in capital in the case of withdrawal of a shareholder;
- updating of the Articles and By-Laws in line with regulations.

## ARTICLE 17

**17.1** The Board of Directors is convened whenever the Chairman considers it necessary or opportune and generally every two months. At least every three months the directors, on occasion of their Board Meetings or with appropriate report refer to the Board of Statutory Auditors on business carried out and transactions of greatest importance in economic, financial and equity capital terms undertaken by the Company and/or by subsidiary companies. In particular, the Directors refer on transaction in which they have a proprietary or third party interest, while the special legal dispositions remain in force.

**17.2** Leaving those powers reserved by law to the Statutory Auditors, a meeting must also take place when at least three Directors or a Managing Director make a written request to the Chairman with an indication of their reasons.

**17.3** Meetings of the Board of Directors are usually held at the registered office of the Company. The Board of Directors may also meet in any other place in Italy or abroad.

**17.4** Notice of the meeting, with a summary agenda of the matters to be discussed, must be sent to the Directors and to the Statutory Auditors in office at least five days before that fixed for the meeting by registered post or telegram or telex or telefax or through any other means of electronic communication which can provide guaranteed receipt of the same. In cases of particular urgency, the meeting may be held with simple advance notice of 24 hours by any suitable means.

**17.5** Notice of the meeting, with a summary agenda of the matters to be discussed, must be sent to the Directors and to the Statutory Auditors in office at least five days before that fixed for the meeting by registered post or telegram or telex or telefax or through any other means of electronic communication which can provide guaranteed receipt of the same. In cases of particular urgency, the meeting may be held with simple advance notice of 24 hours by any suitable means.

**17.6** To approve the decisions of the Board a majority of the Directors in office must be present at the meeting. Decisions are taken according to absolute majority of the votes of the members present excluding abstentions. Decisions concerning the nomination of the Deputy Chairman or Deputy Chairmen, of the Executive Committee, of the Managing Directors or General Manager are properly taken with a majority vote of the Directors in office. In case of a tie, the Chairman's vote prevails.

**17.7** The minutes of the meeting of the Board of Directors are edited and transcribed in the register of minutes by a Secretary designated by the Board.

**17.8** Copies and abstracts of the minutes are certified with the declaration of conformity, signed by the Chairman and by the Secretary.

**17.9** In meetings that the Board wishes to keep confidential, the duties of the Secretary will be carried out by the youngest Director present.

**17.10** The agenda for the Board of Directors and for the Executive Committee are prepared by the Managing Director or Managing Directors according to the powers delegated to them, as well as the General Manager in matters reserved to him.

## ARTICLE 18

**18.1** The Chairman:

- a) chairs the meetings of the Board of Directors and the Executive Committee, coordinating their work;
- b) prepares the agenda of the meetings of the Board of Directors and the Executive Committee, taking account also of the proposed agenda prepared by Managing Directors and General Manager and arranges for adequate information on the material under discussion to be provided to all Directors;
- c) authorises any legal, administrative and executive action in every competent court and in whatever level of jurisdiction with the ability to abandon it, to withdraw from proceedings and to accept similar withdrawals or relinquishments from other parties involved, with all subsequent powers and with the obligation to refer to the Executive Committee on the decisions taken;
- d) takes, in agreement with the Managing Director, or with the respective Managing Director in the case of more than one Managing Director or in their absence, the General Manager, whatever provisions may be urgent in the interests of the Company, referring them to the Board of Directors or the Executive Committee at their next meeting;
- e) exercises the role of coordination of the business of the Company.

**18.2** In the case of absence or other impediment of the Chairman, his powers in all respects will be taken on by the Vice Chairman, or, in case of nomination of more than one, him designated according to the order of succession set by the Board of Directors.

**18.3** When all the Deputy Chairmen are absent or disabled, the powers of the Chairman pass to the Managing Director or Managing Directors, or, if they are absent or otherwise unable, to the other Directors, according to the order of succession fixed by the Board of Directors.

## Section V

# The General Manager

### ARTICLE 19

#### 19.1

The General Manager is the head of the operational and executive structure of the Company. On the basis of and in the context of the powers delegated to him by the Board of Directors the General Manager:

- a) has the power to make proposals concerning credit and personnel management; he also presents proposals to the administrative Bodies in matters delegated to him;
- b) undertakes transactions and all ordinary administrative acts;
- c) provides for the execution of all deliberations of the Board of Directors, Executive Committee or the Managing Director(s) and operational coordination of the activities of subsidiaries within the Group, respecting the general criteria and directions set by the Board of Directors;
- d) coordinates, superintends and provides for employment relations with the employees;
- e) delegates, for the implementation of his known functions and for the exercise of own powers or those delegated to him, powers to employees.

#### 19.2

In case of absence or impediment, the General Manager is substituted for by the Deputy General Manager, or in the case where more than one Deputy General Manager has been nominated, that one of them competent in the matter delegated. If a Deputy General Manager has not been nominated, the General Manager is substituted by the Central Managers according to their attributions.

#### 19.3

When for any reason the post of General Manager is vacant the functions are exercised by the Managing Director. In the case of more than one Managing Director, they exercise such function on the basis set by the Board of Directors.

## Section VI

# Board of Statutory Auditors and accounting control

### ARTICLE 20

#### 20.1

The Shareholders' Meeting elects the Board of Statutory Auditors, composed of five Statutory Auditors in office and two Alternate Statutory Auditors.

#### 20.2

The Statutory Auditors are in office for three periods and they may be re-elected. Their term is regulated by law.

#### 20.3

At least two of the Statutory Auditors in office and at least one of the Alternate Statutory Auditors are chosen from among those registered in the register of accounting auditors who have carried out legal accounting audit work for a period of no less than three years.

#### 20.4

Those Statutory Auditors who do not possess the requirement set out in the preceding paragraph are chosen from among those who have obtained a total experience of at least three years in:

- 1) administration or control or management duties in companies with equity capital of no less than two million Euro, or
- 2) professional activities or regular university teaching in law, economics, finance, banking, insurance or other subjects related to banking activities, or
- 3) management duties in public bodies or public administration operating in the banking, finance and insurance sectors.

**20.5** The whole Board of Statutory Auditors is nominated on the basis of lists presented by the shareholders in which the candidates must be listed in numerical order.

**20.6** To apply paragraphs 3 and 12 of the present article, when the list is composed of four or more candidates, the fourth candidate and at least one of the first three must have the requirements as in paragraph 3; when the list is composed of fewer than four candidates at least the first of them must have the same requirements.

**20.7** The lists must be deposited at the registered office and published in at least two Italian daily newspapers with national distribution, of which one devoted to economic news, at least 10 days before the day fixed for the Shareholders' Meeting at first call.

**20.8** Every Shareholder can present or contribute to the presentation of only one list and each candidate can present himself in only one list or otherwise be declared ineligible.

**20.9** Only those Shareholders who themselves or together with other shareholders represent at least 1% of the shares with voting rights in the ordinary Shareholders' Meeting have the right to present lists. In order to prove their ownership of the number of shares necessary for the presentation of the lists, the shareholders must at the same time present, at the registered office, the certificates confirming their participation in the central securities management system.

**20.10** Together with each list, and before the time of depositing the list at the registered office, the Curriculum Vitae of each candidate must be deposited, undersigned by the same, and the declarations by which the individual candidates accept their candidature and affirm, at their own responsibility, that there are no reasons for ineligibility or conflict of interest as well as the existence of the necessary qualification required by the regulations in force to carry out the duties of Statutory Auditor.

**20.11** Everyone having the right to vote may vote for only one list.

**20.12** At the election of the Board of Statutory Auditors, the procedures are as follows:

- from the list which obtains the majority of the votes by the shareholders, in the numerical order in which they are listed in the list, three Statutory Auditors in office and one Alternate Statutory Auditor;
- the remaining two Statutory Auditors and one Alternate Statutory Auditor are taken from the other lists; in order to do this, the votes obtained by the lists themselves are divided successively by one, two and three. The quotients thus obtained are assigned in order to the candidates of each of the said lists according to the order set respectively in each. The quotients thus attributed to the candidates on the various lists are then placed in a single descending order: the Statutory Auditors in office are those who have obtained the highest two quotients and the supplementary Statutory Auditor is the one who has obtained the highest third quotient. In the case in which more than one candidate obtains the same quotient, the candidate from the list which has still not elected a Statutory Auditor will be elected; in the case none of the lists elected a Statutory Auditor, the Shareholders' Meeting votes again and the candidate who obtains the simple majority of the votes will be elected.

**20.13** For the nomination of Statutory Auditors not elected for whatsoever reason according to the aforesaid procedures, the Shareholders' Meeting will approve according to relative majority.

**20.14** The chairmanship of the Board of Statutory Auditors is taken by person indicated in the first place in the list which has obtained the majority of the votes. In case of his substitution the chairmanship falls, until the end of term of the Board of Statutory Auditors, on the next following person indicated in the same list. In case of the substitution of a Statutory Auditor taken from the list which has obtained the majority of the votes cast by shareholders, the alternate will come from the same list; in the case of the substitution of a Statutory Audi-



**20.15**

tor taken from the other lists, the alternate will be nominated according to the method set out in point (b) in this article. Whenever it may be necessary to keep up minimum number of Statutory Auditors in office with the requirements as per paragraph 3 of the present article, the alternate with the same requirements will in case enter.

**20.16**

The nomination of Statutory Auditors to make up the Board of Statutory Auditors according to Article 2401 of the Civil Code is made by a relative majority of the Shareholders' Meeting.

**20.17**

The Shareholders' Meeting fixes the remuneration of the Statutory Auditors. The Shareholders' Meeting may also decide, in addition to the remuneration, the payment to each Statutory Auditor of a fixed sum for every attendance at the meetings; the Statutory Auditors have the further right to reimbursement of expenses incurred in the course of their duties and to the payment of daily allowances as decided by the Shareholders' Meeting.

**20.18**

The members of the Board of Statutory Auditors cannot be in office in more than five offices as Statutory Auditor in office in other quoted companies with the exception of companies controlled by SANPAOLO IMI S.p.A.

**20.19**

The meetings of the Board of Statutory Auditors may be validly held also by means of telecommunication, as long as there is a guarantee of the exact identification of the persons entitled to be present, the possibility for all participants to participate, in real time, in all the discussions and see, receive and transmit documents. The meetings are considered held in the place where the Board is called, where at least one Statutory Auditor must be present.

**ARTICLE 21****21.1**

Accounting control is exercised by accounting firm having the competence set by law. Nomination, responsibilities, powers and responsibilities are set by legal provisions in the subject.

## Section VII

### Legal representation and control seal

**ARTICLE 22****22.1**

The legal representation of the Company, concerning third parties and in proceedings, and the corporate seal lie with the Chairman and, in the case of his absence or inability, with the Deputy Chairman or Deputy Chairmen, according to the order of succession fixed by the Board of Directors and, in their absence, with the Managing Director or Managing Directors separately.

**22.2**

In respect of the above, the legal representation of the Company, concerning third parties and in proceedings and the corporate seal also lie with the Managing Director or Managing Directors in matters delegated to them by the Board of Directors.

**22.3**

In respect of the above, the Board of Directors may, pursuant to Law, for specific types of actions and business, delegate representative powers, with the ability to sign on behalf of the Company, to the Managing Director or Managing Directors, to individual Directors, to the General Manager or General Managers, to the Deputy General Manager or Deputy General Managers, to the staff of the Central Management, to Top Management and to other employees of the Company, determining the limits and the methods of use of such seal.

**22.4**

In cases in which the current Articles of Association allow substitutions for absence or impediment, the action of the substitute has legal force in dealings with third parties.

## Section VIII

# Financial results and profits

### ARTICLE 23

- 23.1** The financial year closes at December 31 each year.
- 23.2** Of the net profits deriving from the financial results, an amount equal to 10% shall be transferred to the legal reserve until it amounts to one fifth of the equity capital.
- 23.3** A further share, equal up to 5% of the their nominal value, shall be reserved for preference shares.
- 23.4** The Shareholders' Meeting, on the proposal of the Board of Directors, will decide on the allocation of the remaining profit after provisions to the legal reserve and the allocation to preference shares.
- 23.5** The dividends will be allocated, equal up to the amount paid to preference shares, to ordinary shares and, then and equally, to all shares.
- 23.6** When dividends of less than 5% are allocated to preference shares in any one year, the dividends will be cumulated in the following two years.
- 23.7** Dividends not claimed within five years following the day on which they are available, will be retained by the Company and placed to reserves.
- 23.8** The Board of Directors may approve the distribution of partial payments in advance of the dividends in the manner and within the limits set by the regulations in force at the time.

## Section IX

# Statutory offices

### ARTICLE 24

- 24.1** Current legislative, regulatory and supervisory rules concerning requirements of professional, honourable and independent standards apply to the Offices established in the current Articles.

## Section X Recess

### ARTICLE 25

**25.1** The right of recess is allowed only in those cases exclusively envisaged by law. Right of recess for shareholders without recourse to approval of motions concerning (a) the length of life of the Company (b) the introduction or removal of restrictions on the circulation of shares, is not allowed.

**25.2** The terms and methods of the exercise of the right of recess, the criteria to determine the value of the shares and the related liquidation procedure are regulated by law.

## Section XI Winding up

### ARTICLE 26

**26.1** Given any different law provisions, if there is a reason for winding up, the Shareholders' Meeting will establish the manner of liquidation, nominating one or more liquidators.

**26.2** Preference shares, in the case of winding up or liquidation, will have the right to reimbursement of capital up to their nominal value.